

Minutes for April 23, 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.

	A	B
Chm. Martin	x <u>MM</u>	_____
Gov. Szymczak	x <u>MS</u>	_____
<u>1/</u> Gov. Vardaman	_____	x _____
Gov. Mills	x _____	_____
Gov. Robertson	x <u>R</u>	_____
Gov. Balderston	x <u>CCB</u>	_____
Gov. Shepardson	x <u>SS</u>	_____

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 Tuesday, April 23, 1957. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Riefler, Assistant to the Chairman
 Mr. Young, Director, Division of Research and Statistics
 Mr. Sloan, Director, Division of Examinations
 Mr. Hackley, General Counsel
 Mr. Masters, Associate Director, Division of Examinations
 Mr. Solomon, Assistant General Counsel
 Mr. Brill, Chief, Business Finance and Capital Markets Section, Division of Research and Statistics

Items 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:

	<u>Item No.</u>
Letter to the President of The National Bank of New Jersey, New Brunswick, New Jersey, regarding whether certain services offered by a member bank to a depositor would constitute an indirect payment of interest on demand deposits. (With copies to the Federal Reserve Bank of New York and the Comptroller of the Currency.)	1

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- Letter to Congressman Auchincloss of New Jersey
commenting on the question raised by the President
of The National Bank of New Jersey. (With copies
to the Federal Reserve Bank of New York and the
Comptroller of the Currency.) 2
- Letter to the Federal Reserve Bank of Chicago re-
garding a question raised by the Midwest Stock Ex-
change involving special cash accounts under section
4(c) of Regulation T. (With copies to the Federal
Reserve Bank of New York and the National Association
of Securities Dealers.) 3
- Letter to the Federal Reserve Bank of San Francisco
waiving the requirement of six months' notice of
withdrawal from membership in the Federal Reserve
System for State Bank of Morton, Morton, Washington. 4
- Letter to the Comptroller of the Currency recommending
approval of an application to organize a national bank
in South Gate, California. (With a copy to the Federal
Reserve Bank of San Francisco.) 5

Bank loans to Penn-Texas Corporation. (Item No. 6) Under date
of April 3, 1957, the Board furnished to the Securities and Exchange
Commission certain information regarding loans made by banks to Penn-
Texas Corporation on stock of Fairbanks, Morse & Company which appeared
to have involved possible violation of Regulation U. In a letter dated
April 15, 1957, the Chairman of the Commission acknowledged the Board's
letter, called attention to the enforcement procedure agreed upon by
the Board, the Commission, the Comptroller of the Currency, and the
Federal Deposit Insurance Corporation in 1939 and again in 1946, and
stated that the Commission would appreciate being advised if it was
desired that the Commission take any action with respect to the loans
in question. The letter also stated that the Commission would appreci-
ate learning of any developments in the matter.

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With a memorandum dated April 19, 1957, copies of which had been distributed to the members of the Board, Messrs. Sloan and Solomon submitted a draft of suggested reply to the Securities and Exchange Commission which would state that the information previously forwarded to the Commission had been sent because it was felt that it might be of interest in connection with the Commission's regulatory, investigative, and enforcement activities and because it seemed appropriate to make such material available for information and for such action as might be deemed advisable. The letter would also state that if further information should become available, it would be brought to the attention of the Commission.

Governor Balderston stated that he was somewhat concerned about the nature of the letter from the Securities and Exchange Commission for it appeared to him that the Commission was leaving to the Board the initiative for instituting any investigation of the transactions in question. As he understood it, the interagency arrangement established in 1939 and renewed in 1946 contemplated the institution of appropriate investigative and enforcement activities by the Commission when it was furnished information by the bank supervisory agencies that appeared to warrant such action. If it subsequently developed that the matter under consideration involved violations of Regulation U in the making of loans to Penn-Texas Corporation, he felt that the Board might be charged with having failed to pursue the matter vigorously and cause appropriate procedures to be instituted.

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In view of Governor Balderston's comments, there ensued a discussion as to whether there was any further action which should be taken by the Board and Mr. Sloan said that he did not think so, at least as far as investigation of the matter was concerned. He said that at present the Board had no reason to believe that the information obtained by the Federal Reserve Bank of New York from the lending member bank was not factual. While it appeared that a certain element of subterfuge might have been present, since Penn-Texas Corporation may have borrowed from the bank to replenish working capital used to purchase stock of Fairbanks, Morse & Co., the transaction seemed to point up a loophole in the Board's regulation. In other words, it appeared that from a technical standpoint a transaction of this kind could be accomplished without violation of Regulation U.

Mr. Hackley commented that he was not sure that the letter from the Securities and Exchange Commission was correct in implying that the Commission was not expected to initiate any action except upon the specific request of one of the bank supervisory agencies. According to his understanding, the effect of the interagency arrangement was merely that the bank supervisory agencies would bring information to the attention of the Commission, leaving to the discretion of that agency the question whether any action should be taken.

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Mr. Solomon said that when the pertinent legislation was passed the supervisory agencies evidently were concerned about the possibility of another agency coming into the field of bank examination. The interagency arrangement, therefore, was worked out with the thought that the bank supervisory agencies would attempt to check into possible violations of Regulation U on their own behalf. The understanding did not state explicitly that the Securities and Exchange Commission would not go into the commercial banks concerned, but the language seemed to carry an implication that this would be unnecessary. As to whether there was anything more to be done by the Board in the instant case, he pointed out that Regulation U is not an air-tight regulation. In a case of this kind, the bank and the borrower could probably defend their actions in such a way that it would be difficult to obtain a conviction, even though the transaction might not have been in accord with the spirit of the regulation.

In a further discussion of the matter, Governor Shepardson inquired of Mr. Solomon whether he saw anything in the case that would justify the Board in requesting the Securities and Exchange Commission to take action, and Mr. Solomon responded to the effect that he doubted whether there was sufficient basis for such a request. From the available information, he considered it unlikely that more thorough investigation would uncover circumstances on which a conviction or an injunction could be obtained.

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Governor Shepardson then inquired whether the loophole in the Board's regulation resulted from the wording of the statute or whether it was something that could be corrected by amending the regulation.

Mr. Solomon replied to the effect that the law might well support a tightening of the language in the regulation. While it was not possible to say exactly what interpretation of the pertinent statutory language would be made by the courts, he did not think that such an interpretation would be apt to necessitate quite as much leeway as provided by the present definition in Regulation U.

At this point Governor Mills inquired as to the progress of the study concerning the so-called "bring up" amendment which would require that credit for the purchasing or carrying of convertible debentures be brought up to the standard margin requirements upon conversion of such debentures into registered stock, and Mr. Solomon cited adverse reactions received from certain parties, including representatives of the American Bankers Association. He stated that it was hoped to be able to complete the analysis of this problem shortly and present a recommendation to the Board.

Following further discussion of the Penn-Texas loans and related matters, Chairman Martin said it appeared to him that the Board had done everything that was appropriate and reasonable. While the Board might entertain a certain amount of doubt as to whether the participants in these transactions had adhered to the spirit of Regulation U, it seemed that the Board could go no further than the proposed

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letter to the Securities and Exchange Commission without requesting the Commission to act on the basis of such reservations. He suggested, therefore, that the letter be approved in the form in which it was submitted.

Thereupon, the proposed letter to the Securities and Exchange Commission was approved unanimously. A copy is attached to these minutes as Item No. 6.

During the foregoing discussion Mr. Sherman, Assistant Secretary, entered the room and at this point Mr. Thurston, Assistant to the Board, was called into the meeting.

Report on H.R. 26. (Item No. 7) Pursuant to the understanding at the meeting of the Board on April 19, 1957, there had been sent to the members of the Board a revised draft of letter to the House Banking and Currency Committee concerning the subject bill, which would increase the number of members of the Board from seven to twelve, abolish the Federal Open Market Committee, and transfer the functions of the Committee to the twelve-man Board. The latest draft, prepared by Mr. Thurston, would adopt the same general approach as the drafts previously distributed to the Board, but the language was changed somewhat in emphasis and tone.

Following a brief discussion during which agreement was expressed with an editorial change in the draft suggested by Governor Balderston, unanimous approval was given to a letter to the Chairman of the House Banking and Currency Committee in the form attached to

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these minutes as Item No. 7, with the understanding that a copy would be sent to the Bureau of the Budget in accordance with the customary procedure.

Effects of changes in the margin requirements. The basis for discussion was a memorandum from Mr. Young dated April 18, 1957, reviewing the effects of changes in margin requirements since 1946, with particular attention to responses of stock market credit, stock prices, and the volume of stock trading in the seven-month period immediately following each change in the margin requirements. The broad finding of the study was that margin changes appeared to have had an immediate and perceptible impact on the level of stock market credit but no consistent or sustained effects on stock prices or trading volume. The memorandum, copies of which had been sent to the members of the Board, indicated that margin reductions had tended to be followed by an immediate rise in customer debit balances, that margin increases appeared to have succeeded generally in halting or moderating existing credit trends, that there had been no consistent pattern in the effects of margin changes on market activity and stock prices, and that there was no evidence that margin changes or margin requirement levels were major factors in determining the degree of market liquidity.

In commenting on the memorandum, Mr. Young observed that an evaluation of the effects of margin requirements, and changes therein, on the basis of empirical evidence is extremely difficult since factors

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are at work that are not subject to statistical measurement and yet must be taken into consideration. However, the record since 1946 appeared to indicate a positive response on the part of stock market credit to changes in the margin requirements. On the other hand, no sustained effects on the volume of trading or stock prices could be observed.

Mr. Young then referred to the comments of representatives of the New York Stock Exchange at the time of their meeting with the Board on March 15, 1957, and said that on the basis of the findings of the staff study the Stock Exchange officials did not appear to have made a strong case for a reduction in the margin requirements at this time. It might be argued, principally on technical grounds, that a margin reduction would not necessarily result in any increase in stock market activity or any rise in stock prices. On the other hand, such action in the present atmosphere of inflationary psychology could spark a speculative rise in stock prices and some increase in market activity. With margin accounts at the moment overmargined on the average, buying power would appear to be available and a reduction in margin requirements could have the effect of increasing the volume of credit transactions simply because people would have additional excess margin available and might have a disposition to draw out the excess credit for other uses.

Mr. Brill continued the discussion by bringing out that the date of the visit by the Stock Exchange representatives coincided with

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a low point in stock market volume. Since then, and particularly during the first part of this month, there had been a substantial pick-up in activity. At the same time, the use of stock market credit had been declining since the first of the year. In this connection, the staff study, as previously brought out, seemed to show that margin requirement changes exert more effect on stock market credit than on trading volume and prices.

At the conclusion of the comments by Messrs. Young and Brill, Chairman Martin expressed the view that although logic and equity might suggest some slight element of discrimination against stock market credit at the present level of margin requirements, the economic situation generally seemed to leave no alternative but to continue the current requirements for the present. Therefore, he would be disposed to postpone further consideration of a change in the requirements until a different set of economic conditions developed.

None of the other members of the Board indicated that their views were different from those stated by Chairman Martin. Accordingly, it was agreed to defer further consideration of a possible change in the margin requirements.

During the foregoing discussion Messrs. Thurston and Riefler withdrew from the meeting and at the conclusion of the discussion Mr. Brill also withdrew.

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Meeting with representatives of the Investment Bankers Association. Chairman Martin stated that the committee of the Investment Bankers Association which meets with the Treasury from time to time to discuss Treasury financing matters was scheduled to visit Washington later this month and that the Association had inquired whether the group might meet with the Board at 11 o'clock on Tuesday, April 30, for an informal discussion of the economic situation. He said he had informed the Association that, subject to the approval of the Board, a meeting at the time suggested would appear to be satisfactory.

The other members of the Board expressed agreement and it was understood that the meeting would be held at the time suggested. In this connection, it was understood that Mr. Young would be prepared to present at the meeting a brief sketch of the significant economic developments.

At this point Mr. Leonard, Director, Division of Bank Operations, entered the room.

Strike affecting the Railway Express Agency. Effective last Monday the Teamsters' Union began a strike against the Railway Express Agency affecting service in seven Federal Reserve cities. The Federal Mediation and Conciliation Service had now been brought into the picture but at the moment there seemed to be no indication of an early settlement. The Division of Bank Operations had been in touch with the

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Federal Reserve Banks to keep informed concerning the effects of the strike on the check collection services of the Reserve Banks and the steps taken or contemplated by the Banks in the circumstances.

At the request of the Board, Mr. Leonard made a report on the shipping problems created by the strike and the alternative methods of shipment available to the Reserve Banks. In the course of his comments, Mr. Leonard referred to the effect of the strike on the volume of float and stated that analysis of the matter by the Reserve Banks was not yet complete. The New York Bank had advised its member banks that for the duration of the strike certain Federal Reserve cities that are normally one-day points would be put on a two-day deferred credit basis. This might result in some positive float, and if necessary the New York Bank planned to adjust the temporary time schedule in an appropriate manner. In response to a question, Mr. Leonard reviewed the authority available to a Reserve Bank to vary the period of credit deferment for cash items within the two-day maximum approved by the Board.

Question was raised whether it would be in order for the Division of Bank Operations to get in touch with the Federal Mediation and Conciliation Service to obtain information in a matter of this kind. While it did not appear that there would be any strong reason to refrain from checking on developments in this manner, doubt was expressed whether such action was necessary in this instance. It was also pointed out that

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the Federal Reserve, although not a party to the current strike, would be approaching an agency directly concerned as the mediating instrumentality, and it was suggested that this might raise some question from the standpoint of policy implications. The thought was expressed, however, that the Board's staff might give some consideration to the matter internally against the possibility that a situation might develop where it seemed desirable to contact the Mediation Service.

Following further discussion of the effects of the strike, from which it appeared that no positive action on the part of the Board was called for at this time, it was understood that the Division of Bank Operations would continue to keep in touch with the Federal Reserve Banks and that Mr. Leonard would report further to the Board whenever he considered such a report desirable.

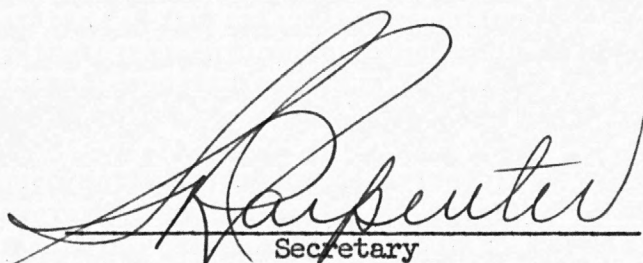
The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board the recommendation contained in a memorandum dated April 22, 1957, from Mr. Johnson, Director, Division of Personnel Administration, that the Board pay the cost of a luncheon for the members of the Employees' Committee, estimated at between \$15 and \$20, the purpose of the luncheon being to afford the new members of the committee an opportunity to become acquainted with Governor Shepardson.

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Pursuant to the advice contained in a memorandum dated April 16, 1957, from Mr. Marget, Director, Division of International Finance, that John E. Reynolds, Economist in that Division, had been invited by the American Management Association to address the East Coast General Management Conference in New York City on June 4, 1957, on "The Long Range Business Effects of the Suez Crisis - Here and Abroad", Governor Shepardson approved on behalf of the Board today the recommendation that Mr. Reynolds be granted leave on official business, transportation, and per diem for the purpose of attending the conference.



Secretary

Item No. 1
4/23/57

April 23, 1957

Mr. Samuel L. Allen, President,
The National Bank of New Jersey,
New Brunswick, New Jersey.

Dear Mr. Allen:

This refers to your letter of March 22, 1957, in which you indicated that a local depositor had transferred most of his substantial demand account balance from your bank to The First National City Bank of New York, one of your New York City correspondents, because of that bank's agreement to reconcile the account so established with that bank. You raised the question whether the activity covered by the agreement constitutes an indirect payment of interest on demand deposits contrary to the Board's Regulation Q.

The precise nature of such activity is not described in your letter. It would seem, however, that the activity probably involves the use by the bank of machine processing pursuant to which the depositor is supplied with a monthly statement which reveals not only the depositor's checks that have been paid by the bank but also indicates outstanding checks that remain unpaid.

For many years, it has been the Board's general policy not to attempt to determine whether particular practices or services furnished by a member bank involve an indirect payment of interest on deposits unless the facts of the particular case have been fully developed in the course of examination of the member bank involved. The Board, instead, has relied upon the cooperation and good faith of member banks in adapting their practices to conform to the spirit and purpose of the law and regulation on this subject. However, assuming that the activity covered by the agreement in question is of the kind described briefly above, the Board doubts that the performance of such activity should be regarded as constituting an indirect payment of interest contrary to its regulation.

Your letter also raised the question whether the activity covered by the agreement might exceed the legal prerogatives of the national bank and be inconsistent with sound bank accounting practice. This question, however, seems to involve matters within the province of the Comptroller of the Currency who, as you know, has

Mr. Samuel L. Allen

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primary jurisdiction with respect to supervision of national banks. In your letter you also mention a "monopolistic phase" of the matter and state that it has been referred to the proper authorities.

Should you have any further questions concerning the Board's Regulation Q, it is suggested that you might find it more convenient to contact the Federal Reserve Bank of New York, which will be glad to assist you.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Item No. 2
4/23/57

April 23, 1957

The Honorable James C. Auchincloss,
House of Representatives,
Washington 25, D. C.

Dear Jim:

Your letter of March 25, 1957, asked that you be advised concerning the matter discussed in a letter of March 22, 1957, to me from Mr. Samuel L. Allen, President of The National Bank of New Jersey, New Brunswick, New Jersey, a copy of which was forwarded to you by Mr. Allen.

There is enclosed a copy of my reply of this date to Mr. Allen.

In your letter, you expressed particular interest in the smaller banks in the outlying areas of large cities. This would seem to refer to what Mr. Allen characterized as the "monopolistic phase" of the matter.

Under section 11 of the Clayton Antitrust Act, the Board is vested with certain authority for enforcement of section 7 of that Act where applicable to banks. Briefly, section 7 forbids the acquisition by one corporation of the stock of one or more other corporations where the effect of such acquisition may be substantially to lessen competition or to tend to create a monopoly. The activity mentioned by Mr. Allen would seem rather clearly not to be covered by this statute, and he indicated that he had referred the "monopolistic phase" of the matter to the proper authorities.

The Board also is vested with certain administrative responsibilities under the Bank Holding Company Act of 1956. This Act, which is described in the preamble thereof as an Act to define bank holding companies, control their future expansion, and require divestment of their nonbanking interests, contains no authorization to the Board to initiate action against a bank because of activity of the kind mentioned by Mr. Allen. It may be mentioned, however, that there is now in progress an administrative

The Honorable
James C. Auchincloss

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hearing in connection with an application under section 3(a) of the Act for Board approval of the proposed acquisition by a newly-formed company of the stock of The First National City Bank of New York and of certain other banking institutions in New York.

I hope that the foregoing discussion, together with my reply to Mr. Allen, will be of help to you in your consideration of the matter. However, should you feel that we may be of any further assistance, please do not hesitate to call upon us.

With all good wishes,

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Enclosure

Item No. 3
4/23/57

April 23, 1957

Mr. Neil B. Dawes, Vice President
and Secretary,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Dawes:

This is in further reference to the question presented by the letter of March 22, 1957, from Mr. Frank J. Rothing, Vice President of the Midwest Stock Exchange, involving "special cash accounts" under section 4(c) of Regulation T. Further information on the matter was contained in Mr. Rothing's letter of April 3, 1957, which you forwarded under date of April 5.

Mr. Rothing's question seems to be whether the effect of section 4(c)(4) of the regulation is to extend automatically the date by which a broker must file an application for extension of time as authorized by section 4(c)(6). He also inquired as to the situations covered by section 4(c)(4).

First, it should be emphasized that a broker may not, for example, effect a purchase of a security for a customer in a special cash account under section 4(c) unless the use of the account meets the limitations of section 4(a) and the purchase constitutes a "bona fide cash transaction" which meets the eligibility requirements of section 4(c)(1)(A). One such requirement is that the purchase be made in reliance upon an agreement accepted by the broker in good faith that the customer will "promptly" make full cash payment for the security, if funds sufficient for the purpose are not already in the account; and, subject to certain exceptions, section 4(c)(2) provides that the broker shall promptly cancel or liquidate the transaction if payment is not made by the customer within 7 days after date of purchase. As stated in the Board's interpretation at 1940 Federal Reserve Bulletin 1172, "The customer should have the necessary means of payment readily available when he purchases a security in the special cash account. He should expect to pay for it immediately or in any event within the period (of not more than a very few days) that is as long as is usually required to carry through the ordinary securities transaction".

Mr. Neil B. Dawes

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An exception to section 4(c)(2) is contained in section 4(c)(4) which provides that "If any shipment of securities is incidental to the consummation of the transaction", the 7-day period "shall be deemed to be extended by the number of days required for all such shipments, but not by more than 7 days".

Section 4(c)(4) was the subject of the Board's interpretation at 1940 Federal Reserve Bulletin 772, which concerned the question whether the periods required for shipments of securities from the place of purchase to the broker, from the broker to the customer, and to and from the transfer office were covered by section 4(c)(4). The Board replied that, assuming that such shipments "are not a subterfuge but actually are incidental to the consummation of the transaction", each such period would be covered by section 4(c)(4), and could be added together, provided the total time for all such shipments would not exceed the maximum additional time allowed by section 4(c)(4). In any situation conforming with this principle, the period normally applicable under section 4(c)(2) would be extended automatically "by the number of days required for all such shipments, but not by more than 7 days". In such a case, the date by which the broker must, under the regulation, file an application for extension of time under section 4(c)(6) would be extended in like manner.

Of course, as indicated by the Board's interpretation at 1939 Federal Reserve Bulletin 253, no application for an extension of time under section 4(c)(6) may be granted after the expiration of the period applicable to the transaction. In the same interpretation, the Board pointed out that in order to facilitate consideration of applications for extension of time, the organization authorized by section 4(c)(6) to receive and act upon such application may further limit the period following the transaction within which it will receive any such application.

It will be appreciated if you will supply Mr. Rothing with a copy of this letter, and a copy is enclosed for this purpose.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.

Enclosure

Item No. 4
4/23/57

April 23, 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 letters of March 28 and April 12, 1957, enclosing copy of a resolution adopted by the board of directors of State Bank of Morton, Morton, Washington, signifying its intention to withdraw from membership in the Federal Reserve System and requesting a waiver of the six months' notice of such withdrawal.

In accordance with the bank's request, the Board of Governors waives the requirement of six months' notice of withdrawal. Accordingly, upon surrender of the Federal Reserve Bank stock issued to the bank, you are authorized to cancel such stock and make appropriate refund thereon. Under the provision of Section 10(c) of Regulation H, as amended effective September 1, 1952, the bank may accomplish termination of its membership at any time within eight months after notice of intention to withdraw is given. Please advise when cancellation is effected and refund is made.

The certificate of membership issued to the bank should be obtained, if possible, and forwarded to the Board. The State banking authorities should be advised of the bank's proposed withdrawal from membership and the date such withdrawal becomes effective.

It is our understanding that the bank has filed a formal application with the Federal Deposit Insurance Corporation for continuance of deposit insurance after withdrawal from membership.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

Item No. 5
4/23/57

April 23, 1957

Comptroller of the Currency,
Treasury Department,
Washington 25, D. C.

Attention: Mr. L. A. Jennings,
Deputy Comptroller of the Currency.

Dear Mr. Comptroller:

Reference is made to a letter from your office dated October 2, 1956, enclosing photostatic copies of an application to organize a national bank in South Gate, California, and requesting a recommendation as to whether or not the application should be approved.

Information contained in a report of investigation made by an examiner for the Federal Reserve Bank of San Francisco indicates generally favorable findings with respect to the factors usually considered in connection with such proposals. Accordingly, the Board of Governors recommends approval of the application to organize a national bank in South Gate, California.

The Board's Division of Examinations will be glad to discuss any aspects of this case with representatives of your office if you so desire.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

Item No. 6
4/23/57

April 23, 1957

The Honorable J. Sinclair Armstrong,
Chairman, Securities and Exchange Commission,
Washington 25, D. C.

Dear Mr. Armstrong:

This refers to your letter of April 15, 1957, regarding certain loans made to Penn-Texas Corporation on stock of Fairbanks, Morse & Company.

The Board's letter of April 3, 1957, forwarded information available to the Board with respect to these loans, since it was felt that this information might be of interest to your Commission in connection with its various regulatory, investigative and enforcement activities, and that it would be appropriate to make such material available to your Commission for its information and for such action as it might deem advisable. If further information should become available it will be brought to your attention.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.

Item No. 7
4/23/57

April 23, 1957

The Honorable Brent Spence,
Chairman, Committee on Banking
and Currency,
House of Representatives,
Washington 25, D. C.

My dear Mr. Chairman:

This letter is in response to your request of April 1, 1957, for the Board's views on H. R. 26 which would increase the number of members of the Board from seven to twelve, abolish the Federal Open Market Committee, and transfer its functions to the twelve-man Board.

The present structure of the Board of Governors is the result of careful consideration by the Congress, by economists, bankers, businessmen and others consulted by Congress and was arrived at after thorough debate on the part of Congress. Based on the experience of the Board over the years, it is our judgment that no constructive purpose would be served by enlarging the membership. Furthermore, a Board consisting of twelve members, as proposed in the bill, would be unwieldy in the daily discharge of its various responsibilities.

The composition of the Federal Open Market Committee was also established by Congress in 1935 after similar extensive review. Unlike the Board of Governors, the Committee meets at intervals, usually of three weeks. As now constituted, it has functioned satisfactorily in discharging its single responsibility of formulating open market policy, the day-by-day operations being carried out through the Federal Reserve Bank of New York as the agent of the Committee.

Accordingly, the Board of Governors would not favor enlargement of the membership of the Board or the transfer to it of the functions of the Federal Open Market Committee.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.