

To: Members of the Board

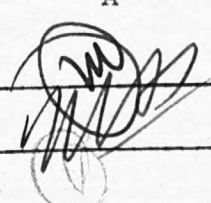
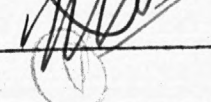
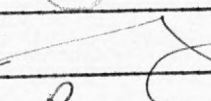
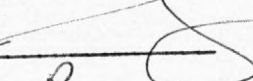
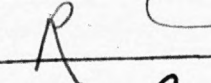
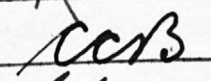
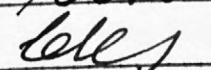
From: Office of the Secretary

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

It is proposed to place in the record of policy actions required to be kept under the provisions of Section 10 of the Federal Reserve Act an entry covering the item in this set of minutes commencing on the page and dealing with the subject referred to below.

Page 2 Increase in maximum rate on
section 13b loans at Federal
Reserve Bank of Philadelphia

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

	A	B
Chm. Martin	x 	_____
Gov. Szymczak	x 	_____
Gov. Vardaman	x 	_____
Gov. Mills	x 	_____
Gov. Robertson	x 	_____
Gov. Balderston	x 	_____
Gov. Shepardson	x 	_____

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, May 24, 1957. The Board met in the Board Room at 9:30 a.m.

PRESENT: Mr. Martin, Chairman 1/
 Mr. Balderston, Vice Chairman
 Mr. Szymczak
 Mr. Vardaman
 Mr. Mills
 Mr. Robertson 1/
 Mr. Shepardson

Mr. Carpenter, Secretary
 Mr. Sherman, Assistant Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Fauver, Assistant Secretary
 Mr. Riefler, Assistant to the Chairman
 Mr. Thomas, Economic Adviser to the Board
 Mr. Young, Director, Division of Research and Statistics
 Mr. Sloan, Director, Division of Examinations
 Mr. Hackley, General Counsel
 Mr. Cherry, Legislative Counsel
 Mr. Molony, Special Assistant to the Board
 Mr. Noyes, Adviser, Division of Research and Statistics
 Mr. Robinson, Adviser, Division of Research and Statistics
 Mr. Masters, Associate Director, Division of Examinations
 Mr. Solomon, Assistant General Counsel
 Mr. Jones, Chief, Consumer Credit and Finances Section, Division of Research and Statistics

Questions regarding the applicability of sections 20 and 32 of the Banking Act of 1933 (Item No. 1). There had been circulated to the members of the Board a file, and a suggested letter to the Federal Reserve Bank of St. Louis, regarding the applicability of sections 20 and 32 of the Banking Act of 1933 to the appointment of Lincoln Bank and Trust

1/ Withdrew from meeting at point indicated in minutes.

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Company, Louisville, Kentucky, as co-executor of an estate including the majority of the capital stock of a firm engaged in underwriting and selling securities. When the file was in circulation to the members of the Board, an editorial change in the proposed letter was suggested by Governor Balderston.

Following a brief discussion, the letter was approved unanimously in a form reflecting the change which Governor Balderston had suggested. A copy is attached to these minutes as Item No. 1.

Reestablishment of existing discount rates. There were presented telegrams proposed to be sent to the following Federal Reserve Banks approving the establishment without change by those Banks on the dates indicated of the rates of discount and purchase in their existing schedules:

Boston	May 20
Atlanta	May 20
San Francisco	May 22
New York	May 23
Cleveland	May 23
Richmond	May 23
St. Louis	May 23
Kansas City	May 23
Dallas	May 23

The telegrams were approved unanimously.

Increase in section 13b rate at Philadelphia Bank. In a telegram dated May 23, 1957, Mr. McCreedy, Vice President and Secretary of the Federal Reserve Bank of Philadelphia, advised that the directors of the Bank had established, subject to review and determination by the Board of Governors, a maximum rate of 6 per cent, rather than 5 per cent, on advances direct to industrial or commercial organizations, including advances

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made in participation with other financing institutions, under section 13b of the Federal Reserve Act. The existing range of 2-1/2 to 5 per cent on such advances had been in effect since May 20, 1942. The other rates of discount and purchase in the Bank's existing schedule were established without change by the directors.

Following a brief discussion, unanimous approval was given to a telegram to Mr. McCreedy advising that the Board approved the maximum rate of 6 per cent, effective May 27, 1957, and that otherwise the Board approved the establishment by the Philadelphia Bank without change of the rates of discount and purchase in the Bank's existing schedule. It was understood that advice of the increased rate would be sent by wire to the Presidents of all Federal Reserve Banks and the Vice Presidents in charge of all Federal Reserve Bank branches.

Report on regulation of consumer credit (Items 2, 3, and 4). Pursuant to the understanding at yesterday's meeting, there had been distributed to the members of the Board a further revised draft of statement for issuance by the Board expressing views on the regulation of consumer installment credit in the light of the recent study conducted by the Board at the request of the President.

Following review of the revised draft, the statement was approved unanimously subject to a minor change in wording to take account of a point raised by Governor Vardaman. Approval was also given to transmittal letters to the Chairman of the Council of Economic Advisers, the Chairmen of the Banking and Currency Committees, and the Chairman of the Joint

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Economic Committee, and to the press statement which would be used in releasing the statement to the public. It was understood that the letters would be sent to the aforementioned parties, and the statement then released to the public, after word had been received from the Chairman of the Council of Economic Advisers that he had briefed the Cabinet on the consumer instalment credit study. It was also understood that the text of the statement would be sent to the Federal Reserve Banks by telegram and that copies would be sent to the members of the Federal Advisory Council and other appropriate parties with transmittal letters over the signature of Chairman Martin.

Secretary's Note: Pursuant to this action, the Board's statement was transmitted to the parties mentioned above, and released to the press, later in the day. Copies of the statement for the press, the statement of the Board's views, and the transmittal letter to the Chairman of the Senate Banking and Currency Committee are attached to these minutes as Items 2, 3, and 4, respectively. The other transmittal letters were in substantially the same form as the attached Item No. 4.

Messrs. Robinson and Jones then withdrew from the meeting and Mr. Goodman, Assistant Director, Division of Examinations, entered the room.

Request that the Federal Reserve Banks administer certain RFC and Treasury loans. Reference was made to a memorandum from Mr. Leonard dated May 16, 1957, copies of which had been sent to the members of the Board, relating to a proposal by the Treasury Department that the Federal Reserve Banks undertake the handling of certain loans now held by the Treasury. Some of these loans originated with the Reconstruction Finance

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Corporation, while others were defense production and civil defense loans made by the Treasury. It was proposed that the administration and servicing of these loans be turned over to the Reserve Banks as agents with discretion, subject to certain exceptions, to handle the loans as if they were the Reserve Banks' own property. Heretofore, loans handled by the Reserve Banks as fiscal agents for the Treasury had been merely serviced by the Reserve Banks, with discretion as to collection remaining with the Treasury. At the level of interagency staff consultation, it had been agreed that the Treasury Department would send data on the loans to the Committee on Fiscal Agency Operations of the Conference of Presidents of the Federal Reserve Banks with a view to having the matter considered by the Committee and by the Conference. The memorandum also mentioned certain small loans of the Reconstruction Finance Corporation which were to be turned over to the Small Business Administration pursuant to Reorganization Plan No. 1 of 1957 which the President had transmitted to the Congress. These loans were now being handled under a pool arrangement administered by the Federal Reserve Bank of Chicago and the Treasury had expressed the hope that the arrangement could continue, with a change in principal from the Treasury to the Small Business Administration.

Chairman Martin reported that subsequent to the preparation of the memorandum he received a visit from Assistant Secretary of the Treasury Robbins who advised that, with certain personnel transfers, it was

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now hoped that the loans in question could continue to be serviced by the Treasury. However, it was not certain whether this plan would prove feasible and Mr. Robbins would like to reserve the right to raise the matter again within the next few months. The Treasury hoped, however, that the pool arrangement mentioned in Mr. Leonard's memorandum could be continued. Since the Reconstruction Finance Corporation would expire on June 30, 1957, the Treasury had been advised by the Chicago Reserve Bank that authority would be needed to substitute the Small Business Administration as principal and continue the arrangement on that basis.

At the request of Governor Vardaman, Mr. Leonard outlined the division of responsibilities between the Treasury and the Federal Reserve Banks that would be contemplated if the Treasury proposal were renewed. From these comments, it appeared that the Reserve Banks clearly would act as agents for the Treasury although they would be expected to exercise certain responsibilities greater than the mere servicing of the loans.

Governor Vardaman indicated that he was interested in this phase of the matter particularly, because these loans represented the "bottom of the barrel" and some of them undoubtedly would involve losses to the Government. In those circumstances, it was his opinion that the Board should insist that the Treasury clearly remain as principal, with the Reserve Banks serving as agents.

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Chairman Martin said it was definite from the conversation with Mr. Robbins that this would be an agency operation. While, in view of the latest development, there was nothing before the Board for immediate decision, he felt that Mr. Robbins should be alerted if the Board was disposed to object to the proposal if it were renewed at a later date.

Governor Robertson then suggested advising Mr. Robbins that the Board had some doubts about such a plan, that it was not certain at this time whether the Board would approve or disapprove any such proposal, that the Board would want the operations of the Federal Reserve Banks to be clearly on an agency basis, and that the Board would be glad to consider any definite proposal which the Treasury might make if the arrangements now contemplated for servicing the loans did not prove feasible.

Chairman Martin repeated that the operations would be definitely on an agency basis. He then pointed out that, except for certain features involving the degree of responsibility that would be assigned to the Federal Reserve Banks, the plan was similar to a proposal on which the Board advised the Treasury favorably several months ago. Therefore, it seemed to him that it was a little late for the Board to change its position. He also mentioned that an agent must be given some discretion in order to exercise its function properly.

Question then was raised whether the Presidents' Conference should go forward with a study of the proposal and Chairman Martin pointed out that, in view of the development reported by Mr. Robbins,

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the Reserve Banks would have nothing more specific to consider than they had had previously. He agreed, however, that it might be desirable for the Reserve Bank Presidents to be informed of the latest development so that they might have it in mind and be considering their position in the event the Treasury should renew the proposal at a later date.

Chairman Martin then suggested that the Board approve at this time a continuation of the pool arrangement administered by the Federal Reserve Bank of Chicago, with the principal changed from the Treasury to the Small Business Administration.

There was unanimous agreement with this suggestion and it was understood that the necessary steps would be taken.

Messrs. Hostrup, Assistant Director, Division of Examinations, and Furth, Chief, International Financial Operations Section, Division of International Finance, entered the room at this point.

Suggested bill for the establishment of "national investment companies". At this meeting Chairman Martin reported on the discussion with Senator Fulbright to which he referred at the meeting yesterday. He stated that the Senator appeared deeply interested in the problem of small business financing, was opposed to certain alternative bills which had been introduced, intended to hold hearings on the suggested bill to provide for national investment companies, and would like Vice Chairman Balderston to testify in the absence of Chairman Martin when hearings were held in June. The Chairman also said that Senator Fulbright represented himself as supporting the Board's current credit policy, recognized that the proposed legislation, if enacted at present, might run counter to

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that policy, but spoke of the legislation as a long-range project with enactment at a later session of the Congress.

Chairman Martin went on to say that he expressed the personal view to the Senator that there was a problem involved. However, he made it quite clear that in his opinion the Board would not be prepared to endorse the proposed bill. He said that he also informed Senator Fulbright of the consideration being given by the Board to a comprehensive study of the availability of credit to small business, that he made it clear that such a study would be expensive, and that he obtained the impression that the Senator might support such a study.

Chairman Martin then suggested that the Board give Vice Chairman Balderston as much latitude as possible in testifying so that he might handle the matter and develop the problem without indicating that the Board had taken a firm position on the suggested bill.

In a discussion based on the Chairman's comments, Governor Mills indicated that he was not satisfied that the expense of a comprehensive study of the financing problems of small business was justified under present conditions. However, if such a study were requested by the Congress, the Board of course would have to undertake it.

On this point Chairman Martin commented that he thought it likely that Senator Fulbright would take steps leading to a request for such a study by the Board. In his personal view, Chairman Martin said, the problem was an important one, and for several reasons he would prefer a study by the Federal Reserve System rather than some other agency. Returning to the requested testimony, he again urged that Vice Chairman Balderston be given maximum latitude, pointing out that the proposed bill was a "trial

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balloon" which might well be revised considerably in the course of hearings and Congressional debate. In this connection, he commented that, in response to a question by Senator Fulbright, he had agreed to make the Board's legal staff available for advice on technical drafting problems, this being the kind of service that would normally be provided upon request in connection with the drafting of legislation.

Governor Robertson then suggested that Governor Balderston would have to testify on behalf of the Board rather than as an individual, but that he did not think it would be difficult for the Board to reach agreement on a general position which would form a basis for the testimony. First, it seemed clear that the Board saw a need for a basic study by some instrumentality of the Government. Second, he felt that in previous testimony on this subject insufficient emphasis had been given to the point that high-powered Federal Reserve dollars should not be used for the purpose of extending credit to business. This could lead to the positive statement in the course of testimony that, while a need might exist for assistance to small business, the proposed investment companies should be established by some agency using regular taxpayers' dollars. The question then remaining would be the selection of the organization best suited for such an undertaking. In the case of the Federal Reserve, there would be an inconsistency between the credit control function and an operation involving the extension of credit.

Chairman Martin stated that such an approach would be agreeable to him and apparently would be acceptable to Senator Fulbright also, the Senator's concern being particularly that the Board not express the opinion that there was no problem involved.

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Governor Vardaman indicated that the approach suggested by Governor Robertson also would be agreeable to him.

After Mr. Cherry had stated that Governor Balderston would be asked to testify on Tuesday, June 11, or some day later that week, it was agreed that the staff would begin preparing for the Board's consideration a draft of statement which might be presented by Governor Balderston.

Messrs. Sherman, Cherry, and Noyes then withdrew from the meeting.

Charter for American Overseas Finance Company (Items 5, 6, and 7). At meetings last month the Board gave consideration to a proposal which had been advanced informally to organize an Edge corporation which would purchase substantially all of the assets of American Overseas Finance Corporation and assume substantially all of its liabilities. The Board's reaction was generally favorable to the proposal and the principal questions which were raised concerned the contemplated use of nonvoting common stock by the new corporation. The interested parties were advised informally that after a five-year period all stock of the corporation should in the Board's opinion have full voting privileges.

International Basic Economy Corporation had now filed a formal application on behalf of itself and others for the organization of a corporation under section 25(a) of the Federal Reserve Act to be known as American Overseas Finance Company. This company would purchase

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substantially all of the assets of American Overseas Finance Corporation and, as a "financing corporation", would engage in the same type of business. It would be wholly owned by a corporation named American Overseas Investing Company, Inc., to be organized under the law of the State of New York, which would have two classes of stock, common and class A (nonvoting). The Federal Reserve Bank of New York recommended approval of the application and the Board's Legal Division found no legal objection to approval of the proposed charter. However, in a memorandum from Messrs. Solomon and Goodman dated May 22, 1957, copies of which had been sent to the members of the Board, the Board was informed of the recommendation of the Division of Examinations that the requested charter not be granted. It was the view of the Division of Examinations that through the creation of an intermediary holding company with two classes of stock the proponents would in effect be accomplishing through this device something to which the Board had previously objected. However, should the Board determine that the new proposal would meet the objections previously expressed, the Division of Examinations would recommend that the application be granted, provided that the proposed holding company would agree that when required by the Board it would make at least two reports annually in such form as the Board might require, that it would submit to examination by examiners appointed by the Board, and that it would furnish various types of information which might be requested by such examiners.

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At the request of the Board, Mr. Goodman commented on the plan now proposed and stated the reasons for the unfavorable recommendation on the part of the Division of Examinations. In essence, these reasons related to the fact that through the holding company arrangement, a result would be produced which would have substantially the same effect as the arrangement which the Board had indicated that it would not favor. The reasons given by Mr. Goodman were supported by Mr. Sloan, who added that the proposed holding company apparently intended to invest in equity securities and would be able to do so without obtaining the consent of the Board in a manner which would not be permissible for the Edge corporation.

At this point Chairman Martin stated that he would have to leave the meeting shortly in order to keep an out-of-town engagement. Before leaving, however, he wanted to make it clear that he continued to favor the organization of the proposed new Edge corporation. He said that he considered this to be a desirable and needed type of financing, that the operation might well be abandoned if the Board did not approve the current proposal, and that the objections which might be interposed to the contemplated capital structure must be weighed against the desirability of making available private financing in this field. If proposals of this kind were not allowed to go forward, financing in this area would be limited to that available through agencies of the Government, including the Export-Import Bank. He noted that there are

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many difficulties for parties attempting to provide this type of financing and said that if he were in the position of the proponents in this case, he would have been tempted to abandon the project. While there might be dangers in the proposal that he did not see, he felt that in terms of the broad public interest the arguments favored granting the charter in spite of the questions which might be raised concerning the capital structure. Therefore, although the matter could be debated at length, he did not feel that his basic views would be changed and he would like to be recorded as favoring approval of the charter. In one sense, however, he would not feel too badly if the Board's decision was unfavorable because he doubted whether the corporation would find it possible to operate profitably. At present he did not feel that there was sufficient latitude for successful operations under the provisions of the Board's Regulation K. Nevertheless, he saw a distinct need for this type of financing unless it should be said that all of the financing in this area should be taken over by the Government.

The principal statement of differing opinion was made by Governor Mills who said that he agreed completely with the recommendation of the Division of Examinations that the charter not be granted, for the reasons set forth in the memorandum from Messrs. Solomon and Goodman. Expanding on those reasons, he said that an Edge corporation, particularly a financing corporation, occupies what might be called a sheltered status by virtue of its Federal charter -- a charter which endows such corporations

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with privileges over and beyond those that accrue to other organizations engaged in the field of foreign financing. That being so, he felt that the Board should not be influenced unduly by the fact that those interested in American Overseas Finance Company were people of integrity and ability. The public interest, he said, demands of the Board that all organizations applying for charters of this kind be given a similar hearing and privileges, so that if the Board granted a charter which would approve the type of operations and capital structure proposed in this instance, it would have to take the same general attitude toward other applicants desiring to engage in this field of business. While some bank charters are granted and others are denied depending on the character of the individuals interested in the application, in this area the Board might find it extremely difficult to make the shades of differentiation that would allow one group to operate and deny the application of another group. Turning to the capital structure proposed in this case, he said he found it difficult to reconcile the setup with the best corporate practices, especially since it appeared that the use of nonvoting stock by the holding company represented simply a device to escape from the use of nonvoting stock in the operating company. He pointed out that the use of nonvoting shares is frowned on generally and he understood that the New York Stock Exchange will not permit trading in shares of a company which has nonvoting common stock.

His major criticism, Governor Mills said, centered around the fact that the holding company would be in a position to engage in transactions which presumably would not be permissible for the Edge corporation.

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To put it another way, the management could operate through the holding company to conduct operations which would be frowned upon for the operating company. He did not believe that the Board could maintain proper supervisory control merely by establishing a requirement that the holding company make available information concerning its operations.

After Governor Vardaman had expressed agreement with the views stated by Chairman Martin and Governor Robertson had stated that he concurred in the position taken by Governor Mills, question was raised by Governor Shepardson whether the arrangement now proposed was deemed preferable to the previously proposed arrangement under which the Edge corporation itself would have issued nonvoting stock.

In response, Mr. Goodman outlined certain reasons which might be given in favor of the original proposal, but he added that it should be kept in mind that the alternative had been put forward in an effort to conform to the Board's informal suggestion. In other words, the new proposal represented an attempt to keep the Edge corporation "pure". While it was true that the holding company could engage in equity financing that would not be permissible for the Edge corporation, except with the Board's permission, it perhaps should be borne in mind that some of the financing needs of underdeveloped countries are for equity capital and an Edge corporation can not be of much assistance in that regard. All in all, therefore, he would be inclined to favor the alternative recommendation.

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Mr. Sloan took a somewhat different position, stating that although he recognized the need for this kind of financing, he did not think that the present proposal was as acceptable as the original proposal.

Mr. Solomon commented on the history of the case and the effort of the proponents to meet what they conceived to be the views of the Board. Apparently, he said, the proponents felt that a holding company setup would be somewhat similar to a voting trust arrangement. Technically, the Board at present had only one application before it for consideration, although it might be that the parties at interest would be agreeable to resubmitting a plan along the lines of the one originally submitted informally.

During a discussion of the question raised by Governor Shepardson and the comments by the staff, Governor Mills made the further statement that the Board in effect had authorized a new type of operation when it approved the charter of American Overseas Finance Corporation. Prior to that time Edge corporations had been only affiliates of a commercial bank. The Board, however, made a liberal interpretation of the statute and granted the charter. His own favorable vote, he said, was based solely on the fact that the proposed organization would be divorced from commercial banking. Now, however, the Board was considering the possibility of chartering an entirely new type of Edge corporation without definite assurance that it was appropriate under the statute.

From further discussion it developed that the members of the

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Board, other than Governors Mills and Robertson, were favorably inclined toward the proposed new operation for reasons similar to those stated by Chairman Martin. Also, since the plan now submitted had been proposed in the light of informal comments made by the Board in response to questions raised by the applicants, they would be willing to grant a charter on the basis now submitted despite such doubts as might be entertained concerning the use of the holding company device. Accordingly, with Governors Mills and Robertson voting "no" for the reasons which they had stated, approval was given to a preliminary permit authorizing American Overseas Finance Company to exercise powers conferred by section 25(a) of the Federal Reserve Act incidental to and preliminary to the company's organization. This approval was given subject to the conditions set forth in the alternative recommendation contained in the memorandum from Messrs. Solomon and Goodman. The letter to International Basic Economy Corporation and the Board's preliminary permit were in the form attached to these minutes as Items 5 and 6, respectively, with the understanding that the documents would be transmitted through the Federal Reserve Bank of New York. The letter sent to American Overseas Finance Corporation pursuant to this action was in the form attached to these minutes as Item No. 7.

Messrs. Young, Goodman, and Furth then withdrew from the meeting and Messrs. Hexter and O'Connell, Assistant General Counsel, and Davis, Assistant Counsel, entered the room.

Application of Wisconsin Bankshares Corporation. There had been distributed to the members of the Board memoranda from the Division of

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Examinations and the Legal Division relating to an application submitted by Wisconsin Bankshares Corporation, Milwaukee, Wisconsin, pursuant to the Bank Holding Company Act for approval of the acquisition of shares of a proposed new national bank, The Southgate National Bank of Milwaukee, which would be located in a shopping center about five miles from downtown Milwaukee. Recommendations for approval had been received from the Comptroller of the Currency and from the Federal Reserve Bank of Chicago, and the Division of Examinations likewise recommended favorably notwithstanding the dominant position of the bank holding company in the Milwaukee area and the fact that opposition had been expressed by some banks in the area and by the Executive Council of the Wisconsin Bankers Association.

The Legal Division and the Division of Examinations were in agreement that all information appeared to be favorable concerning the first three of the factors required by statute to be considered by the Board in an application of this kind; namely, the financial condition and the history of the applicant, the prospects of the applicant and the bank, and the character of their managements. The principal questions centered around the remaining statutory factors, relating respectively to the convenience, needs, and welfare of the community involved and the expansion of the bank holding company system beyond limits consistent with the public interest and the preservation of competition in the field of banking. While it appeared to the Legal Division that the proposed acquisition would not involve any violation of the Clayton Act, unfavorable considerations relating to the dominant position of the applicant in the Milwaukee area

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were considered to raise serious questions as to whether approval of the application would be consistent with the purposes of the Bank Holding Company Act unless the Board should conclude that the convenience, needs, and welfare of the community and area would be served by the proposed new bank to a degree sufficiently great to outweigh the unfavorable implications. It was pointed out that the element of need in this case must be resolved as a matter of judgment on the basis of the factual situation. After noting that the Board's decision might be subjected to judicial review, the memorandum from the Legal Division suggested that if the Board should be disposed to disapprove the application it would seem desirable to offer the applicant an opportunity to express its views and comments in writing or orally before the Board reached a final conclusion. If the Board should approve the application it was suggested that it might be desirable for the order of approval to set forth the principal grounds upon which approval was granted. In order to make possible a more complete development of possible adverse considerations, it was suggested that the Board, if disposed to approve the application, might want to consider a formal hearing.

In commenting on the matter, Mr. Hackley said that in the view of the Legal Division this was an extremely close and important case. While each case must be considered on the basis of its own facts, the decision of the Board in each case, particularly at this juncture, would become an important precedent, and the Legal Division therefore felt that the Board should give special consideration to its decision with respect to this application. He went on to say that the bank holding company is the fifth largest in the United States and in Milwaukee controls 49 per cent of total commercial

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bank deposits. The new national bank would be established in a large and growing shopping center and admittedly would represent a convenience to the local area. However, in view of the high degree of concentration in this case, it appeared to the Legal Division, as indicated in the distributed memorandum, that there was a serious question whether approval of the application would be consistent with the intent of the law unless the Board concluded on the basis of the facts that the need of the community for the new bank was sufficiently great to outweigh the unfavorable implications. While the Legal Division did not want to recommend a formal hearing, there was a feeling that thus far the need for the bank had not been sufficiently demonstrated to outweigh the unfavorable factors, and only by means of a formal hearing might it be possible to provide an adequate record that would stand up in court. In summary, the Legal Division had serious concern about the matter, primarily because of its effect as a precedent.

Mr. Hackley then referred to a previous application by Northwest Bancorporation of Minneapolis, Minnesota, to acquire the shares of a new bank proposed to be established in that city. While there were certain differences between the two cases, he pointed out that the cases were alike in respect to the factor of concentration. In the earlier case, the Board requested additional information from the applicant and the applicant subsequently asked that the matter be held in abeyance. Approval of the current application, he said, would in effect establish a principle that despite the size of a bank holding company and the percentage of deposits

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controlled by it in the particular area, the Board would be inclined to permit the holding company to establish a new bank in the area.

Governor Balderston inquired whether the Board could not ask for additional information and then, if it so desired, order a formal hearing, and Mr. Hackley stated that such a procedure could be followed.

In response to questions by Governor Mills concerning the facts that would be brought out in the event of judicial review, Mr. Hackley said that a formal hearing would provide a better record for judicial review and that the law requires the Board to provide an adequate record. The judicial review would of course not go beyond the record that had already been established.

Governor Vardaman raised a series of questions having to do with the significance that should be attached to the percentage of bank deposits in a given area that is controlled by the applicant, and it was stated by the staff that the percentage was merely a guide; that is, one of the indications of the degree of concentration of the holding company in the area. While it would be desirable to have that figure broken down, it would not seem possible to develop adequately complete information of that type in the absence of a formal hearing.

In response to a question by Governor Robertson, Mr. Hackley said that the legal staff was unanimous in its views. Therefore, the Legal Division would be inclined to suggest that before reaching a decision, the Board request additional information from the applicant relating to the need for the proposed new bank.

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The views of the Division of Examinations were then requested and Mr. Sloan began by stating certain points of difference between the current application and the application by Northwest Bancorporation of which Mr. Hackley had spoken. Mr. Hostrup said that it was the feeling of the Division that in this case the considerations relating to convenience, needs, and welfare of the community outweighed the factors relating to the concentration of the applicant in the area.

In response to a question by Governor Shepardson relating to whether the fact that there had been no other application to establish a new bank in the area resulted from the outstanding approval by the Comptroller of the Currency of a charter for the Southgate National Bank, Mr. Hostrup said that it was difficult to say whether this had been an influence. The fact remained, however, that there had been no competing applications, and there had been nothing to prevent other parties from applying for a State charter. He noted that the management of the shopping center had been holding quarters open for the proposed national bank, and if someone else had come forward with an application he saw no evidence to indicate that quarters would not have been made available to them.

Governor Mills supplemented Mr. Hostrup's comments by saying that in addition to the possibility of an application for a State charter, it was his understanding that, in line with the philosophy of the supervisory agencies, a subsequent application to the Comptroller for a national bank charter might have received sympathetic consideration from the standpoint that the establishment of an independent bank would serve

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to moderate the degree of concentration of Wisconsin Bankshares Corporation in the area.

Continuing with the development of the position of the Division of Examinations, Mr. Hostrup said that the Division had given considerable weight to the lesser concentration of Wisconsin Bankshares Corporation in the immediate area of the shopping center. In the local area (within 3-1/2 miles of the proposed bank) the applicant holding company controls only 20 per cent of commercial bank deposits and even with the establishment of the new bank it would not appear that this figure would go much beyond 26 per cent. He also said that the applicant's subsidiary, First Wisconsin National Bank, already had the business of more than half of the tenants of the shopping center, that the new bank, therefore, apparently would not draw much business from other banks, that the tenants of the shopping center would like to have banking facilities immediately available, that the owners of the center had indicated their desire for a bank by holding quarters open, and that this was a new and growing area, with plans already being made for an additional shopping center adjoining the present one. He went on to say that the Division of Examinations did not regard the Bank Holding Company Act as a "freeze" statute which would require the Board to disapprove all applications from large bank holding companies. Neither, he said, did the Division feel that the public interest in this case required disapproval of the application.

Governor Vardaman then moved that the application be approved.

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Governor Mills seconded the motion and said he agreed with Governor Vardaman that the information now available was adequate. He appreciated the points raised by the Legal Division but was more persuaded by the arguments of the Division of Examinations. He considered the application to be essentially an application for the establishment of a branch bank and he felt that distinctions could be made between an application of this kind and one under which Wisconsin Bankshares Corporation would acquire a bank in some community where it is not now represented. After pointing out that analysis of the matter had been confined principally to the city of Milwaukee, he noted that Wisconsin Bankshares Corporation operates throughout the State of Wisconsin but that, in the State as a whole, its percentage of ownership of deposits is far less than the concentration within the city of Milwaukee. Looking at the application in a broad light and taking into consideration the analysis of the Division of Examinations, it seemed clear to him that the application should be approved.

Governor Robertson said that he was not satisfied in his own mind that the considerations relating to the convenience, needs, and welfare of the community were sufficient to outweigh the unfavorable factors pointed out by the Legal Division. He urged that this application be considered carefully because of the precedent involved and said that he would not like to make a decision one way or the other at this meeting. Instead, he would prefer to request additional information

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from the applicant which might show more clearly whether the need of the area for the proposed bank was sufficiently great to warrant approval of the application. This might include an invitation to appear before the Board to submit oral evidence. If it then appeared that the need was sufficiently great, he would be agreeable to approving the application, but if not he would vote the other way.

In further comments, Governor Robertson said it was possible that the shopping center area was controlled by the First Wisconsin National Bank and that, if so, it would have been difficult for any other bank to enter the shopping center. Also, if the tentative approval of the national bank's charter by the Comptroller of the Currency had not been pending, some other party perhaps might have come into the immediate or nearby area and established a bank. As to the need for banking facilities, he noted that several other banking offices are situated within relatively short distances. For this reason also, he would like to have the applicant submit additional evidence before the Board acted.

Governor Vardaman suggested that the proposed bank would be more of a service branch than an organization designed to acquire new business. He doubted whether the views of the State Superintendent of Banks should be requested because the Superintendent had not expressed himself thus far on this particular application. Solicitation of his views would tend to establish a precedent of not making a decision without consulting the State authorities.

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After Governor Robertson expressed agreement that the State Superintendent's views did not seem necessary in the circumstances, Governor Vardaman suggested that any additional information regarding the application be obtained through the Federal Reserve Bank of Chicago for he felt that this would be a more appropriate way of proceeding than to invite the applicants in cases of this kind to establish direct contact with the Board.

Governor Shepardson then expressed himself as very much concerned about where the line should be drawn when a bank holding company had a substantial concentration in an area. He indicated that in view of the concentration in this case and the precedent involved, it would be his inclination to deny the application, notwithstanding the fact that the degree of dominance of the applicant in the Milwaukee area had decreased somewhat in recent years. It still occupied a very dominant position and in his opinion the situation might have precluded a competing bank from coming in to serve the apparent need in the area where the Southgate National Bank would be located. While he therefore was inclined to oppose the application, he would give the applicant an opportunity to submit such additional information as it might desire.

Governor Balderston observed that the Board was asked in each close case of this kind to balance community needs against monopolistic factors. In this case of "retail banking", it seemed to him that the factor of community needs must be judged on a local basis, even though the element of concentration seemed to require a more extensive study.

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On balance, he thought there was much to be said for the point of view expressed by the Division of Examinations that there was a real need to be met in the local area. On the other hand, he would go along with a procedure such as suggested by Governor Robertson in the thought that the availability of additional data might serve to dispel some of the confusion that appeared to exist regarding the proper disposition of close questions of this kind arising under the Bank Holding Company Act.

Governor Szymczak said that he would favor requesting Wisconsin Bankshares Corporation to provide more information, but that in doing so he would not indicate that the Board at this time was inclined to deny the application.

Following further discussion, Governor Vardaman renewed his motion that the application be approved and a vote was taken on the motion. This vote resulted in a tie, Governors Balderston, Vardaman, and Mills voting "aye" and Governors Szymczak, Robertson, and Shepardson voting "no".

Discussion then turned to alternative procedures for carrying forward consideration of the matter and the suggestion was renewed that the applicant be requested to provide additional information which might demonstrate more conclusively the need for the proposed banking services in the area. In this connection, it was also suggested that the Board communicate with the Federal Reserve Bank of Chicago with a view to securing the information through the Reserve Bank rather than direct from the applicant.

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At the conclusion of the discussion, unanimous agreement was expressed with this procedure and it was understood that a letter asking for information of the kind suggested by Governor Robertson would be sent to the Chicago Reserve Bank.

In concluding comments, Governor Vardaman asked that the staff, in presenting matters of this kind, consider whether some basis could be found, other than citing the percentage of deposits controlled by the applicant, to suggest the degree of concentration. He felt that the percentage of deposits must be analyzed in order to be useful and that it contained the possibility of being a misleading figure.

Messrs. Fauver, Riefler, Sloan, Molony, Solomon, Hexter, O'Connell, Hostrup, and Davis then withdrew from the meeting and Mr. Shay, Assistant General Counsel, entered the room.

Possible amendments to Regulations Q and D. There had been sent to the members of the Board copies of a memorandum from Mr. Shay dated May 20, 1957, presenting for the Board's further consideration the question whether the definition of "savings deposit" in Regulation Q, Payment of Interest on Deposits, and the identical definition in Regulation D, Reserves of Member Banks, should be amended to prevent a deposit from being classified as a "savings deposit" if the deposit has a fixed maturity. A proposed amendment to that effect had been published by the Board in the Federal Register in December 1956, and the Federal Deposit Insurance Corporation had published an identical proposed amendment to its interest regulation applicable to nonmember insured banks. Comments from the Federal Reserve Banks showed that eight of the Banks would favor

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such an amendment, one opposed the proposal, one would have no objection, and the other two doubted its desirability or effectiveness. The reaction of the Comptroller of the Currency was favorable, and only two comments from interested parties were received following publication in the Federal Register. These comments suggested two possible changes in the proposed amendment, one of which would make it clear that the amendment applied only to deposits received by a bank after the effective date of the amendment, while the other would modify the proposal so as not to interfere with Christmas and vacation club savings accounts. On the basis of these comments, Mr. Shay's memorandum offered a possible substitute proposal which would limit the effect of the proposed amendment to deposits evidenced by instruments in the form of or similar to certificates of deposit.

At the beginning of a discussion of this matter, Governor Vardaman stated that he would be opposed to any proposal going into this amount of detail with respect to savings accounts. In the absence of evidence of abuse, he would not want to do anything that would handicap commercial banks in competing with other organizations for savings balances.

Mr. Shay recalled how the matter originally came before the Board and discussed the question that had been raised from the standpoint that use of a savings certificate with a fixed maturity might tend to blur the distinctions that the Board had sought to preserve between time and savings deposits.

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Mr. Hackley added that in the course of consideration of this matter both he and Mr. Shay had felt that the most important thing was to safeguard the distinctions between time and demand deposits and that there might be no compelling reasons for distinctions between savings and other time deposits such as would be suggested by the proposed amendment. In this connection, they had noted that there were numerous ways in which confusion theoretically could be created between savings and other time deposits. However, they could also appreciate reasons why an amendment of this kind would be desirable.

Governor Vardaman then stated that he felt he would have to vote against the proposed amendment because it appeared to him that it would represent a handicap to the commercial banks at a time when competition for savings was rather intense. Furthermore, he felt that the restriction would prove to be an annoying detail to the banks. For these reasons, while he would not go so far as to kill the amendment, he would at least postpone it.

Governor Robertson expressed a different view, stating that the substitute proposal seemed innocuous and that he would suggest favorable consideration.

After Governor Mills had expressed agreement with Governor Robertson, Governor Vardaman said that if the record reflected his objection in principle, he would be willing to go along with the substitute proposal if it should be favored by the other members of the Board.

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Governor Shepardson expressed opposition to the general principle involved. He noted that the present regulations provide restrictions on eligibility to maintain savings deposits and on the transferability of such accounts. In the circumstances, he questioned whether it was necessary for the Board to make precise definitions and rulings of the kind contemplated, since he doubted whether they were essential to the basic reasons for regulating savings accounts.

After Governor Vardaman had expressed agreement with the point of view stated by Governor Shepardson, it was decided to hold over the question of the proposed amendment for further consideration at another meeting of the Board.

Member bank reserve requirements (Item No. 8). At the meeting on May 9, 1957, the Board gave preliminary consideration to letters from the Economic Policy Commission of the American Bankers Association and from the Secretary of the Federal Advisory Council concerning the plan proposed by the Economic Policy Commission for a revision in the system of member bank reserve requirements. The current views of the Board on this subject were expressed to the Federal Advisory Council at the joint meeting of the Board and the Council on May 14, and there had now been circulated to the members of the Board a draft of letter to the Chairman of the Economic Policy Commission phrased in somewhat similar terms. The letter would refer to the Board's interest in and consideration of the problem of member bank reserve requirements, but

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would call attention to the difficulty in proposing a new system of reserve requirements that would involve reducing the requirements of any considerable number of banks as long as the economic situation necessitated restraint on expansionary tendencies in credit.

Governor Robertson withdrew from the meeting at this point but before leaving stated that he had no suggestion regarding the draft of letter to the Economic Policy Commission.

Governor Vardaman raised a question whether any more than a brief acknowledgment was necessary, since it occurred to him that the inquiries made in the incoming letter as to the prospect of action on the part of the Board were of doubtful propriety.

However, it was brought out by Governor Mills that the Board had already given an indication of its current views to the Federal Advisory Council and that there was something to be said for calling the attention of the Economic Policy Commission to the economic circumstances which would argue against the introduction at this time of legislation that would result in reducing reserve requirements.

With respect to the content of the letter, agreement was expressed with a suggestion for elimination of one sentence which it was felt might provoke continued inquiries as to whether the economic situation had changed to the extent that the introduction of a new system of reserve requirements would be justified.

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At the conclusion of the discussion, unanimous approval was given to a letter to the Chairman of the Economic Policy Commission in the form attached to these minutes as Item No. 8.

The meeting then adjourned.

Secretary's Note: Pursuant to the recommendations contained in memoranda from appropriate individuals concerned, Governor Balderston, acting in the absence of Governor Shepardson, today approved on behalf of the Board the following actions regarding the Board's staff:

Extension of temporary appointment

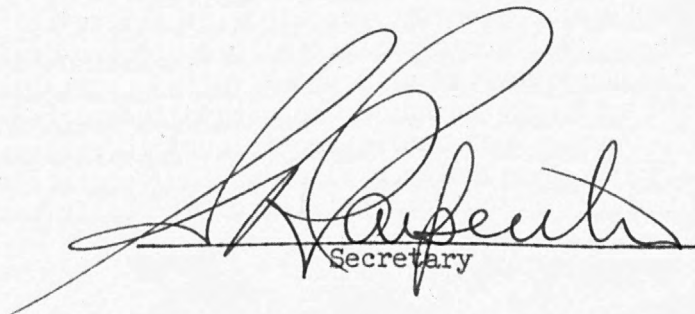
Extension of the appointment of Robert A. Ferris, Elevator Operator in the Division of Administrative Services, to August 7, 1957, with no change in his basic annual salary at the rate of \$2,600.

Salary increase

Murray Altmann, Economist, Division of Research and Statistics, from \$6,820 to \$7,570 per annum, effective June 2, 1957.

Termination of employment due to abolishment of position

Shirley S. Corbin, Elevator Operator, Division of Administrative Services, effective June 7, 1957.



Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 1
5/24/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 24, 1957

Mr. George E. Kroner, Vice President,
Federal Reserve Bank of St. Louis,
St. Louis 2, Missouri.

Dear Mr. Kroner:

Reference is made to your letter of April 22, 1957, enclosing letter from Mr. Garnett Cook, Vice President, Lincoln Bank and Trust Company, Louisville, Kentucky, and a memorandum from your counsel regarding the application of section 20 and section 32 of the Banking Act of 1933.

It appears that the member bank has been appointed co-executor under the will of the owner of 60 per cent of the capital stock of a firm engaged in underwriting and selling securities.

The Board has held that ownership or control in a fiduciary capacity of a majority of the voting shares of a corporation creates an affiliate relationship. However, the Board has also held that such ownership or control by a member bank jointly as co-trustee or co-executor does not cause the corporation to be an affiliate where the bank cannot vote the shares independently and contrary to the wishes of, and does not control, its co-fiduciary. This follows the principle stated in an opinion published in the Federal Reserve Bulletin for October 1933 at page 651.

This approach to the problem may dispose of the section 20 question. However, if control over the voting of the stock is lodged in the member bank, the Board agrees with the position of your counsel that section 20 makes no exception with respect to shares owned in a fiduciary capacity and, therefore, it would appear that the member bank is in violation of the statute, unless the exception respecting organizations which have been placed in formal liquidation is applicable.

Mr. George E. Kroner

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There is some indication in Mr. Cook's letter that the firm is going out of business, but it is not clear from the facts stated whether this exception would be applicable to it. In this connection, it should be noted that section 20 applies only to an organization "engaged" in underwriting, etc., and, therefore, the section would not apply to an organization which has ceased to engage in such business.

Respecting Section 32, Mr. Cook says that it would be desirable to have an officer of the member bank serve as a director of the company. However, since it appears that the company's sole business is underwriting and selling securities, it would seem clear that such an interlocking relationship would be prohibited, unless the company had ceased to be engaged in that business. The fact that the member bank is the holder of shares of the company would have no bearing on the question.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 2
5/24/57

Statement for the Press

For immediate release.

May 24, 1957.

Attached is a copy of a statement transmitted by the Board of Governors today to the Chairmen of the Senate and House Banking and Currency Committees, of the Joint Economic Committee, and of the Council of Economic Advisers, setting forth the views of the Board with respect to the regulation of consumer instalment credit.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Item No. 3
5/24/57

May 24, 1957.

Views of the Board of Governors
of the Federal Reserve System
With Respect to the
Regulation of Consumer Instalment Credit

Early in 1956 the President, through the Council of Economic Advisers, requested the Board of Governors of the Federal Reserve System to undertake a broad study of consumer instalment credit. When this request was made a record-breaking year of expansion of this credit had just been completed. The ability of the Government to discharge its responsibilities under the Employment Act of 1946 was felt by some to be jeopardized by this development, since credit expansion in this special sector seemed unresponsive to the general monetary actions that were then being taken to restrain inflationary pressures.

The Board had been concerned with instalment credit developments for some time, and had initiated an inquiry into the effects of general credit policy on consumer instalment credit as early as 1953. While neither the Council of Economic Advisers nor the Board of Governors felt that conditions prevailing early in 1956 warranted a request at that time for authority to regulate consumer instalment credit, they agreed that a background study of the part played by consumer credit in economic instability was needed and would be timely. The Chairmen of the Banking and Currency Committees of both Houses of the Congress and the Chairman of the Joint Economic Committee concurred in the desirability of such a study.

The circumstances occasioning the study warranted intensive and comprehensive investigation. Accordingly, the Board of Governors directed its research staff to plan a survey that would examine the entire record of instalment financing in this and other countries. Academic scholars also participated in the study under the auspices of the National Bureau of Economic Research. In addition, the survey employed the facilities of the Bureau of the Census and a private survey organization. The assistance of Federal Reserve Bank research staffs was enlisted, as well as that of foreign central banks. A survey of trade and other opinion was conducted under the direction of a special consultant to the Board.

On March 15 of this year, five of the six volumes reporting this study were transmitted to the interested Congressional Committees and agencies of Government and released to the public. The final volume was transmitted and released about six weeks later.

The members of the Board of Governors of the Federal Reserve System have individually studied the report and have carefully considered the entire subject. Based on this study and discussion, the Board finds that:

- (1) The use of consumer instalment credit for the purchase of costly durable goods and in the management of family finances has penetrated a widening range of income receivers and social groups. The pace of penetration, however, has been sporadic.
- (2) In the past, the rate at which consumer instalment credit was granted varied considerably. These variations tended to coincide with general fluctuations in economic activity.

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(3) Though of recognizable importance as a factor of instability, fluctuations in consumer instalment credit have been generally within limits that could be tolerated in a rapidly growing and dynamic economy.

(4) A possible exception to the third finding occurred during the 1954-56 upswing in economic activity. The rapid expansion of consumer instalment credit in 1955, with its accompanying secondary impacts on capital investment, contributed to the emergence of inflationary pressures. This expansion, however, combined with real estate mortgage and other types of credit expansion in producing this sequence of developments.

(5) Since early 1956, expansion in total instalment credit has moderated, in part as a result of general monetary restraints and in part as a result of reduced demand for automobiles and other consumer durable goods commonly financed by instalment credit.

(6) Liberalization of instalment credit terms and standards from mid-1954 through 1955, which was particularly marked in connection with the purchase of new automobiles, contributed to the further widening of the practice of instalment buying and borrowing and to the very great expansion in instalment credit outstanding that occurred. Some of the forces making for this rapid widening of the market for consumer credit were temporary. Also, this drastic liberalization of credit terms and standards exposed consumer lenders to increased risks. On both counts, the forces making for credit liberalization in that period were to an extent transient and self-limiting.

(7) Because of economic and social factors likely to affect the future of instalment credit, its growth in the years ahead may be at a slower pace than in the past. The volatility of consumer instalment credit in the past was to some extent related to its rapid growth. If future growth is slower, the potential instability of this factor may be contained within tolerable margins.

(8) Under peacetime conditions, special regulation of consumer instalment credit would inevitably present problems of compliance to the financing and business concerns subject to it, and of administration and enforcement to the agency of Government responsible for the regulation.

On the basis of the foregoing findings, the Board of Governors believes that a special peacetime authority to regulate consumer instalment credit is not now advisable. The Board feels that the broad public interest is better served if potentially unstabilizing credit developments are restrained by the use of general monetary measures and the application of sound public and private fiscal policies.

The Board of Governors and its staff will continue to follow closely developments in the use of consumer instalment credit.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 4
5/24/57

OFFICE OF THE CHAIRMAN

May 24, 1957

The Honorable J. W. Fulbright, Chairman,
Committee on Banking and Currency,
United States Senate,
Washington 25, D. C.

Dear Mr. Chairman:

Attached is a statement by the Board of Governors setting forth the Board's views with respect to the regulation of consumer instalment credit. These views were arrived at after careful consideration of the consumer instalment credit study sent to you earlier.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Attachment

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 5
5/24/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 24, 1957



Mr. Nelson A. Rockefeller, President,
International Basic Economy Corporation,
30 Rockefeller Plaza,
New York 20, New York.

Dear Mr. Rockefeller:

The Board of Governors has approved, subject to the conditions noted below, the Articles of Association and Organization Certificate of American Overseas Finance Company as forwarded with your letter of May 1, 1957, and there is enclosed herewith a preliminary permit authorizing that Company to exercise such of the powers conferred by section 25(a) of the Federal Reserve Act as are incidental to and preliminary to its organization. As you are aware, the Company may not exercise any of the other powers conferred by section 25(a) until it has received a final permit from the Board authorizing it generally to commence business.

The conditions on which this preliminary permit has been issued are that American Overseas Investing Company, Inc. shall agree that, so long as it owns or controls any shares of American Overseas Finance Company, American Overseas Investing Company, Inc. will, when required by the Board of Governors:

- (a) make at least two reports annually to the Board of Governors at such times and in such form as the Board may require; and
- (b) submit to examination by examiners appointed by the Board of Governors and obtain and make available to such examiners, among other things, such information as to the earnings, finances, management and other aspects of any corporation whose stock is held by the Investing Company as may be appropriate for appraising such investment.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.

Enclosure

Item No. 6
5/24/57

May 24, 1957

IT IS HEREBY CERTIFIED that the Board of Governors of the Federal Reserve System, pursuant to authority vested in it by section 25(a) of the Federal Reserve Act, as amended, has this day approved the Organization Certificate (dated April 30, 1957) and the Articles of Association (dated April 30, 1957) of AMERICAN OVERSEAS FINANCE COMPANY duly filed with said Board of Governors, and that AMERICAN OVERSEAS FINANCE COMPANY is authorized to exercise such of the powers conferred upon it by said section 25(a) as are incidental and preliminary to its organization pending the issuance by the Board of Governors of the Federal Reserve System of a final permit generally to commence business in accordance with the provisions of said section 25(a) and the rules and regulations of the Board of Governors of the Federal Reserve System issued pursuant thereto.

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM

By (Signed) S. R. Carpenter
Secretary

SEAL

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 7
5/24/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 24, 1957



Mr. N. A. Bogdan, President,
American Overseas Finance Corporation,
30 Pine Street,
New York 5, New York.

Dear Mr. Bogdan:

This refers to your letter of April 5, 1957, regarding the proposed participation by American Overseas Finance Corporation in arrangements for the organization of a new corporation under section 25(a) of the Federal Reserve Act and sale by American Overseas Finance Corporation of substantially all its assets to the new corporation for a consideration consisting of the assumption by the new corporation of substantially all the liabilities of American Overseas Finance Corporation and the delivery to American Overseas Finance Corporation of \$10,000,000 principal amount of serial promissory notes of the new corporation, all as set forth in the information furnished in your letter and in connection with the application for the organization of the new corporation.

The Board of Governors will offer no objection to American Overseas Finance Corporation's entering into the proposed arrangement, subject to the condition, as indicated in your letter, that American Overseas Finance Corporation will be liquidated promptly after the sale of assets and that after such sale American Overseas Finance Corporation will not engage in any business and its activities will be limited to those incident to the prompt payment or settlement of its remaining liabilities and to its winding up and liquidation.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 8
5/24/57

OFFICE OF THE CHAIRMAN

May 28, 1957



Mr. Jesse W. Tapp, Chairman,
Economic Policy Commission,
12 East 36th Street,
New York 16, New York.

Dear Mr. Tapp:

I have delayed a reply to your letter of April 22 with respect to member bank reserves for the reason that the same subject was on the agenda for the recent meeting of the Federal Advisory Council.

The Board of Governors appreciates having the benefit of the views expressed in your letter and welcomes the study your Commission has made as an interesting and informative addition to knowledge in this field. We are anxious to consider all of the aspects of this problem. As a means of improving the basis upon which a reconciliation of the different views on the subject might be reached, the Board is studying various of the proposals that have been made to ascertain the effect that they might have on individual banks so that a recommendation can be made at an appropriate time.

As you have recognized, it is difficult to inaugurate a new system of reserve requirements without reducing the requirements of a considerable number of banks, and any such reduction would be inappropriate in the present situation that necessitates restraint on expansionary tendencies in credit. It is not possible at this time to say when action can be taken but you may be assured that the Board will do its best to be prepared to make a recommendation when the time does come.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.