

Minutes for May 9, 1956

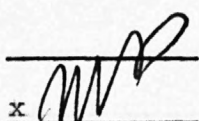
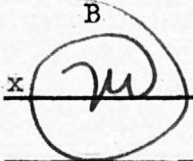



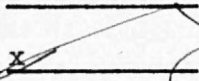
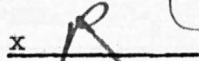
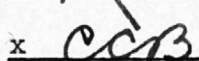
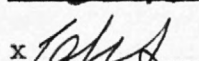
To: Members of the Board

From: Office of the Secretary

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

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

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

	A	B
Chm. Martin	<u></u>	<u>x </u>
Gov. Szymczak	<u>x </u>	<u></u>
Gov. Vardaman	<u>_____</u>	<u>x </u>
Gov. Mills	<u>x </u>	<u>_____</u>
Gov. Robertson	<u>x </u>	<u>_____</u>
Gov. Balderston	<u>x </u>	<u>_____</u>
Gov. Shepardson	<u>x </u>	<u>_____</u>

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, May 9, 1956. The Board met in the Board Room at 3:25 p.m.

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

Mr. Carpenter, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Thurston, Assistant to the Board  
Mr. Thomas, Economic Adviser to the Board  
Mr. Leonard, Director, Division of Bank Operations  
Mr. Vest, General Counsel  
Mr. Young, Director, Division of Research and Statistics  
Mr. Horbett, Associate Director, Division of Bank Operations  
  
Mr. Leach, President, Federal Reserve Bank of Richmond

Governor Balderston reported on a visit to his office yesterday by Mr. William Wright Jones, Commissioner of Banks of North Carolina, who discussed further the problem in North Carolina with regard to the rate of interest on deposits of public funds. As stated at the meeting of the Board on April 30, 1956, the situation arose because of an interpretation by the Attorney General of North Carolina of the State law to the effect that the State was prohibited from placing funds on time deposit at banks except at a rate at least equal to the going rate on United States Treasury bills.

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Governor Balderston said that when Mr. Jones pressed for quick action on the part of the Board, the response was made that the Board was sympathetic to the fact that the State appeared to have a problem, that the matter was under active study, but that no promise could be made on whether the Board would arrive at a solution that might be helpful or on when an answer might be expected.

Mr. Jones indicated, Governor Balderston said, that the State had deposits at banks of about \$91 million which, according to the State Treasurer, would have to be withdrawn from the banks at the rate of approximately \$15 million per month over the next six months in view of the State Attorney General's interpretation of the statute. It was also stated that the Attorney General had indicated that action could not be delayed until the next regular session of the State legislature in January 1957, or even until an emergency session which might be called in July. It was further stated that the withdrawals might cause certain banks to call loans in order to make the necessary payments to the State. On the latter point, Governor Balderston said that although he did not comment in the presence of Mr. Jones, he could not help but be surprised that the management of any bank would put deposits into loans that would have to be called in order to take care of withdrawals of State funds.

Mr. Vest, who also was present at the meeting with Mr. Jones, stated that after Mr. Jones left consideration was given to whether the

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Federal Reserve discount window might be used to assist banks from which State funds were withdrawn. After citing portions of the Foreword to Regulation A, Advances and Discounts by Federal Reserve Banks, relating to the purposes of member bank borrowing, he said that these statements seemed sufficient to cover the situation of banks in North Carolina if the Federal Reserve Bank saw fit to extend credit. This, of course, would leave a question with regard to nonmember banks, which presumably hold some of the State funds and which are subject to regulations of the Federal Deposit Insurance Corporation prescribing maximum permissible interest rates on time deposits similar to those prescribed in the Board's Regulation Q, Payment of Interest on Deposits. It would be possible, he said, for a Federal Reserve Bank, if it chose, to make advances to nonmember banks under the last paragraph of section 13 of the Federal Reserve Act, or possibly under provisions of the Act which in effect permit extension of credit to nonmember banks through member institutions. The latter procedure, however, would require special approvals and perhaps would not be practicable.

Mr. Thomas remarked that the banks holding State funds presumably would have some kind of assets such as Treasury bills which they could liquidate to meet their contractual obligations in respect to the withdrawal of the funds. Mr. Leonard commented in this connection that the State Treasurer, in an earlier conversation, maintained that this was not

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only the time of the year when banks would be embarrassed by the withdrawals but a time when the banks would be seeking additional deposits of State funds to facilitate their operations.

In response to an inquiry, Mr. Vest said there appeared to the Board's legal staff to be some question about the construction of the pertinent State statutes, that it was understood that the Attorney General had not given an opinion in writing, but that he was reported to have stated orally the position referred to earlier in this meeting.

Governor Robertson said it had come to his attention that before visiting the Board's offices, Mr. Jones visited the Federal Deposit Insurance Corporation where he was given an opinion prepared by the Corporation's legal staff that took the view that certain alternatives were available to the State authorities in the investment of public funds which would not require withdrawal of State funds deposited with banks. In this connection, he read from a copy of the opinion which had been sent to him by the Federal Deposit Insurance Corporation. The interpretation was based on a reading of the statute in question along with certain older statutes that had not been removed from the books.

Mr. Vest commented that the possibility of a construction along the lines of the interpretation to which Governor Robertson referred was mentioned to the State Treasurer, but it was reported to be the State Attorney General's position that the later statute was controlling.

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President Leach then made a statement in which he first commented on a telephone call he received several days ago from the State Treasurer, the purpose of which was to bring the situation to the Reserve Bank's attention. At that time, he said, the Treasurer, upon being reminded that the Board's regulations made no distinction between the maximum permissible rate of interest payable on deposits of public funds and other deposits, stated that he realized it was the State's problem. Mr. Leach went on to say that no commercial bank had complained to the Reserve Bank about the situation. In fact, four of the larger banks, in recent discussions devoted principally to other subjects, indicated that they could meet the problem if the funds were withdrawn, although they might have to sell some Government securities at a loss. He said that the North Carolina banks seek State funds to build up their totals, that he did not like the practice very much, and that in a sense the State of North Carolina might almost be regarded as a "State central bank". Some banks, he said, also appeared to be getting tired of the situation.

As a matter of principle, Mr. Leach considered it a bad practice, and he said that he would not like to see the Board change its regulations. Furthermore, he would not like to see any change made at this time in the maximum permissible rates on time or savings deposits, although, as reported at the joint meeting of the Board and the Reserve Bank Presidents earlier today, the Presidents were evenly divided on the matter of increasing the rates on time deposits. As to any North Carolina bank which might

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have a temporary problem, he felt that if necessary the Reserve Bank could construe the situation as one in which extension of credit would be permissible under Regulation A. On the other hand, he did not believe that the banks would find themselves in any real crisis. If a nonmember bank were to come to the Reserve Bank for an advance, he would be inclined to refer the institution to its usual sources of credit.

Governor Mills stated that he agreed fully with everything that President Leach had said.

Governor Robertson said that he likewise concurred, and that he thought the Comptroller of the Currency and the Federal Deposit Insurance Corporation also would agree.

President Leach then inquired whether it was felt that the Board would have the right under the law to make special provision in its interest rate regulations for deposits of public funds. In raising the question, he made it clear that personally he would not favor such a move.

Mr. Vest responded that it seemed doubtful whether the Board would have the right to take action of that kind.

Thereupon, it was agreed unanimously that the Board should make no change in its regulations in the light of the North Carolina situation.

Secretary's Note: Governor Balderston subsequently requested that Mr. Vest advise Mr. Jones of the Board's position.

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The meeting then adjourned.

Secretary's Note: Governor Balderston today approved the following items on behalf of the Board:

Memorandum dated May 7, 1956, from Mr. Sloan, Director, Division of Examinations, recommending the appointment of Stan Gale Monsted as Assistant Federal Reserve Examiner in that Division, with basic salary at the rate of \$5,440 per annum, effective the date he assumes his duties.

Letter to Mr. Wiltse, Vice President, Federal Reserve Bank of New York, reading as follows:

In accordance with the request contained in your letter of May 2, 1956, the Board approves the designation of Paul W. Sandberg as a special assistant examiner for the Federal Reserve Bank of New York. If the employment was not made effective May 8, 1956, as planned, please advise us.

It is noted that Mr. Sandberg is indebted to Chautauqua National Bank of Jamestown, Jamestown, New York, in the amount of \$48.06, and that he owns 14 shares of stock of Manufacturers and Traders Trust Company, Buffalo, New York, a State member bank, which stock will be disposed of as quickly as possible. Accordingly, the Board's approval is given with the understanding that Mr. Sandberg will not participate in any examination of Chautauqua National Bank until his indebtedness has been liquidated or otherwise eliminated, and that he will not participate in any examination of Manufacturers and Traders Trust Company until he has disposed of the stock of that bank. Please advise the Board when the stock has been sold.

Letter to Mr. Diercks, Vice President, Federal Reserve Bank of Chicago, reading as follows:

In accordance with the requests contained in your letters of May 4, 1956, the Board approves the designations of Jacques Hendrickson and Wendell A. Irgang as special assistant examiners for the Federal Reserve Bank of Chicago. Please advise as to the dates upon which the employments are made effective.

  
Secretary