

Minutes for November 29, 1956.

To: Members of the Board

From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, if you were present at the meeting, please initial in column A below to indicate that you approve the minutes. If you were not present, please initial in column B below to indicate that you have seen the minutes.

	A	B
Chm. Martin	x <u>MM</u>	_____
Gov. Szymczak	x <u>AS</u>	_____
Gov. Vardaman	x <u>3</u>	_____
Gov. Mills	x _____	_____
Gov. Robertson	x <u>R</u>	_____
Gov. Balderston	x <u>CCB</u>	_____
Gov. Shepardson	x <u>SHS</u>	_____

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

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

Mr. Carpenter, Secretary
 Mr. Fauver, Assistant Secretary
 Mr. Thomas, Economic Adviser to the Board
 Mr. Leonard, Director, Division of Bank Operations
 Mr. Vest, General Counsel
 Mr. Young, Director, Division of Research and Statistics
 Mr. Sloan, Director, Division of Examinations
 Mr. Johnson, Controller, and Director, Division of Personnel Administration
 Mr. Solomon, Assistant General Counsel
 Mr. Shay, Assistant General Counsel
 Mr. Noyes, Adviser, 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 Mr. Mangels, President, Federal Reserve Bank of San Francisco, reading as follows:

The Board of Governors approves the payment of salaries to the following officers of the Federal Reserve Bank of San Francisco for the period November 16, 1956, through December 31, 1956, at the rates indicated, which are the rates fixed by the Board of Directors as reported in your letter of November 14, 1956.

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<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
Robert S. Einzig	Assistant Vice President	\$11,000
Gault W. Lynn	Senior Economist	11,000
Harry S. Schwartz	Senior Economist	11,000

Approved unanimously.

Letter to Mr. Brawner, Federal Reserve Agent, Federal Reserve Bank of San Francisco, reading as follows:

In accordance with the request contained in your letter of November 7, 1956, the Board of Governors approves the appointment of Mr. Domenic Carlotti, as Federal Reserve Agent's Representative at the Los Angeles Branch to succeed Mr. H. E. McCausland.

This approval is given with the understanding that Mr. Carlotti will be placed upon the Federal Reserve Agent's payroll and will be solely responsible to him or, during a vacancy in the office of the Federal Reserve Agent, to the Assistant Federal Reserve Agent, and to the Board of Governors, for the proper performance of his duties. When not engaged in the performance of his duties as Federal Reserve Agent's Representative he may, with the approval of the Federal Reserve Agent or, in his absence, of the Assistant Federal Reserve Agent, and the Vice President in charge of the Los Angeles Branch, perform such work for the Branch as will not be inconsistent with his duties as Federal Reserve Agent's Representative.

It is noted from your letter that, upon receipt of advice of the approval of Mr. Carlotti's appointment by the Board of Governors, he will execute the usual Oath of Office which will be forwarded to the Board of Governors together with advice as to the effective date of his appointment.

Approved unanimously.

Letter to Mr. Sawyer, Vice President, Federal Reserve Bank of Boston, reading as follows:

Your letter of November 1, 1956, and its enclosures, presented on behalf of F. S. Moseley & Co., a Boston firm with membership on several national securities exchanges, the question whether Regulation U should be regarded as

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applicable to a proposed bank loan, which presumably would be secured by stock, to enable the borrower to make to the firm the contribution of capital necessary to his becoming a partner therein.

While The National Shawmut Bank of Boston, which first brought the question to your attention, apparently did not disagree with your feeling that the loan would be subject to the regulation, F. S. Moseley & Co. asked that the matter be reviewed by the Board.

Of course, the regulation would not apply unless the loan was for the purpose of purchasing or carrying registered stocks. However, the circumstances would seem to be such as to justify the assumption that the firm's business includes transactions involving registered stocks and that, therefore, the capital of the firm is devoted to the purchasing or carrying of registered stock, even though it may be devoted in part to other purposes, as well. The firm's letter indicates clearly that its capital, which would be augmented by the proposed loan in question, is used as working capital to handle the routine ebb and flow of all its business; and there is no suggestion that there is any specific allocation of parts of its total capital to various aspects of its business which may be exempt from the regulation for any reason, or that the proceeds of the proposed loan would be segregated for use only in connection with any such aspect of the business.

While section 2(c) of the regulation exempts a loan to a dealer if its purpose is limited to the "financing of the distribution of securities to customers not through the medium of a national securities exchange", the Board has indicated previously that the exemption applies to activities commonly known as "primary" or "secondary" distributions involving sizeable blocks of securities, but not to transactions in which a dealer buys small amounts of securities from time to time from the public or from other dealers and later sells them to customers.

The interpretation referred to in your letter to the firm of October 30, 1956 (1946 Federal Reserve Bulletin, page 995), is to the general effect that a loan to a partner to enable him to make a capital contribution to his securities firm is not exempt from the regulation unless a loan directly to the partnership would be exempt. Furthermore, as indicated in

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the interpretation published at 1937 Federal Reserve Bulletin, page 392, a loan to a broker-dealer partnership is not exempt from the regulation unless it can clearly qualify, in the light of the firm's entire operation, as not for the purpose of purchasing or carrying registered stocks. As the 1937 interpretation points out, a loan is subject to the regulation if one purpose of the credit is to purchase or carry registered stocks, even though the loan may also have certain other purposes.

Accordingly, on the basis of the foregoing and the Board's understanding of the circumstances involved, the Board agrees with the view you have previously indicated that the proposed loan in question should be regarded as subject to the regulation.

Approved unanimously.

At this point, Mr. Sprecher, Assistant Director, Division of Personnel Administration, and Mr. Molony, Special Assistant to the Board, joined the meeting.

Letter to Mr. Kroner, Vice President, Federal Reserve Bank of St. Louis, reading as follows:

This is in reply to your letter of November 9, transmitting an inquiry by Mr. Vernon J. Giss, Secretary of W. R. Stephens Investment Co., Little Rock, Arkansas, regarding Stephens' proposed distribution of bank stocks pursuant to the Bank Holding Company Act.

It appears that Mr. Giss is correct in his understanding that stock of the Citizens Bank of Jonesboro could not be made the subject of a distribution by Stephens that would come within the purview of section 1101(b) of the Internal Revenue Code. This follows from the provision of section 1101(c)(1) that section 1101(b) "shall not apply to ... any property acquired by the distributing corporation after May 15, 1955" (except in prescribed circumstances that do not appear to exist in this case). Since all Stephens' holdings of stock in Citizens Bank were acquired by that corporation after May 15, 1955, a "tax-free" distribution thereof under section 1101(b) would not be possible.

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It will be appreciated if you will inform W. R. Stephens Investment Co. of the Board's views, as outlined above.

Approved unanimously.

Turning to the request of the Peoples Trust Company of Wyomissing, Pa., Wyomissing, Pennsylvania, for permission to establish a branch in Wernersville, Pennsylvania, in connection with its proposed merger with The Wernersville National Bank and Trust Company, Governor Mills raised the question whether consideration had been given to the maintenance of adequate near-by competition. Governor Robertson pointed out that in this instance there was sufficient active near-by competition and this same view was reiterated by Mr. Sloan.

The Board then unanimously agreed to the transmittal of the following letter to the Peoples Trust Company of Wyomissing, Pa., Wyomissing, Pennsylvania, through the Federal Reserve Bank of Philadelphia:

Pursuant to your request submitted through the Federal Reserve Bank of Philadelphia, the Board of Governors approves the establishment of a branch at 33 East Penn Avenue, Wernersville, Pennsylvania, by Peoples Trust Company of Wyomissing, Pa., Wyomissing, Pennsylvania, provided (a) the proposed merger is effected substantially in accordance with the plan of merger as submitted, (b) the branch is established within six months from the date of this letter, and (c) formal approval of the appropriate State authorities is obtained.

Messrs. Sloan, Solomon, and Shay withdrew from the meeting at this point.

Governor Mills said that in accordance with the action at the meeting of the Board on November 21, 1956, he had discussed with President Hayes the proposal by the Federal Reserve Bank of New York to increase the maximum limit on purchases of bankers' acceptances for the account of foreign central banks and decrease the charges on such credits. He said that, while President Hayes had made it clear that there is no

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urgency about this particular matter, arrangements have been made for Mr. Hayes, accompanied by Mr. John Exter and Mr. Norman Davis of the New York staff, to meet with representatives of the Board at 2 p.m. on December 10 for a discussion of the subject. It was agreed that all members of the Board who can attend the meeting should do so.

The Board then turned to the matter of the bids received for the construction of the Nashville Branch building. Mr. Leonard summarized his memorandum of November 28, which had been distributed prior to the meeting. The memorandum pointed out that the directors of the Nashville Branch had recommended acceptance of the lowest bid received -- that of the Southeastern Construction Company of Atlanta, Georgia -- for the building proper, and of the low bids separately received for bandit resisting equipment and vault doors -- Diebold, Inc.; air conditioning, heating, and ventilating equipment -- Evans-Hailey Company, Inc., of Nashville; and elevators -- Westinghouse. The total program will cost \$2,832,858, which is \$13,297 higher than the May 1956 estimate. In view of the fact that the bids were in line with the estimates, and with other recent work authorized, Mr. Leonard recommended that they be approved.

Thereupon unanimous approval was given to a telegram to Mr. Bryan, President of the Federal Reserve Bank of Atlanta, reading as follows:

Reurlet November 12 and Patterson's letter of November 27 and telegram November 28, Board approves acceptance of low bids for construction of new building for Nashville Branch as proposed and authorizes expenditure of approximately \$2,835,000 for cost of the program as submitted.

Mr. Stetson, Personnel Assistant, Division of Personnel Administration, entered the meeting at this point.

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The Chairman then asked Mr. Johnson to discuss his memorandum of November 8, which had been circulated prior to the meeting, recommending an exception to the Board's leave regulations so that certain employees involved in the consumer instalment credit study could carry into 1957 annual leave to which they are entitled but more than likely would be unable to use this year. Mr. Johnson said his concern was not only about these employees but about the effect that such action might have on the morale of other employees. He pointed out that there were always a substantial number of employees who lost leave each year for a variety of reasons. If the Board should approve this exception, it might also want to consider exceptions for other employees where the head of their division certified that Board work had prevented them from taking the full amount of leave to which they were entitled.

A general discussion followed in which Governor Shepardson indicated his belief that, while it was always difficult to make exceptions, there was merit in this instance because of the apparent commitment made when the study was undertaken in the spring. Governor Vardaman said there were many other circumstances, such as family situation, finances, outside factors, as well as current workload, which might interfere with an employee's taking his leave. He would prefer that all such cases be considered on an individual basis and that the use of leave be spread over a longer period of time. He suggested that a study be made to determine whether exceptions should be granted beyond the specific instances before the Board at this time.

In response to a question from Governor Robertson, Mr. Johnson

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explained the present limitations on accumulating leave and that the Board policy in this respect closely followed the Civil Service Regulations.

At the conclusion of the discussion, it was agreed that the employees listed below should be permitted to carry over leave into 1957 in the maximum amounts indicated, with the understanding that this action did not set a precedent; that any such leave carried into 1957 would be used during that year; that the leave ceilings of these individuals would not be raised; and that if any of these individuals left the Board for any reason before using up this leave during 1957, it would not be added to any other earned leave for purposes of increasing the lump sum payment at time of termination. It was further agreed that Governor Shepardson would be asked to study the broader application of leave carry-over in terms of effective personnel administration:

Division of Research and Statistics

Homer Jones	150 hours	Paul F. Smith	122 hours
M. Elva Morse	66 hours	Tynan Smith	119 hours
Guy E. Noyes	101 hours	Ralph A. Young	88 hours
Katharyne P. Reil	71 hours		

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Clarke L. Fauver 67 hours

Subsequent to the meeting, Governor Shepardson approved, on behalf of the Board, a supplemental memorandum dated November 26, 1956, from Mr. Young, Director, Division of Research and Statistics, requesting that the following additional persons be added to the list of employees who are permitted to carry over leave into 1957:

Caroline H. Cagle	92 hours
Stanley J. Sigel	104 hours

The Board then resumed its discussion of maximum interest rates on time and savings deposits as provided in Regulation Q. The Chairman led off the discussion by commenting that this was a period in which efforts were being made to encourage savings and to cut spending. Under

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these circumstances, it did not seem reasonable to hold to rigid ceilings indefinitely. Bank earnings had improved and this was a healthy sign. It raised the fundamental question whether savers were entitled to share in these improved earnings. He then asked Mr. Thomas to discuss his memorandum of November 27, which had been distributed prior to the meeting.

The memorandum stressed the difference in the relationship of savings accounts to total time deposits depending on the location of the bank. Outside New York City, savings accounts comprise nearly 90 per cent of all time deposits, while at New York City banks they are only 1/4 of the total. It was Mr. Thomas' view that the ceiling on longer-term savings rates should be flexible and the question of whether at this time the rate should be 2-1/2, 2-3/4, or 3 per cent was a matter of judgment. For time deposits with less than 90-day maturities, he felt that either there should be no interest paid or that the rate should be kept at 1 per cent.

Governor Robertson expressed his view that a rise in the savings rate would put considerable pressure on bank earnings and would encourage some institutions to reach out for more risky loans in order to pay the additional rate of interest. Except for the provisions of the law, however, he preferred no ceilings at all. He felt that action to raise rates now would primarily be based on a special situation applicable to time deposits in New York City and yet its effect would be far-reaching and affect all banks. While it might be easy to raise rates now, he said, it would be extremely difficult to lower them at a later date.

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The Chairman pointed out that the regulation provided permissive rates and that the individual banks had the final decision to make in the rates actually paid. He leaned in the direction of leaving as much flexibility in judgment as possible to the individual bank.

Mr. Riefler, in response to a request for his views, pointed out that in addition to affecting the incentive to save, the interest rate also played an important role in determining the flow of savings into various media. A change in rate, he felt, might affect the flow of savings to the various institutions competing for current savings. In his judgment, there was more of a case to be made for raising the rates on savings deposits and the longer-term time deposits and less for the short-term deposits. Regarding the foreign funds held in time deposits of banks, he felt it would be desirable if it could be required that these should be offset by bill holdings and thereby not affect the banks' ability to extend long-term credit. It might be preferable, he felt, to decrease rates on deposits of less than six months' duration.

Mr. Young pointed out that the case for raising maximum rates did not depend alone on the stimulation of new savings but such rates would, to some extent, discourage the withdrawal of existing savings for other spending. Turnover in savings deposits has increased recently and it might be that higher rates would slow this down. In response to a question from Governor Vardaman, both Mr. Thomas and Mr. Young agreed that total time deposits had increased more this year than last. It was their impression that growth in savings and loan accounts was not as great this year as in 1955. Mr. Noyes said

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he thought a good case could be made for increasing rates on the longer-term accounts and not changing rates on the short-term time deposits.

In stating his position, Mr. Leonard said it was difficult to see how the Board could justify denying to those who put aside funds in savings accounts a participation in the general increase in rates. So far as one could tell from the aggregate figures, he believed banks could afford to pay an additional 1/2 per cent interest all along the line and still be in a comfortable earnings position. It would be his preference, however, to leave the rate on less than 90-day deposits at its present level.

Governor Mills said he agreed with the Chairman that previous experience indicated that if the rate pattern should go down at a later date, banks would decrease their rates on savings deposits. Banks do not, he said, let themselves be tied irrevocably to a rate detrimental to their earnings position. For example, there are technical adjustments in interest calculations that could be made, he said. It was his view that a higher rate would stimulate the growth of savings and, from his experience, the bank that attracted additional deposits expanded in other ways as well and therefore would be able to cover the required earnings. It was his view that the rate on true savings accounts should go to 3 per cent, but he did not share the concern about the longer-term time deposits related to the foreign funds.

Mr. Thomas withdrew from the meeting at this point.

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Governor Vardaman said he agreed with Governor Mills that if we did not permit banks to raise rates in good times, then certainly the savers would have a right to complain at cuts in interest rate under reverse circumstances. His preference was for no limit at all, but he recognized the provisions of law which required the establishment of some ceiling.

Governor Mills advocated there should be a distinction in rates between savings accounts and the time deposit open accounts and certificates of deposit. The distinction could be drawn, he thought, as one between individuals on the one hand and public bodies and other organizations that accumulated substantial amounts of money on the other. The general practice in banks was to limit the amount accepted from individual savers. Beyond that limit for savings deposits, the larger amounts were usually classified in one of the other categories. This, he felt, would justify a differential in rates between the two groups. Governor Vardaman said he thought this was an accurate presentation of the classical theory of banking, but he felt that times and circumstances may have changed the situation considerably.

In response to a question from the Chairman, Mr. Leonard outlined his recommendation for a schedule of rates as follows: Time deposits of less than 90 days' duration, 1 per cent; from 90 days, but less than six months, 2-1/2 per cent; savings deposits and time deposits with a maturity of more than six months, 3 per cent.

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Governor Balderston said that in trying to look ahead he felt that savings should be encouraged by an increase in rates and that the present seemed as good a time to act as any in the foreseeable future. He was reluctant, he said, to make any change in rates on deposits under 90 days and, as had been brought out in the discussion, only a small portion of the foreign deposits were in this category. He wondered whether a single rate could not be applied to all deposits having more than a 90-day maturity. This, he felt, would simplify the rate structure.

In response to a question from the Chairman, Mr. Vest indicated that two different rates would satisfy the minimum requirements of the statute for a differential in rates.

Governor Shepardson said he felt strongly that the savings rate should be increased and that there was good reason to put the rate on the long-term time deposits to 3 per cent. It would be his preference, he said, to leave both the medium-term rates and the short-term rate where they are.

Governor Szymczak said he favored doing nothing on the rates for short-term deposits and that he would raise the savings rate to 3 per cent. The rate on longer-term time deposits could be fixed at either 2-3/4 or 3 per cent so far as he was concerned, but he leaned toward the latter figure. If there were to be only two rates, he said, he would fix the dividing line at six months.

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Governor Balderston commented that the data from the New York banks showed that about half of the foreign deposits were now in the over-six-months category and about 40 per cent in the 90-day to six-months classification. Therefore, if one of the objectives was to provide some relief for the New York City banks in this situation, it would be necessary to take these facts into account. Governor Shepardson said he questioned whether that was the primary reason for any action at this time.

In the matter of timing and notice of action, it was brought out that December 1 would provide a 30-day interim before a new period for interest began on January 1. So far as notice in the Federal Register was concerned, Mr. Vest said it was doubtful that the Board would be under obligation to publish a notice of intention to act. There was less reason to publish in this instance since the maximum rate was going up and not down and since this was a permissive rather than prescribed rate.

The Chairman then expressed the view that the schedule mentioned earlier by Mr. Leonard seemed to represent the consensus of the meeting. He pointed out that he had not discussed the matter directly with officials at the Federal Deposit Insurance Corporation but that he had kept Secretary of the Treasury Humphrey and Dr. Burgess, Under Secretary of the Treasury, advised that the Board had this matter under consideration.

Governor Robertson pointed out that the Federal Deposit Insurance Corporation had similar regulations and would likely be obliged to alter

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the provisions of their regulations at the same time the Board acted. He thought it might be advisable, therefore, to inform the Federal Deposit Insurance Corporation of the Board's intentions. It was agreed that the matter would be discussed with Mr. Cook and that the Board would discuss the subject further at its meeting on Friday.

All of the members of the staff then withdrew and the Board went into executive session.

The Secretary later was informed by the Chairman that during the executive session the Board approved the acceptance by Mr. Riefler of an invitation to address the annual meeting of the Rochester Chamber of Commerce on January 14, 1957.

The Secretary also was informed that, with regard to the invitation received by Mr. Thomas to speak at the Mortgage Clinic of the Mortgage Bankers Association in Phoenix, Arizona, on April 26, the Board suggested Mr. Thomas might reply that the date of the proposed speech was too far in the future for him to make a commitment at this time. If Mr. Thomas later thought it was desirable to make this speech, the matter could be presented again.

The meeting then adjourned.

Secretary's Note: Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Balderston, acting as alternate to Governor Shepardson, on November 27, 1956, approved on behalf of the Board the appointments of

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the following persons, with basic annual salary at the rates indicated, effective as of the respective dates of assuming duties:

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>
Elizabeth G. Stephenson, Records Clerk	Office of the Secretary	\$3,415
Naomi Lois Orr, Clerk	Research and Statistics	3,175
Irene D. Lewis, Clerk-Typist	Personnel Administration	3,600

Governors Robertson and Shepardson today approved on behalf of the Board, a memorandum dated November 9, 1956, from Mr. Bethea, Director, Division of Administrative Services, recommending that the Division of Personnel Administration be given authority to take appropriate action to process Ruth Anna Brown, Telegraph Operator in the Division of Administrative Services, for top secret security clearance.

Governor Shepardson today approved on behalf of the Board the following items relating to the Board's staff:

Memorandum dated November 21, 1956, from Mr. Bethea, Director, Division of Administrative Services, recommending the appointment of Henry L. Edmonds as Cafeteria Laborer in that Division on a temporary (two-month) basis, with basic annual salary at the rate of \$2,745, effective the date he assumes his duties.

Memorandum dated November 29, 1956, from Mr. Leonard, Director, Division of Bank Operations, recommending that permission be granted to L. Marie Phipps, Clerk-Typist in that Division, to accept a part-time job (evenings and Saturday) at Kann's Department Store in Arlington, Virginia, from November 26 to December 24, 1956.

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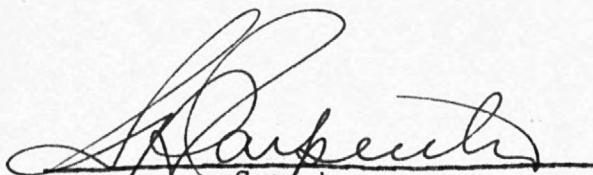
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Memorandum dated November 28, 1956, from Mr. Young, Director, Division of Research and Statistics, recommending the appointment of Miss Dorothy Wescott, Editorial Assistant at the International Monetary Fund, as a consultant to the Board until December 31, 1957, for editorial work in connection with the publication of the Consumer Instalment Credit Study, on a temporary contractual basis with compensation at the rate of \$50 per day for each day worked for the Board. The memorandum also stated that it is not expected that any travel or work outside of Washington would be required and that it is estimated that Miss Wescott would work for approximately 15 consultant days.

Governor Shepardson also approved today 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 November 16, 1956, the Board approves the appointment of James K. Hartley as an assistant examiner for the Federal Reserve Bank of St. Louis. If the appointment is not made effective December 24, 1956, as planned, please advise us.

It is noted that Mr. Hartley is indebted to The Carlinville National Bank, Carlinville, Illinois, in the amount of \$300. It is understood that the loan will be refinanced with some institution other than a member bank prior to his appointment.


Secretary