

Minutes for November 9, 1956

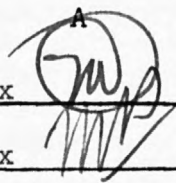
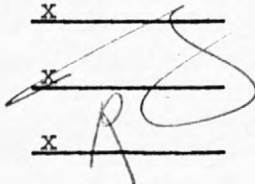
To: Members of the Board

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 	_____
Gov. Szymczak	x _____	_____
<u>1/</u> Gov. Vardaman	x _____	_____
Gov. Mills	x 	_____
Gov. Robertson	x _____	_____
Gov. Balderston	_____	x <u>CCB</u>
Gov. Shepardson	x <u>Shep</u>	_____

1/ The attached set of minutes was sent to Governor Vardaman in accordance with the procedure approved at the meeting of the Board on November 29, 1955. They were returned to the Minutes Section with the statement (see Mr. Kenyon's memorandum of February 19, 1957) that although the Governor was present at the meeting he did not initial the minutes because no statements were attributed to him in the minutes. Therefore, with Governor Shepardson's approval, these minutes are being filed without Governor Vardaman's initial.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, November 9, 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. Kenyon, Assistant Secretary
 Mr. Thomas, Economic Adviser to the Board
 Mr. Molony, Special Assistant to the Board

Messrs. Noyes, Dembitz, Robinson, Brill,
 Gehman, Jones, Miller, Weiner, Solomon,
 Trueblood, Wernick, and Wood of the Division of Research and Statistics.

Messrs. Marget, Bangs, Furth, Katz, Sammons,
 Wood, and Reynolds of the Division of International Finance

Using the current crisis in the Egyptian area as a key reference point, the members of the Division of International Finance presented a summary of selected international trade and foreign financial developments, following which the Research Division reviewed domestic business and financial developments.

All of the members of the Division of International Finance except Messrs. Marget and Furth then withdrew from the meeting, as did Messrs. Thomas and Molony and the members of the Division of Research and Statistics. Messrs. Leonard, Director, Division of Bank Operations, and Vest, General Counsel, entered the room at this point.

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:

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Letter to the Board of Directors, West Side Trust Company, Newark, New Jersey, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors approves the establishment by West Side Trust Company, Newark, New Jersey, of a branch at 313 Market Street, Newark, New Jersey, provided that (a) the merger of Bank of Commerce, Newark, New Jersey, into West Side Trust Company is effected substantially in accordance with the agreement of merger dated October 11, 1956, as submitted through the Federal Reserve Bank of New York, (b) formal approval is obtained from the appropriate State authorities, and (c) the merger and establishment of the branch are accomplished within six months from the date of this letter.

It is noted that under the terms of the agreement, the title of West Side Trust Company will be changed to "Bank of Commerce" on the effective date of the merger.

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

Letter to the Board of Directors, Security Bank and Trust Company, Danville, Virginia, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of Richmond, the Board of Governors of the Federal Reserve System approves the establishment of a branch in Danville, Virginia, on the south side of Riverside Drive (U. S. Route 58), on the east boundary of Neal's warehouse property about seven-eighths of a mile from the Union Street bridge over the Dan River, by Security Bank and Trust Company, Danville, Virginia, provided the branch is established within one year from the date of this letter, and the approval of the State authorities is in effect as of the date the branch is established.

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

Letter to Mr. Diercks, Vice President, Federal Reserve Bank of Chicago, reading as follows:

Reference is made to your letter of October 23, 1956, submitting request of the Davenport Bank and Trust Company,

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Davenport, Iowa, for approval under the provisions of section 24A of the Federal Reserve Act of an additional investment of \$130,000 in bank premises, represented by property acquired under a long-term purchase contract by the Davenport Bank Building Corporation, its wholly-owned affiliate.

After considering available information and your favorable recommendation, the Board of Governors approves the additional investment of \$130,000 in bank premises by the Davenport Bank and Trust Company through the Davenport Bank Building Corporation, its wholly-owned affiliate.

It is noted that this matter was submitted to the Board because of the indebtedness incurred by the wholly-owned affiliate. However, the Board's approval would be necessary even if this transaction had been handled by the affiliate on a cash basis. It is the position of the Board that, where the aggregate investment in bank premises, including a proposed investment, will exceed the State member bank's capital stock, section 24A requires the Board's approval of the proposed investment regardless of whether the investment will be made by the bank or by its wholly-owned affiliate. In other words, indirect as well as direct investments in bank premises are within the purview of this statute and may require the Board's approval.

Approved unanimously, with the understanding that copies of the letter, appropriately edited, would be sent to the Presidents of all Federal Reserve Banks.

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:

Boston	November 5
San Francisco	November 7
New York	November 8
Cleveland	November 8
Richmond	November 8
Atlanta	November 8

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Minneapolis	November 8
Kansas City	November 8
Dallas	November 8
St. Louis	November 9

Approved unanimously.

Following correspondence with the Federal Reserve Bank of Boston, Mr. C. A. Armstrong, Treasurer of The Drackett Products Company, Cincinnati, Ohio, wrote to Chairman Martin under date of October 4, 1956, concerning the handling by the Boston Bank of a check in the amount of \$582.80 which the Drackett Company had received from the Associated Grocers of Rhode Island, drawn on the Industrial National Bank of Providence, Rhode Island. It appeared that in the process of collection the check reached the Boston Reserve Bank on July 11, 1956, but that because of an unusual volume of business in the Check Collection Department the check did not reach the bank in Providence until July 17, on which day the grocery firm went into receivership.

In accordance with the usual practice, a copy of Mr. Armstrong's letter was sent to the Federal Reserve Bank of Boston for comment, and under date of October 16 First Vice President Latham transmitted copies of previous correspondence on the matter, including correspondence between the Boston Reserve Bank and The Drackett Products Company. In his letter Mr. Latham stated that in the opinion of the Bank's General Counsel, delays in check handling growing out of circumstances beyond the Bank's control should not be considered the result of negligence on the part of the Bank. Mr. Latham also stated that there was no practical

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way in which the acute fluctuations in transit volume could have been controlled or reasonably anticipated to enable the Bank to process almost two average days' work in one. He pointed out that a Saturday and a Sunday intervened between the date of receipt of the item in question and the date on which it was forwarded.

There had been circulated to the members of the Board before this meeting a draft of letter to Mr. Armstrong which, after quoting from the Boston Reserve Bank's reply, would state that in circumstances of this kind involving operating matters and the question of legal rights it had been the consistent practice of the Board to leave the handling of the matter to the Federal Reserve Bank concerned.

In a discussion of the case, Mr. Leonard said that the growing volume of checks handled for collection, the difficulty in maintaining staffs, and the large fluctuations in volume of checks had led to different approaches to the problem among the Federal Reserve Banks. Some Banks, he said, had been following a policy of trying to get out all checks the same day while other Banks, including Boston, had been following a policy of "planned holdover". If a check is unduly delayed under the latter policy and becomes uncollectible, some liability may result, but the possibility is quite remote and some Reserve Banks feel that it is worth taking the calculated risk. Mr. Leonard went on to say that in this case he had talked with officers of the Boston Reserve Bank and that after an investigation of the matter they concluded there was no negligence involved. He said the Bank's Counsel felt strongly

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that the Bank should make no admission because to do so would weaken the Bank's position and "open the floodgates". It had also developed, he said, that the drawer of the check was in process of reorganization, so that eventually the payee might be able to recover.

In further comments Mr. Leonard referred to the exhaustive study now being made by a special System committee looking into the problem of "float" and said it was hoped that from the study questions of check collection policy would come to a head and decisions would be made on a System-wide basis.

Governor Mills suggested that this would appear to be an area where the Board's broad general powers of supervision over the operations of the Federal Reserve Banks should be exercised. He said that to his knowledge there had not been any review of or change in the uniform collection code, which is applicable in most States, since the 1920s whereas there had been a gradual relaxation in the practices followed by commercial banks and Federal Reserve Banks in making presentation of checks passing through their hands. Where this delay involved an element of lack of diligence or of negligence, he felt that a party holding an uncollectible check might take the matter to the courts, and that a court review might in fact be helpful in shedding light on the subject.

Other members of the Board concurred in Governor Mills' view as to the seriousness of the general problem but expressed themselves as being inclined toward the belief that the matter of check collection policy should be studied at the Reserve Bank level. In this connection,

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Governor Mills remarked that the Board would be concerned from the standpoint of the appropriateness of its regulations which form the basis for Reserve Bank operating circulars.

Further comments on the subject were to the effect that the completion of the special study of "float" might tend to suggest answers to some of the problems now confronting the System.

The discussion then turned to the specific case before the Board and question was raised as to the appropriateness of corresponding direct with the payee of the check in a matter of this kind. The statement was made that the procedure followed in this case was in line with the procedure customarily followed when the Board is in receipt of a letter complaining of some phase of a Reserve Bank's operations. It was also pointed out that in this case the complainant had already corresponded with the Federal Reserve Bank of Boston and that it would seem advisable from the point of view of public relations to make an appropriate response in the light of information received by the Board from the Reserve Bank.

At the conclusion of the discussion, unanimous approval was given to a letter to Mr. C. A. Armstrong, Treasurer, The Drackett Products Company, Cincinnati, Ohio, in the following form, with copies to the Federal Reserve Banks of Boston and Cleveland:

This letter is in further reference to yours of October 4, 1956, concerning the handling by the Federal Reserve Bank of Boston of a check amounting to \$582.80, which you received from the Associated Grocers of Rhode Island, drawn on the Industrial National Bank of Providence.

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As you were advised under date of October 9, 1956, the Board sent a copy of your letter to the President of the Federal Reserve Bank of Boston for his comment. The Board has now received a letter from the Federal Reserve Bank of Boston stating that its Counsel advises that "delays in handling growing out of circumstances beyond our control should not be considered the result of negligence on our part. There was no practical way in which the acute fluctuations in transit volume could have been controlled or reasonably anticipated to enable us to process almost two average days' work in one. It should be noted, of course, that between the time the item in question was received by us and the time it was forwarded by us to the drawee bank there intervened a Saturday and a Sunday, on which we are not open for business."

In circumstances of this kind which involve operating matters and questions of legal rights, it has been the consistent practice of the Board to leave the handling of the matter in the hands of the Federal Reserve Bank, the operations of which, as you know, are subject to its own board of directors.

We all, of course, regret the inconvenience and the possibility that loss to anyone may occur in connection with this matter.

Mr. Leonard then withdrew from the meeting.

Reference was made to the following draft of letter to The Honorable Raymond J. Saulnier, Member of the Council of Economic Advisers, which had been circulated to the members of the Board prior to this meeting:

This letter is in response to yours of October 29 requesting that the Board supply the Council of Economic Advisers by November 16 with a written statement of legislative proposals which we expect to submit to the next session of the Congress and which we believe would, if enacted, have a significant effect on economic growth and stability.

As you know, the Board has submitted to Senator Robertson, of the Senate Banking and Currency Committee, in response to his request, a compilation of suggested amendments

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to the Federal banking laws affecting the Federal Reserve System. A copy of the suggested amendments, together with a copy of the Board's letter of September 28, 1956 to Senator Robertson transmitting the compilation, is attached for your convenience.

At the present time the Board does not contemplate making any other legislative recommendations for consideration by Congress during the coming year. However, there are certain problems that eventually may require legislation and it could develop during the course of the year that the Board would wish to make recommendations on one or more of these matters.

In accordance with the last paragraph of your letter, the Board has designated Mr. George B. Vest, its General Counsel, to serve as liaison with the Council of Economic Advisers on legislative matters.

Approved unanimously.

At the meeting of the Board on November 7, 1956, it was agreed that if advice should be received that the directors of the Federal Reserve Bank of New York had authorized, subject to the approval of the Board of Governors, the granting of a loan or loans on gold to Banque Centrale de la Republique de Turquie up to an aggregate principal amount of \$25,000,000, on certain terms and conditions which it had been indicated that the officers of the New York Bank would recommend, the Board would approve the granting of the credit.

Yesterday afternoon a telegram was received from Mr. Exter, Vice President of the Reserve Bank, stating that the Bank's directors had authorized such an accommodation on the terms and conditions recommended. Before this meeting, copies of the following proposed telegram to Mr. Exter had been distributed to the members of the Board:

Your wire Nov. 8. Board approves granting of loan or loans by your Bank to Banque Centrale de la Republique

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de Turquie up to an aggregate principal amount of \$25 million on the following terms and conditions:

(a) Each such loan to be secured by the pledge of gold bars held in your vaults of such value that the principal amount thereof outstanding at any one time shall not exceed 98 per cent of the value of such gold bars;

(b) Each such loan to be made prior to December 15, 1956, and to mature not later than six months after the date thereof;

(c) Each such loan to bear interest for its duration at a rate equal to one (1) per cent above the discount rate of your Bank in effect on the date on which such loan is made.

It is understood that the usual participation will be offered to the other Federal Reserve Banks.

Approved unanimously.

Mr. Carpenter reported that yesterday afternoon a telegram was received from Mr. Irons, President of the Federal Reserve Bank of Dallas, stating that an application for a loan pursuant to section 13b of the Federal Reserve Act would necessitate the appointment of an industrial advisory committee and that the Bank's directors had selected three persons to serve on such committee, subject to the approval of the Board of Governors. He then read the following telegram proposed to be sent to Mr. Irons:

Retel November 8. Board approves appointments of Messrs. George L. MacGregor, Jake L. Hamon, and Lawrence S. Pollock as members of Industrial Advisory Committee for Eleventh Federal Reserve District to serve until February 28, 1957, in accordance with action of Board of Directors as reported in your telegram.

Governor Mills commented that the Dallas Reserve Bank, in the light of the Board's letter S-1582, dated December 12, 1955, had elected

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not to appoint an industrial advisory committee earlier this year. Since a section 13b application had now been received and it was necessary to have such a committee to consider the application, he inquired whether it would be preferable to appoint the committee from among the directors of the Reserve Bank, with the thought that another committee could be appointed in the usual course early in 1957 if the Reserve Bank so desired.

In response, Mr. Vest summarized the options given in the Board's letter S-1582 and verified that the procedure now contemplated by the Dallas Bank was in conformity with one of those options. He recalled that before letter S-1582 was sent there was some discussion by the Board as to whether the directors of a Reserve Bank might properly be used on the Bank's industrial advisory committee and that, while there was some feeling on both sides of the question, the Board concluded that directors should not be used on the committee because it was thought that the Congress intended the industrial advisory committee to be independent of the Reserve Bank, with a chairman and members who were not serving in any other Reserve Bank capacity.

Thereupon, the telegram to President Irons was approved unanimously.

The meeting then adjourned.


Secretary