Minutes for May 22, 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.

<table>
<thead>
<tr>
<th>A</th>
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<tbody>
<tr>
<td>Chm. Martin</td>
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<td>Gov. Szymczak</td>
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<td>Gov. Vardaman</td>
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<td>Gov. Mills</td>
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<td>Gov. Robertson</td>
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<td>Gov. Balderston</td>
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<td>Gov. Shepardson</td>
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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 Wednesday, May 22, 1957. The Board met in the Board Room at 11:00 a.m.

PRESENT: Mr. Balderston, Vice Chairman
           Mr. Szymczak
           Mr. Mills
           Mr. Robertson
           Mr. Shepardson
           Mr. Carpenter, Secretary
           Mr. Sherman, Assistant Secretary
           Mr. Kenyon, Assistant Secretary
           Mr. Riefler, Assistant to the Chairman
           Mr. Cherry, Legislative Counsel
           Mr. Young, Director, Division of Research and Statistics
           Mr. Sloan, Director, Division of Examinations
           Mr. Hackley, General Counsel
           Mr. Noyes, Adviser, Division of Research and Statistics
           Mr. Masters, Associate Director, Division of Examinations
           Mr. Furth, Chief, International Financial Operations Section, Division of International Finance
           Mr. Katz, Chief, British Commonwealth, Scandinavia, and Near East Section, Division of International Finance

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:

<table>
<thead>
<tr>
<th>Item No.</th>
<th>Description</th>
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<tbody>
<tr>
<td>1</td>
<td>Letter to the Federal Reserve Bank of San Francisco interposing no objection to the service of Branch Accountants as Federal Reserve Agent's Representatives.</td>
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<tr>
<td>2</td>
<td>Letter to The Hanover Bank, New York, New York, approving the establishment of a branch at 399 Park Avenue. (For transmittal through the Federal Reserve Bank of New York.)</td>
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Letter to Davison State Bank, Davison, Michigan, approving the establishment of a branch in Goodrich, Michigan. (For transmittal through the Federal Reserve Bank of Chicago.)

Letter to The City National Bank of Council Bluffs, Council Bluffs, Iowa, granting its supplemental application for fiduciary powers. (For transmittal through the Federal Reserve Bank of Chicago.)

Letter to McAllen State Bank, McAllen, Texas, approving the establishment of a branch at the intersection of Broadway and Beaumont Avenues. (For transmittal through the Federal Reserve Bank of Dallas.)

Letter to the Federal Reserve Bank of San Francisco extending the time within which California Bank, Los Angeles, California, may establish a branch in the Wood Shopping Square in West Covina, California.

Letter to the Comptroller of the Currency recommending approval of an application for the organization of a national bank in Cortez, Colorado. (With a copy to the Federal Reserve Bank of Kansas City.)

Letter to the Chairman of the House Committee on Banking and Currency responding to a request for a report on H.R. 6502, a bill "To provide that abandoned deposits in certain banks shall escheat to the respective States in which such banks are located." (With a copy to the Bureau of the Budget.)

Application for membership in the Federal Reserve System. With a memorandum dated April 29, 1957, the Federal Reserve Bank of New York submitted a favorable recommendation concerning an application of the Virgin Islands National Bank, Charlotte Amalie, St. Thomas, Virgin Islands, for membership in the Federal Reserve System. A memorandum from the Division of Examinations dated May 13, 1957, which had been circulated to the members of the Board, commented on the application and expressed concurrence in the Reserve Bank's recommendation. No question concerning the
admission to membership of the applicant bank was raised in the course of circulation to the Board, but Governor Robertson attached a note to the file inquiring whether the bank should hold stock in the Federal Reserve Bank of New York or the Federal Reserve Bank of Atlanta.

In a discussion of the question which had been raised by Governor Robertson, Mr. Sloan pointed out that the Federal Reserve Act provides that a bank located in a possession or territory of the United States may be a member of any Federal Reserve District with the consent of the Board. He then referred to the traditional relationships, financial and otherwise, between the Virgin Islands and New York City, and said it appeared from the file that the Virgin Islands National Bank had applied specifically for membership in the New York District in the thought that its needs would best be served in that way. Aside from financial and commercial relationships, it was his understanding that the lines of communication and transportation were better established between New York City and the Virgin Islands than between the Islands and points in the Atlanta Federal Reserve District.

With respect to a question by Governor Shepardson regarding a statement in the file that the Virgin Islands National Bank would continue to be examined by the District Chief National Bank Examiner in Atlanta, Mr. Sloan said he assumed the Comptroller's Office had instituted and desired to continue this arrangement because the shorter distance involved permitted savings in terms of examiners' transportation. He noted that
arrangements had been made whereby copies of examination reports would be sent by the District Chief National Bank Examiner in Atlanta to the Federal Reserve Bank of New York.

Governor Robertson indicated that he was concerned about the matter principally from the standpoint of the precedent that might be established for banks located in other territories or possessions, and said that he could conceive of the Board getting into what might be an untenable position. The mere fact that the principal lines of communication and commerce had been between New York and the Virgin Islands over the years did not mean, he said, that the same situation would necessarily continue to prevail. He also expressed the view that the decision should not be based solely on the choice and convenience of the applicant bank.

Governor Balderston then referred to the forthcoming Federal Reserve mission to Puerto Rico which would have as one of its objectives a study of the possible establishment of a Federal Reserve Bank agency in Puerto Rico. Should the findings of the mission suggest the establishment of an agency by the Federal Reserve Bank of Atlanta, a problem would arise if the bank now applying for membership in the System held membership in the Federal Reserve Bank of New York.

Despite the questions which had been raised, there was general agreement that action on the current application should not be delayed pending the results of the Puerto Rican mission, and it was suggested that one method of procedure would be to request informally the views of President Bryan of the Atlanta Reserve Bank. If, in the opinion of Mr. Bryan, the
applicant bank could be served best at this time by becoming a member of the Federal Reserve Bank of New York, the problem would be eliminated unless the Puerto Rican mission eventuated in a decision to establish an agency of the Atlanta Reserve Bank in Puerto Rico. To guard against that contingency, it was suggested that the Board’s letter to the applicant bank approving its membership application contain appropriate language indicating that, depending on future developments, the Board might determine at some time that the bank should be a member of a Federal Reserve Bank other than New York.

In the course of the discussion, Governor Szymczak suggested that the general subject of membership in particular Federal Reserve Banks by banks located outside the continental United States might be at some time an appropriate matter for discussion by the Conference of Presidents of the Federal Reserve Banks.

At the conclusion of the discussion, the Secretary was requested to call President Bryan on the telephone and obtain his opinion as to whether the applicant bank could be served to better advantage by having membership in the Atlanta Reserve Bank rather than the New York Bank. It was understood that if Mr. Bryan’s response was in the affirmative, the matter would be brought back to the Board for further consideration, but that otherwise the staff would proceed to work out appropriate language for inclusion in the letter to the applicant bank which would indicate the possibility of a transfer of the bank’s membership to some other Federal Reserve District if developments in the future should make that seem
advisable in the Board's judgment. Unless some question was encountered by
the staff in this connection and further consideration by the Board seemed
desirable, the letter approving the membership application would then be
sent to the Virgin Islands National Bank through the Federal Reserve Bank
of New York.

Messrs. Sloan, Masters, Furth, and Katz then withdrew from the meet-
ing and Messrs. Thomas, Economic Adviser to the Board, Molony, Special Assist-
ant to the Board, Robinson, Adviser, Division of Research and Statistics,
and Jones, Chief, Consumer Credit and Finances Section in the same Division,
entered the room.

Testimony before Senate Finance Committee. Pursuant to the under-
standing at the meeting on May 20, 1957, there had been sent to the members
of the Board copies of a draft of statement for presentation by Chairman
Martin before the Senate Finance Committee in connection with the forthcoming
hearings of that Committee relating to Governmental financial and monetary
policies.

The draft had been prepared in the light of a statement to Chairman
Martin by Committee Chairman Byrd that the former might be asked to testify
later this week, the thought being that, in Chairman Martin's temporary
absence, the other members of the Board would give preliminary consideration
to the proposed statement in the interest of expediting preparation of the
final draft. However, at this meeting it was reported that developments
within the Committee created uncertainty as to when Chairman Martin actually
would be called to testify, it now appearing that the testimony might be
deferred until next month. In the circumstances, the Board decided to post-
pone review of the draft of statement until the situation had been clarified.
Statement on consumer instalment credit. At the meeting on May 20, 1957, it was stated that the staff, under the direction of Governor Mills, had been requested to prepare for the Board's consideration a draft of statement which might be issued by the Board in the light of the recent consumer instalment credit study. It was understood at that time that this expression of the Board's views would be released after Chairman Saulnier of the Council of Economic Advisers had made a report on the study to the Cabinet next Friday. Such a draft subsequently was completed and copies thereof had been distributed to the members of the Board.

The draft was reviewed by the Board and a number of changes were suggested, mostly in the interest of emphasis and clarification of the Board's views. Accordingly, it was agreed that a revised draft of statement would be sent to the members of the Board for consideration at the meeting tomorrow.

With regard to procedure, it was understood that upon receipt of word from Mr. Saulnier that the report to the Cabinet had been made, copies of the Board's statement, in the form approved by the Board, would be sent to Mr. Saulnier, the Chairmen of the Banking and Currency Committees, and the Chairman of the Joint Economic Committee, with appropriate letters of transmittal, and that the statement would then be released to the public early Friday afternoon. Drafts of the transmittal letters were to be presented to the Board for consideration along with a draft of the press statement covering release of the document. It was reported that the Council of Economic Advisers contemplated issuing a statement on the study
next Monday which would indicate that the Council independently had reached conclusions similar to those of the Board with regard to the regulation of consumer credit, and that the Council would find it helpful for drafting purposes to have in advance, if possible, a copy of the Board's statement. The view was expressed by the Board that it would be appropriate to comply with the request for an advance copy.

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

Request from International Cooperation Administration for technical assistance (Item No. 9). After the executive session, the Secretary was informed by the Vice Chairman that the Board had given consideration to a memorandum from Mr. Furth dated May 20, 1957, relating to a request from International Cooperation Administration for the services of a member of the Board's research staff in connection with certain consultations to be held in Paris, France; and that, pursuant to the recommendation contained in the memorandum, the Board approved a letter to the Administration advising that Mr. Eckert, Chief of the Banking Section, Division of Research and Statistics, would be made available for this purpose for a period of one or two weeks, plus travel time, beginning on or about June 3, 1957. A copy of the letter is attached to these minutes as Item No. 9.

The meeting then adjourned.

Secretary's Note: On May 21, 1957, Governor Shepardson approved on behalf of the Board a letter to the Federal Reserve Bank of Chicago
approving the designation of Maurice M. McAninch as special assistant examiner. A copy is attached hereto as Item No. 10.

[Signature]
Secretary
May 22, 1957

Mr. A. H. Brawner,
Chairman of the Board and
Federal Reserve Agent,
Federal Reserve Bank of San Francisco,
San Francisco 20, California.

Dear Mr. Brawner:

This refers to your letter of April 5, 1957, acknowledging the Board's letter S-1624 of March 20, 1957 (F.R.L.S. #3161) with respect to the appointments of Assistant Federal Reserve Agents, Alternate Assistant Federal Reserve Agents, and Federal Reserve Agent's Representatives at Branches.

You state that it would be helpful when considering future assignments to have the Board's opinion as to the propriety of continuing the policy of appointing Branch Accountants to the position of Federal Reserve Agent's Representative.

It is noted that the Branch Accountants at all your branches (who are the active Federal Reserve Agent's Representatives) handle the monthly reserve account reconciliations, check departmental proofs, etc., but that no actual audits of cash or securities are made by the Branch Accountants and that they do not assist the Head Office audit staff in connection with the regular branch audits. In this connection, it is understood that General Auditor Armstrong has informed you that, in his opinion, the audit functions performed by your Branch Accountants would not conflict with their regular jobs and their special responsibilities in aiding the Federal Reserve Agent to safeguard the currency and other assets entrusted to him.

On the basis of the information furnished, the Board will interpose no objection to the Branch Accountants serving as Federal Reserve Agent's Representatives at your branches.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.
Board of Directors,
The Hanover Bank,

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors of the Federal Reserve System approves the establishment of a branch by The Hanover Bank, New York, New York, at 399 Park Avenue in the city of New York, provided the branch is established within two and one-half years from the date of this letter, and the approval given by the State authorities is effective as of the date it is established.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.
Board of Directors,
Davison State Bank,
Davison, Michigan.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors of the Federal Reserve System approves the establishment of a branch by Davison State Bank at 510218 Hegel Road in Goodrich, Atlas Township, Genesee County, Michigan, provided the branch is established within six months from the date of this letter, and that approval of the State Banking Department is effective as of the date the branch is established.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.
May 22, 1957

Board of Directors,
The City National Bank of Council Bluffs,
Council Bluffs, Iowa.

Gentlemen:

The Board of Governors of the Federal Reserve System has given consideration to your supplemental application for fiduciary powers, and, in addition to the authority heretofore granted to act as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, and committee of estates of lunatics, grants you authority to act, when not in contravention of State or local law, in any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the State of Iowa. The exercise of all such powers shall be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

A formal certificate indicating the fiduciary powers which The City National Bank of Council Bluffs is now authorized to exercise will be forwarded to you in due course.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.
Board of Directors,
McAllen State Bank,
McAllen, Texas.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Dallas, the Board of Governors approves the establishment of a branch by McAllen State Bank, McAllen, Texas, at the intersection of Broadway and Beaumont Avenues, diagonally across the street from the main banking quarters, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.
May 22, 1957

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

Dear Mr. Millard:

As recommended in your latter of May 8, 1957, the Board of Governors extends to February 1, 1958, the time within which California Bank, Los Angeles, California, may establish a branch in the Wood Shopping Square at the southwest corner of California Avenue and Garvey Boulevard, West Covina, California.

This extension is granted with the continuing understanding that the branch which California Bank now operates in West Covina will be abandoned and its activities will be transferred to this new location when quarters are available for occupancy.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.
May 22, 1957

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

Attention: Mr. W. M. Taylor, Deputy
Comptroller of the Currency.

Dear Mr. Comptroller:

Reference is made to a letter from your office dated
March 21, 1957, enclosing photostatic copies of an application
to organize a national bank in Cortez, Colorado, and request-
ing a recommendation as to whether or not the application should
be approved.

Information contained in a report of investigation
of the application made by an examiner for the Federal Reserve
Bank of Kansas City discloses generally satisfactory findings
with respect to the factors usually considered in connection
with such proposals except as to the adequacy of the proposed
capital structure. At the time of the investigation the or-
ganizers appeared agreeable to increasing the capital structure
of the bank to $250,000. However, in view of the anticipated
volume of business to be acquired within a three-year period,
it appears that a capital structure of $300,000 would be more
desirable. The Board of Governors recommends approval of the
application provided arrangements are made for a capital struc-
ture satisfactory to your office.

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.
May 22, 1957

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

Dear Mr. Chairman:

This is in response to your communication of April 9, 1957, requesting a report on H.R. 6502, a bill "To provide that abandoned deposits in certain banks shall escheat to the respective States in which such banks are located."

The bill would apply to deposits in both national banks and State-chartered banks which are members of the Federal Reserve System. A deposit in such banks would be considered as abandoned if there are no known claimants, the depositor cannot be reached by registered letter, and the deposit has not been increased or decreased, or on which interest has not been credited at the request of the depositor, within a 20-year period. When these circumstances obtain, each bank would be required to publish in a newspaper of general circulation a list of all such deposits held by it, together with appropriate information which might aid in locating the owner of the deposit. Six months following such publication all unclaimed deposits would escheat to the State. Thereafter, the bank would have no liability with respect to such deposits and all future claims against it would be paid by the appropriate public official in accordance with State law.

Dormant bank deposits have been the subject of legislation in a number of States, including California, Kentucky, Michigan, Minnesota, New York, Oregon and Pennsylvania. Some of these statutes have provided for the escheat to the particular State of dormant accounts in both national and State-chartered banks, and the courts have generally held such statutes to be a proper exercise of State authority. For example, the Supreme Court of the United States has held in Anderson National Bank v. Luckett, (1944) 321 U.S. 233, that an escheat statute of the State of Kentucky was enforceable against both national banks and State-chartered banks so long as the constitutional requirements regarding procedural due process are satisfied.
The Federal courts appear to have ruled, in some cases, that power to dispose of unclaimed deposits is vested exclusively in the several States and therefore is not within the authority of the Federal Government. (See Gorny et al. v. Trustees of Milwaukee County Orphans Board, (C.C.A. 7th, 1937) 93 F. (2d) 107, cert. den. 304 U.S. 559). In view of such decisions your Committee might consider it advisable to inquire into the constitutional validity of H.R. 6502. The bill also would seem to impose obligations and responsibilities on State authorities which they may be unwilling or unprepared to accept since it provides that, following the escheat to the State in which the bank is located, appropriate officials shall receive claims and pay them in accordance with the law of such State. Thus, State legislation might be necessary in order to implement the Federal law. Otherwise the Federal statute could be completely ineffective. There might also be the question, in those States which already have escheat statutes, whether a dormant account should escheat in accordance with Federal law or State law. In view of these considerations perhaps the better policy would be to enact no Federal law on the subject and to leave the matter for determination by the States themselves.

It has been noted that the bill would not apply to dormant accounts of nonmember banks which are insured by the Federal Deposit Insurance Corporation. There would appear to be as much basis for including such accounts within the coverage of the bill as those of national or State member banks. The same would seem to be true with respect to accounts in Federal credit unions and Federal savings and loan associations.

Since there are many more national banks than member State banks, and these national banks hold more deposits in the aggregate, your Committee may wish to secure the views of the Comptroller of the Currency with regard to the proposed legislation. In this connection, we have observed that the Comptroller of the Currency filed a brief as amicus curiae at the time the Supreme Court considered the Luckett case, mentioned above.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.
Mr. Stuart H. Van Dyke,
Regional Director for Africa and Europe,
International Cooperation Administration,
Washington 25, D.C.

Dear Mr. Van Dyke:

This letter is in response to your request of May 17 that the Board of Governors make available a member of the Board's research staff to consult with financial experts in USRO and OEEC in Paris on U.S. banking developments and policies.

I am glad to inform you that the Board of Governors has acted favorably on your request. Mr. James B. Eckert, Chief, Banking Section, Division of Research and Statistics, has been selected for this assignment.

It is our understanding that the International Cooperation Administration will pay Mr. Eckert's travel expenses and per diem and that the Board of Governors will continue to pay his salary. Mr. Eckert will be in Paris for a period of one to two weeks, plus travel time, commencing on or about June 3.

Sincerely yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.
May 21, 1957

Mr. W. R. Diercks, Vice President,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Diercks:

In accordance with the request contained in your letter of May 15, 1957, the Board approves the designation of Maurice M. McAninch as a special assistant examiner for the Federal Reserve Bank of Chicago.

Please advise as to the date upon which the designation is made effective.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.