Minutes for December 17, 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.

Chm. Martin  
Gov. Szymczak  
1/ Gov. Vardaman  
Gov. Mills  
Gov. Robertson  
Gov. Balderston  
Gov. Shepardson

1/ The attached set of minutes was sent to Governor Vardaman's office in accordance with the procedure approved at the meeting of the Board on November 29, 1955. The set was returned by Governor Vardaman's office with the statement (see Mr. Kenyon's memorandum of February 12, 1957) that hereafter Governor Vardaman would not initial any minutes of meetings of the Board at which he was not present. Therefore, with Governor Shepardson's approval, these minutes are being filed without Governor Vardaman's initial.
Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, December 17, 1956. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
Mr. Fauver, Assistant Secretary
Mr. Vest, General Counsel
Mr. Sloan, Director, Division of Examinations
Mr. Johnson, Controller, and Director, Division of Personnel Administration
Mr. Solomon, Assistant General Counsel
Mr. Hexter, Assistant General Counsel
Mr. Hostrup, Assistant Director, Division of Examinations
Mr. Thompson, Supervisory Review Examiner, Division of Examinations

There had been circulated to the members of the Board a letter to the Presidents of all Federal Reserve Banks reading as follows:

This relates to loans made by State member banks under the provisions of Title I of the National Housing Act and, specifically, to the treatment of such loans in reports of examination made by examiners for the Federal Reserve Banks. This letter will supersede the Board’s letter of September 4, 1934 (X-7997-a, F.R.L.S. #3613).

As you know, the regulations of the Federal Housing Administration provide that claims of approved financial institutions made to the Federal Housing Administration to cover losses on Title I loans made on or subsequent to October 1, 1954, are limited to 90 per cent of the calculated principal losses sustained by the lender. Such claims in the aggregate are collectible only to the extent of the applicable insurance reserve. Therefore, when Title I loans have credit weaknesses which necessitate adverse classification, at least 10 per cent of each such loan should be so classified, and a greater percentage thereof should be adversely classified if the insurance reserve is inadequate to protect all of the remaining 90 per cent of the loan.
As the dollar amount of each such loan subject to adverse classification would ordinarily be small, it will be acceptable if in the discretion of the Reserve Bank, totals of substandard, doubtful and loss classifications are included in reports of examinations in lieu of a detailed listing by borrower and amount.

Consideration also has been given to whether any portion of Title I loans should be treated as "non-risk" assets in the computation of the secondary risk asset ratio on page D(1) of the report of examination. To facilitate the Board's analysis of such reports it is requested that a portion of Title I loans should be regarded as "non-risk", at least to the full extent of the applicable insurance reserve. In cases where a bank's claims record is so favorable and the insurance reserve so substantial that there appears to be no possibility of loss on loans made on or subsequent to October 1, 1954, except on the portion of each such loan (10 per cent) on which the Federal Housing Administration assumes no liability, examiners may, in their discretion, include such loans in "non-risk" assets up to 90 per cent of their total amount.

Inasmuch as Title I loans made before October 1, 1954, most of which will be collected by November 1, 1957, are fully insured by the Federal Housing Administration within the aggregate limitations of a bank's Title I reserve, no portion of such loans should be adversely classified so long as the reserve is adequate to cover loans or portions thereof which might otherwise be so classified. Likewise, these loans may be considered in their entirety "non-risk" on page D(1) of the examination report, in the discretion of the examiner, in cases where a bank's claims record is so favorable and the insurance reserve so substantial that there appears to be no possibility of loss on such loans.

Since current regulations of the Federal Housing Administration specifically prohibit dealer reserves, examiners should be instructed to note cases where dealer reserves have been established in connection with Title I loans and to include in their reports of examination such comments in this regard as are deemed appropriate.

Approved unanimously.

The Board considered a memorandum from Messrs. Solomon and Rexter dated December 12, 1956, which had been distributed prior to the
meeting, and which presented the draft of a suggested reply to a questionnaire from the House Committee on Government Operations. The questionnaire related to administrative organization, procedure, and practice, and in its transmittal to the Board it was indicated that the questionnaire was being sent to most of the Federal departments and agencies.

The memorandum pointed out that the questionnaire related generally to subjects covered by the Administrative Procedure Act, particularly the procedures and practices with respect to "rulemaking" and "adjudication." As used in connection with the Board's activities, it stated, "rulemaking" usually referred to the procedures followed in issuing or amending regulations, such as the Board's Regulations A through Y, and "adjudication" usually referred to the procedures followed in deciding individual cases. The latter included decisions made after formal hearing, such as in proceedings to expel a bank from membership in the System or to remove an officer or director of a member bank. It also included other proceedings, which are sometimes referred to as "licensing" and are sometimes very informal, in which the Board passes upon applications for membership in the System, applications to establish branches of State member banks, national banks' applications for trust powers, applications under the Bank Holding Company Act, and the like.

It was agreed unanimously to send the following letter to the Honorable William L. Dawson, Chairman of the Committee on
Government Operations of the House of Representatives:

As requested in your letter of November 19, 1956, which enclosed a Questionnaire on Administrative Organization, Procedure and Practice, there are attached 12 copies of the Board's reply to Section I of the Questionnaire, the section which relates to rulemaking.

Messrs. Solomon and Hexter then withdrew from the meeting.

Reference was made to a memorandum from the Division of Examinations dated December 12, 1956, which had been distributed prior to the meeting and to which was attached a draft of a proposed Form F.R. Y-6 to be used by bank holding companies in submitting their annual reports to the Board pursuant to section 5(c) of the Bank Holding Company Act of 1956 and section 8 of Regulation Y. The memorandum recommended that the draft be submitted (1) to the Federal Register with a Notice of Proposed Rule Making; (2) to the Bureau of the Budget for clearance; and (3) to the Federal Reserve Banks, accompanied by a copy of the memorandum, for their comments and suggestions. The new form would replace Form F.R. 437 which had been used since 1938 in obtaining the annual reports of "holding company affiliates" holding general permits issued by the Board pursuant to section 5144, Revised Statutes.

The Board unanimously approved the recommendations in the memorandum.

At this point, Messrs. Sloan, Hostrup, and Thompson withdrew from the meeting.

Consideration was then given to the following letters to Mr. Crane, Chairman of the Federal Reserve Bank of New York, and Mr. Virder,
Chairman of the Federal Reserve Bank of Cleveland, which had been circulated to the members of the Board:

The Board of Governors has approved, to be effective January 1, 1957, the new structure for officers' salaries of the Federal Reserve Bank of New York, proposed in your letter of November 16, 1956, which includes changes in the minimums and maximums of the four lowest groups, as follows:

<table>
<thead>
<tr>
<th>Group</th>
<th>Minimum</th>
<th>Maximum</th>
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</thead>
<tbody>
<tr>
<td>A</td>
<td>$23,000</td>
<td>$35,000</td>
</tr>
<tr>
<td>B</td>
<td>18,000</td>
<td>27,000</td>
</tr>
<tr>
<td>C</td>
<td>15,000</td>
<td>22,000</td>
</tr>
<tr>
<td>D</td>
<td>13,000</td>
<td>18,000</td>
</tr>
<tr>
<td>E</td>
<td>11,500</td>
<td>15,500</td>
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<tr>
<td>F</td>
<td>10,000</td>
<td>14,000</td>
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</tbody>
</table>

The salary proposals in your letter of November 16, 1956, are under consideration by the Board.

The Board of Governors has approved, to be effective January 1, 1957, the adjustments proposed in your letter of October 30, 1956, in the minimums and maximums of the salary structure of the Officers' Salary Administration Plan of the Federal Reserve Bank of Cleveland, as follows:

<table>
<thead>
<tr>
<th>Group</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>$16,000</td>
<td>$22,500</td>
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<tr>
<td>B</td>
<td>13,500</td>
<td>19,500</td>
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<tr>
<td>C</td>
<td>11,000</td>
<td>16,000</td>
</tr>
<tr>
<td>D</td>
<td>9,000</td>
<td>13,000</td>
</tr>
</tbody>
</table>

Approved unanimously.

Mr. Johnson withdrew from the meeting at this point and Messrs. Margot, Director, and Furth, Chief, International Financial Operations Section, Division of International Finance, entered the meeting.
There was then presented a draft of a letter to the Reserve Bank Presidents, which had been circulated prior to the meeting, reading as follows:

The Board has recently received a request from a member bank for permission to accept drafts or bills of exchange for the purpose of creating dollar exchange. The country of the drawer of the bills has been included since 1916 in the list of countries with respect to which the Board of Governors has found that the usages of trade are such as to justify banks or bankers therein in drawing on member banks for the purpose of furnishing dollar exchange. No formal review of the usages of trade in the country has been made in many years, but from informal inquiries it appears doubtful that the trade requirements would conform to the purposes of the amendment to Section 13 of the Federal Reserve Act as passed on September 7, 1916. There are doubtless other countries where the current usages of trade do not justify banks or bankers therein in drawing bills for the purpose of furnishing dollar exchange, and the Board desires that a review be made of the various countries included in the Board's list, a copy of which is enclosed.

Also enclosed is a list of the member banks authorized to accept drafts or bills to create dollar exchange. It will be appreciated if you will communicate with the member banks in your district included in the list or otherwise interested in the matter and request their views as to which countries, if any, on the Board's list have need for such dollar exchange facilities. When the views of such member banks have been obtained, it is requested that they be transmitted to the Board, together with your views on this matter.

It will be helpful if the banks in your district authorized to create such bills would submit information as to the total dollar amount, by years and by countries, of drafts or bills accepted for the purpose of furnishing dollar exchange during the years 1951 to 1956, inclusive.

For your information, in reply to the Board's request of September 14, 1956,* inviting suggestions with reference to the request of Senator Robertson of the Committee on Banking and

* Should be August 30, 1956. Replies were to be received by September 14, 1956.
Currency of the United States Senate, one of the Reserve Banks recommended that consideration be given to the possible deletion of paragraph 12 of Section 13 of the Federal Reserve Act, relative to bankers acceptances to create dollar exchange, on the ground that it is unnecessary.

Approved unanimously

The Board then discussed generally the question of the limitation on the purchase by the Federal Reserve Bank of New York of bankers' acceptances for the account of foreign central banks. This discussion was for the purpose of determining whether there were any other questions which the Board wished to ask of Mr. Hayes, President of the Federal Reserve Bank of New York, when he met with the Board on December 18.

Governor Robertson expressed the view that the question of a limitation, whether of $100 million or any other specified amount, was a minor matter and that there were more fundamental questions relating to the conditions under which the Reserve Bank might make such purchases. He said that he did not favor the reduction proposed by the New York Bank in the fee of 1/8 per cent charged on such purchases as that would put the New York Bank in a more favorable competitive position with commercial banks which likewise provided financing services to foreign central banks. In response to a question, Governor Robertson said in principle he would agree to removal of the limitation entirely, but felt that such action might result in difficulties because of the attitude of the officials of the New York Bank, as indicated at the meeting on December 10, of desiring to expand the volume of transactions with foreign central banks.
Governor Szymczak said he felt the question was one of the services being rendered by other central banks and the extent such banks wished to have the same services available to them at the Federal Reserve Bank of New York. He thought the question ought to be examined to see what kinds of services were required. In part, he said, this was a problem of working out ways to get other central banks to keep the System better advised regarding the operations of foreign central banks in the domestic markets. If better information were available he felt it would be an easier matter with which to deal.

Governor Mills indicated that he was in complete agreement with the position stated by Governor Robertson.

Governor Shepardson raised a question as to what was accomplished by raising the ceiling if when the ceiling was reached the Board acted to relieve the situation by raising the ceiling again.

Mr. Marget responded that the existence of the ceiling provided an automatic mechanism for reviewing the matter from time to time whenever the ceiling was reached. If the limitations were to be removed, he thought it would be advisable to provide other means to insure review of the operations and suggested the possibility of periodic reports.

Governor Shepardson said he recognized there was merit in provision for reviews but felt that a sound administrative approach would not be dependent upon the existence of a maximum limitation.
The Chairman pointed out that the Board was already receiving information on acceptance purchases in the reports made by the New York Bank and that the Board itself had a responsibility for raising these questions whenever there was anything which it felt should be examined. He felt the solution to the present situation might be two-pronged: an increase in the ceiling on the one hand, and more effective periodic reviews on the other.

With regard to any change in the fee, Governor Robertson suggested that the Board simply eliminate this item from consideration at this time.

Governor Shepardson asked if it was not feasible for the Division of International Finance to keep in closer touch with operations of the New York Bank in acceptances and make periodic reports to the Board. It was his feeling that the Board was not concerned about the mere level of acceptances held but that it might be concerned about the nature of the transactions.

Governor Mills stated that the merit of having a ceiling was amply demonstrated by the present circumstances which had brought about a full-scale review of this matter.

The Chairman suggested as a consensus that the limitation be raised to $100 million, and that the Division of International Finance be asked to keep the Board informed of any problems that might arise in connection with these operations of the New York Bank so that the Board will be in a position to reconsider the effectiveness of the
limitation or whether its purpose should be sought in some other way.

Chairman Martin's suggestions were approved unanimously.

Secretary's Note: In accordance with this action the following letter was sent to the Federal Reserve Bank of New York on December 19, 1956:

This letter is in response to the request of your Bank submitted originally in Mr. Exter's letter of April 17, 1956, that the Board increase to $100 million the maximum amount of bankers' acceptances that may be purchased with your Bank's guarantee of payment and held by the Bank at any one time for the account of foreign central banks, including the Bank for International Settlements.

In the light of the information contained in the memorandum attached to your letter of October 30, 1956, and subsequent discussions of the matter, the Board has approved the requested increase. It has also requested its Division of International Finance to keep it informed of any problems that may arise in connection with the operations of the New York Bank under this authority so that the Board will be in a position, should such action appear desirable at any time, to reconsider the effectiveness of the limitation on the maximum amount of such purchases or whether the Board should use some other means to accomplish the purpose of the limitation.

The Secretary reported that Mr. Mangels, President of the San Francisco Reserve Bank, had informed him that, if agreeable, Messrs. Galvin, O'Kane, and Einzig would be in Washington to meet with the Board at 10 o'clock on January 14, 1957, to discuss their study of banking in Arizona.

It was agreed that the Board would meet with the three officers at that time.

The meeting then adjourned.