Minutes for April 4, 1957

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

1/Gov. Vardaman
Gov. Mills
Gov. Robertson
Gov. Balderston
Gov. Shepardson

1/ In accordance with Governor Shepardson's memorandum of March 8, 1957, these minutes are not being sent to Governor Vardaman for initial.
Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, April 4, 1957. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Balderston, Vice Chairman
Mr. Szymczak
Mr. Robertson

Mr. Carpenter, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Leonard, Director, Division of Bank Operations
Mr. Sloan, Director, Division of Examinations
Mr. Marget, Director, Division of International Finance
Mr. Hackley, General Counsel
Mr. Masters, Associate Director, Division of Examinations
Mr. Goodman, Assistant Director, Division of Examinations
Mr. Solomon, Assistant General Counsel
Mr. Furth, Chief, International Financial Operations Section, Division of International Finance

Items which had been circulated to the Board. The following items, which had been circulated to the members of the Board and copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:

Letter to the Federal Reserve Bank of New York regarding the Bank's revised plans for emergency operation in case of enemy attack or declaration of a national war emergency.

Letter to The First National City Bank of New York, New York, New York, extending the time for establishment of a branch in Havana, Cuba, at the intersection of Rancho Boyeros Highway and the new highway leading toward San Francisco de Paula. (For transmittal through the Federal Reserve Bank of New York.)

Item No. 1

Item No. 2
Telegram to the Federal Reserve Agent at the Federal Reserve Bank of New York approving the issuance of a voting permit to Marine Midland Corporation, Jersey City, New Jersey, entitling it to vote its stock of The Lake Shore National Bank of Dunkirk, Dunkirk, New York, for certain specified purposes. (This telegram was approved with the understanding that it would not be sent until April 5, 1957.)

Letter to Commercial and Farmers Bank, Ellicott City, Maryland, approving the establishment of a branch in Howard County, Maryland, at the intersection of U. S. Highway No. 40 and Rogers Avenue. (For transmittal through the Federal Reserve Bank of Richmond.)


Letter to the Tennessee Bankers Association regarding the permissibility under Regulation Q of furnishing life insurance in connection with a savings deposit. (With copies to the Federal Reserve Banks of Atlanta and St. Louis.)

Proposed purchase of Banca d’America e d’Italia by Bank of America, New York. By letter dated September 21, 1956, the Board advised an officer of Bank of America National Trust and Savings Association, San Francisco, California, who had written on behalf of Bank of America, New York, New York, that on the basis of available information and subject to final approval after review of all pertinent facts, the Board would be disposed to grant consent to Bank of America, New York, to purchase from Transamerica Corporation, San Francisco, within one year from the date of the letter, the capital stock of Banca d’America e d’Italia, Milan, Italy, owned by Transamerica, subject to certain conditions stated in the Board’s letter.
With a letter to Chairman Martin dated March 20, 1957, the same officer (Mr. Roland Pierotti) submitted a copy of an agreement of purchase and sale between Bank of America, New York, and Transamerica Corporation. The agreement was subject to an independent audit and an independent appraisal of the real estate, following which it was stated that formal application would be made to the Board of Governors for approval of the transaction. The letter also stated that if the Board wished to have an observer present in Italy during the audit or the appraisal of the real estate, that would be agreeable to Bank of America.

On April 1, Mr. Pierotti and Mr. Russell G. Smith, Executive Vice President of Bank of America, called upon Chairman Martin and Governor Szymczak for the purpose of discussing the proposed purchase. Mr. Goodman, who was present at the meeting, prepared a memorandum of the discussion and copies thereof had been distributed to the members of the Board prior to this meeting. Among the points raised was whether the Board would object to a short extension of the time limit for consummation of the purchase which was stated in its letter of September 21, 1956. Questions were also raised regarding the statement in the letter concerning the Board's reluctance, in the absence of sound reasons, to authorize an investment by Bank of America in stock of the Italian bank in an amount exceeding 15 per cent of Bank of America's capital and surplus, and regarding the condition stated in the Board's letter that Bank of America agree to maintain
a net capital structure adequate, in the judgment of the Board, in relation to the character and condition of its assets and to its deposit liabilities and corporate responsibilities, after giving consideration to Bank of America and the Italian bank on a consolidated basis. At the conclusion of the meeting with Messrs. Pierotti and Smith, Chairman Martin stated that these matters would be submitted to the Board for consideration.

Following a summary by Mr. Goodman of the principal questions before the Board, Chairman Martin pointed out that the proposed audit and appraisal would cost Bank of America a substantial amount of money. Therefore, if the Board wished to enter any reservations concerning the purchase transaction, it probably should make them known to Bank of America at this time. He indicated that he was not overly concerned by the size of the proposed investment in relation to Bank of America's capital and surplus, but that he was somewhat perplexed regarding the handling of the condition stated in the Board's letter which would require Bank of America to maintain a net capital structure adequate in the Board's judgment in relation to its assets and deposit liabilities, after giving consideration to Bank of America and Banca d'America e d'Italia on a consolidated basis. His thinking on the over-all matter, he said, had assumed that basically the Board would like Bank of America to be able to acquire the Italian bank.

The Chairman then called upon Governor Robertson who said that from Mr. Goodman's memorandum it appeared that the Bank of America
representatives had approached the problem of capital adequacy from the point of view that the capital structure of the Italian bank would have to be agreeable to the Italian authorities and there was therefore no reason for the Board to be concerned. He saw some merit to that approach, for otherwise Bank of America might be faced with capital requirements imposed by the Board which would be out of line with the capital requirements for other banks in Italy. However, he felt the pertinent condition in the Board’s letter (condition number 6) implied that an agency such as the Board of Governors would take into consideration the capital requirements deemed appropriate in Italy. All things considered, he would be inclined to retain this condition as a safeguard incident to the entrance of Bank of America into the field of operating foreign banks. In actuality, he pointed out, the investment in the stock of the Italian bank would be made by Bank of America’s parent institution (Bank of America National Trust and Savings Association) and any moral responsibility arising out of liabilities of the Italian bank would run through to the parent institution.

Governor Szymczak then expressed his understanding of the difficulties which Bank of America appeared to feel were presented by the conditions set forth in the Board’s letter, in particular the relationship of condition number 6 to the provision contained in section 10(b) of Regulation K that the aggregate outstanding liabilities of a banking corporation operating under the Regulation shall not exceed ten times the amount of the corporation’s capital and surplus. Even if the capital and surplus of Bank of America should be increased to about
$30 million pursuant to condition number 7 in the Board's letter, this
would be far less than would be required if a 10 to 1 ratio were applied
to the consolidated total deposits of Bank of America and Banca d'America
e d'Italia, which were about $461 million at the end of 1956.

In making these comments, Governor Szymczak made it clear that
he was not advocating the views expressed by Messrs. Pierotti and Smith,
but was merely endeavoring to interpret as well as possible for the
Board's consideration the problems with which Bank of America appeared
to feel that it was confronted. With respect to condition number 6,
Governor Szymczak said that he thought it was a good one and that it ought
to be retained. However, he felt there were problems of administering
it which could not be spelled out at this time and would have to be dealt
with in the light of developments.

Governor Balderston expressed concern about what might happen
if developments abroad should result in the Italian investment becoming
a total loss. While he did not see the answer to that, he noted that
the risk would be lessened if the Italian investment was kept relatively
small in relation to the size of the American institution. It could
perhaps afford to write off a loss involving 10 per cent of its capital
and surplus, but if the Italian bank should grow the moral obligation
that Governor Robertson had referred to would be heavy.

Mr. Goodman commented that this was the point of his original
suggestion for a 25 per cent limitation of capital and surplus which
could be devoted to the Italian investment. Under the present plan, even if Bank of America added to its capital in an amount equal to the investment, the ratio of the investment to the corporation's capital and surplus would be about 37 per cent. On the other hand, it now appeared obvious that the Italian investment could not be made under a 25 per cent limitation.

In this connection, Governor Szymczak noted that according to Mr. Smith, the directors of both Bank of America N. T. & S. A. and Bank of America, New York, had agreed that the latter corporation would not pay dividends and would put all earnings back into the institution so as to be able eventually to write the Italian investment down to one dollar. Mr. Smith also had indicated that Bank of America intended to streamline the Italian bank, concentrating the operations in the branches with the best earning capacity.

In a further discussion, mention was made of the possibility of rewording condition number 6 in a way which might relieve the apprehensions of Bank of America and yet substantially preserve the Board's position. On this point Governor Robertson said that he did not think the exact language made a great deal of difference, that the objective was to retain the power in the Board to require what it deemed to be an adequate amount of capital, and that the Board should not waver on that point.

Turning to the question of permitting an investment greater than 15 per cent of Bank of America's capital and surplus, Governor Robertson again brought out that the money for the investment actually was being furnished by Bank of America N. T. & S. A., advantage being taken of
the Edge Act subsidiary to make an investment which would be prohibited to the parent national bank. He went on to point out that this was the first case of its kind involving a foreign banking corporation under the revised Regulation K and he asked what justification could be given for waiving the 15 per cent statutory limitation contained in the Regulation.

Chairman Martin responded by referring to the Board's previous discussions of the subject in the fall of 1956 and remarking that the Board's letter of September 21, 1956, did not prohibit going above 15 per cent, although it placed a burden upon Bank of America to furnish appropriate information to justify an exception.

Governor Szymczak recalled that the Bank of America representatives had made the point during the discussion earlier this week that when the matter was first discussed with the Board's staff it was quite evident that the purchase could not be made within the 15 per cent limitation. Therefore, they represented themselves as unable to understand why reference was made to such a limitation in the Board's letter.

Governor Szymczak then expressed the view that in principle it seemed better for Bank of America to own the Italian bank than for Transamerica to own it, in part because Bank of America is a foreign banking institution and would have the experience for an operation of this kind. Another reason would lie in the history of the founding and operation of the Italian bank by the Bank of America interests.

In response to a question by Governor Robertson whether the
proposed transaction had been passed upon by the State Department, Chairman Martin said that no views had been expressed formally but that there had been some informal indication that the Department was anxious to have the Italian bank remain in American ownership rather than to have it taken over by foreign interests.

Chairman Martin then went on to say that while perhaps one could not find a strong basis for an exception to the 15 per cent investment limitation and while he would not want to go to anything like 100 per cent of capital and surplus, it seemed to him that in this case the benefit of the doubt should go to Bank of America because of the history of the Italian bank and the fact that the purchase would keep the bank under American ownership.

Question was raised as to the matter of timing and the reported activities of European intermediaries in the bank's stock were cited along with the possibility that Transamerica might decide to sell its stock to another bidder in the event of undue delay.

Governor Robertson then suggested advising Bank of America informally that condition number 6 would be retained, to be interpreted according to developments, and that the Board was proceeding to request the views of the State Department regarding the transaction. He proposed to say nothing at this time about the 15 per cent investment limitation, and his suggestion contemplated that at the proper time the whole matter of the proposed purchase would come back to the Board for final decision.

The procedure suggested by Governor Robertson was approved unanimously.
Secretary's Note: At the request of Chairman Martin, Governor Szymczak talked by telephone with Mr. Russell Smith following the Board meeting. He told Mr. Smith the Board continued to feel that condition number 6 in its letter of September 21, 1956, should stand but that it would be interpreted according to developments over a period of time and the Board had no particular ratio in mind, certainly not at this point. He also told Mr. Smith that the Board would send a letter to the Department of State asking for that Department's reaction, that Bank of America would get no further communication from the Board at this time, but that when the Board had heard from the State Department and had received information from Bank of America regarding the audit, the Board would take another look at the whole picture.

Messrs. Sloan, Marget, Solomon, Masters, Goodman, and Furth then withdrew from the meeting.

Advisory services on check handling operations. At the meeting of the Board with the Presidents of the Federal Reserve Banks on January 29, 1957, reference was made to a proposal of the Presidents' Conference Subcommittee on Electronics that a qualified person be employed on a full-time basis to keep in touch with developments in the mechanization of check handling operations as well as with the work of the technical Subcommittee on Mechanization of Check Handling of the American Bankers Association. To expedite consideration of the matter, it was agreed that the Presidents' Conference would study the subject further and present a more specific proposal. At the meeting of the Presidents' Conference on March 26, 1957, consideration was given to a revised proposal of the Subcommittee on Electronics which contemplated the use of a research organization rather than a single individual, and
a contractual arrangement calling for services at a specified cost for an indefinite period, with right of termination. The Conference authorized the Committee on Miscellaneous Operations to take such action as it might determine with respect to the recommendations made by the Subcommittee on Electronics.

In a memorandum dated April 3, 1957, copies of which had been distributed to the members of the Board, Mr. Leonard, Associate of the Subcommittee on Electronics, advised that the Subcommittee had discussed possible arrangements with representatives of six research organizations and that Stanford Research Institute was the unanimous first choice, not only because of its general standing but because of its special experience in the field of check handling problems. Under the plan recommended by the Subcommittee, a contract would be entered into by one of the Federal Reserve Banks on behalf of all of the Banks, the adviser would consult periodically with the Subcommittee on Electronics and submit monthly reports to the Committee on Miscellaneous Operations for distribution to all Federal Reserve Banks, and costs would be based on actual time spent, plus travel and other out-of-pocket expenses. The first phase of the program would contemplate a study of the check operations of at least one Federal Reserve Bank, a survey of manufacturers' equipment development projects, and a determination of the steps to be covered in the later phases of the program. Any subsequent phase of the Program would be undertaken only after review and evaluation of the preceding phase. Advice having been received that Stanford Research
Institute could undertake the assignment if selected, Mr. Leonard's memorandum recommended that the Board approve the program effective upon receipt of the recommendation of the Committee on Miscellaneous Operations.

At the request of the Board, Mr. Leonard commented on the nature of the proposed program and the manner in which it would be carried forward. He indicated that the Subcommittee on Electronics was anxious to have a decision because the six organizations with which it conferred had selected personnel who were being held aside for this assignment. He also stated that the word from the Committee on Miscellaneous Operations probably would be received today or tomorrow.

In response to a question, Mr. Leonard said that the Subcommittee had gone into the matter of possible conflicting interests of the respective research organizations and had satisfied itself on this point. He also said that while no formal letter had yet been received from Stanford Research Institute, the Subcommittee had the definite impression that the cost of the first phase of the program would be well under $10,000. Since the contract would be subject to termination and each subsequent phase of the program would be undertaken only after review of the preceding phase, the Board could retain the right to raise questions at any stage.

At the conclusion of the discussion the arrangement described in Mr. Leonard's memorandum was approved unanimously, with the
understanding that advice of the Board's concurrence would be given
when the recommendation of the Committee on Miscellaneous Operations
had been received.

Secretary's Note: A telegram stating that the Committee on Miscellaneous Operations
had approved the arrangement was received on April 5, 1957. Accordingly, advice of
the Board's concurrence was sent to the Chairman of the Committee by wire the same
day, with a copy to the Chairman of the Subcommittee on Electronics. A copy of the
Board's telegram is attached to these minutes as Item No. 7.

Travel authorization. The Board authorized Mr. Riefler, Assistant
to the Chairman, to accompany the Chairman to the meeting of the Bank
for International Settlements to be held in Basle, Switzerland, early
in June of this year and, if it should develop to be feasible, to pay
brief visits at foreign central banks on route. In this connection,
the Board authorized a per diem in lieu of subsistence for Mr. Riefler
at the rate of $15 per day for the entire trip, except that aboard ship
actual expenses would be claimed.

The meeting then adjourned.

Secretary's Note: During the day, Governor Robertson informed the Secretary that in
accordance with the authorization given to him by the Board on April 1, 1957, he had
conferred with Arthur Andersen & Co. and that the firm would arrange to have its
representatives accompany the Board's field examining staff on a designated examination
of a Federal Reserve Bank this year to observe examining procedures.
Secretary's Note: Governor Balderston, acting as alternate to Governor Shepardson, today approved on behalf of the Board the payment of certain expenses for food, supplies, and overtime incurred in connection with the reception given for Mr. Vest, retired General Counsel, on Friday, March 29. The nature of these expenses was indicated in a memorandum from Mr. Fauver, Assistant Secretary, dated April 2, 1957, and the attachments to that memorandum.

Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Balderston also approved on behalf of the Board today the following actions with respect to the Board's staff:

Appointment

Carl T. Arlt as Economist in the Division of Research and Statistics, with basic annual salary at the rate of $10,750, effective the date he assumes his duties.

Salary increases, effective April 7, 1957

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<tr>
<th>Name and title</th>
<th>Division</th>
<th>Basic annual salary</th>
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<td>Research and Statistics</td>
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<td>Bettie M. Pomeroy, Secretary ¹/</td>
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<td>$3,670 to $3,805</td>
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<td>Personnel Administration</td>
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<td>Jeanette E. Devlin, Personnel Records Clerk</td>
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<td>3,925 to 4,075</td>
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<td>Administrative Services</td>
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<td>James R. Jordan, Mail Clerk ²/</td>
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<td>3,115 to 3,215</td>
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<td>Harry E. Kern, Chief, Procurement Section</td>
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<td>6,250 to 6,390</td>
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<td>Donald W. Moon, Purchasing Assistant</td>
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<td>5,065 to 5,240</td>
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Change in status of appointment

Wilhelmina K. Steele, Operator, Key Punch, in the Division of Administrative Services, from a temporary to a regular basis, effective April 7, 1957.

¹/ Change in title from Clerk-Stenographer to Secretary
²/ Change in title from Messenger to Mail Clerk
Acceptance of resignations

Thomas F. Gearin, Economist in the Division of International Finance, effective April 7, 1957.

Gertrude H. Sklagen, Records Clerk in the Office of the Secretary, effective April 19, 1957.

LaRue S. Stahler, Operator (Key Punch) in the Division of Administrative Services, effective March 29, 1957.

[Signature]
Secretary
April 4, 1957

Mr. Alfred Hayes, President,
Federal Reserve Bank of New York,
New York 45, N. Y.

Dear Mr. Hayes:

Reference is made to your letter of December 20, 1956, regarding the Bank’s revised plans for emergency operation in case of enemy attack or declaration of a national war emergency. It is noted that the Bank has taken action to terminate the arrangements under the former plan whereby certain Federal Reserve Banks were designated as agents and attorneys-in-fact for the Federal Reserve Bank of New York, which plan was approved by the Board in its letter dated July 2, 1952.

The Board accepts your letter of December 20, 1956, as formal notification of the termination of the former plan in view of the development of a new plan based on current System planning.

A copy of the report dated December 13, 1956, of the Directors’ Committee on Emergency Planning and a copy of Part A of the Manual containing your Bank’s emergency plan were transmitted with your letter of December 20. It would be appreciated if, when it becomes available, you would forward for use in connection with the System’s defense planning a complete copy of the Manual with its exhibits.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.
April 4, 1957

The First National City Bank of New York,
55 Wall Street,

Gentlemen:

In view of the request contained in your letter of March 19, 1957, addressed to the Federal Reserve Bank of New York, a copy of which letter has been furnished to the Board of Governors, and on the basis of the information contained therein, the Board extends to July 1, 1957, the time within which The First National City Bank of New York may establish a branch in the Municipality of Havana, Republic of Cuba, on the plot of land known as No. 1, Block No. 2, on the southeast corner of the intersection of Rancho Boyeros Highway and the new highway leading toward San Francisco de Paula, under the authority granted in the Board's letter of May 24, 1956.

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 and opened for business.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.
Telegram

April 5, 1957

CRANE - NEW YORK

KECEA

A. Marine Midland Corporation, Jersey City, New Jersey.
C. None.
D. At any time prior to July 1, 1957, to authorize the merger of such bank into Chautauqua National Bank of Jamestown, Jamestown, New York, and for such other purposes as may be necessary in connection therewith, provided that all actions taken shall be in accordance with plans satisfactory to the Comptroller of the Currency.

(Signed) Merritt Sherman

SHERMAN

KECEA - The Board authorizes the issuance of a limited voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to the holding company affiliate named below after the letter "A", entitling such organization to vote the stock which it owns or controls of the bank(s) named below after the letter "B", subject to the condition(s) stated below after the letter "C". The permit authorized hereunder is limited to the period of time and the purposes stated after the letter "D". Please proceed in accordance with the instructions contained in the Board's letter of March 10, 1947, (S-964).
April 4, 1957

Board of Directors,
Commercial and Farmers Bank,
Ellicott City, Maryland.

Gentlemen:

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 on the southeast side of the intersection of U. S. Highway No. 40, and Rogers Avenue, Howard County, Maryland, by Commercial and Farmers Bank, Ellicott City, Maryland, provided (1) capital is increased to not less than $100,000 to comply with the Federal Statutes, (2) the branch is established within six months from the date of this letter, and (3) the approval of the State authorities is in effect as of the date the branch is established.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.
April 4, 1957

Mr. E. R. Millard, Vice President,
Federal Reserve Bank of San Francisco,
San Francisco 20, California.

Dear Mr. Millard:

Reference is made to your letter of March 12, 1957, submitting the request of State Bank of Wilbur, Wilbur, Washington, for approval, under the provisions of Section 24A of the Federal Reserve Act, of an investment in bank premises in excess of the capital stock of the bank.

After consideration of information submitted, the Board of Governors concurs in the Reserve Bank's recommendation and approves an investment of not to exceed $80,000 for construction of banking premises by State Bank of Wilbur, Wilbur, Washington.

It is presumed the member bank will reduce this investment on a planned and regular basis.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.
April 4, 1957

Mr. H. G. Huddleston, Secretary,
Tennessee Bankers Association,
812 American Trust Building,
Nashville 3, Tennessee.

Dear Mr. Huddleston:

This refers to your letter of March 22, 1957, to the Board's General Counsel, inquiring whether it is permissible under the Board's Regulation Q for a member bank to give life insurance in connection with a savings deposit, where the aggregate of the insurance premiums and the interest paid on the deposit does not exceed the maximum interest permissible under the Board's regulation.

As you will note from the enclosed copy of Regulation Q, the maximum permissible rate of interest which a member bank may now pay on a savings deposit is 3 per cent per annum. So long as the amount paid to a savings depositor as regular interest on his deposit and the cost to the bank of the insurance on the life of the depositor do not, in the aggregate, exceed the amount which the depositor would receive as interest on the deposit if interest were calculated as permitted by the regulation at the maximum rate of 3 per cent per annum, no question of violation of the interest provisions of the regulation would arise.

Should you have any further question concerning the application of the Board's regulation, it is suggested that you might find it more convenient to contact the Federal Reserve Bank of Atlanta, which will be glad to assist you.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.
April 5, 1957

Fulton - Cleveland
Kimball - New York

Board concurs in action of Presidents' Conference Committee on Miscellaneous Operations in approving employment of Stanford Research Institute as adviser in connection with the check problem as recommended in the report of the Subcommittee on Electronics.

(Signed) S. R. Carpenter
Carpenter