Minutes for December 21, 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		x WM
Gov. Szymczak	x MS	
1/ Gov. Vardaman		x
Gov. Mills	x	
Gov. Robertson	x R	
Gov. Balderston	x CCB	
Gov. Shepardson	x CCS	

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 Friday, December 21, 1956. The Board met in the Board Room at 11:00 a.m.

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

Mr. Carpenter, Secretary
Mr. Fauver, Assistant Secretary
Mr. Riefler, Assistant to the Chairman
Mr. Leonard, Director, Division of Bank Operations
Mr. Vest, General Counsel
Mr. Sloan, Director, Division of Examinations
Mr. Solomon, Assistant General Counsel
Mr. Masters, Associate Director, Division of Examinations

The following matters, which had been circulated to the members of the Board, were presented for consideration and the action taken in each instance was as stated:

Letter to Mr. Stetzelberger, Vice President, Federal Reserve Bank of Cleveland, reading as follows:

> In view of the information submitted in your letter of December 11, 1956, and the Reserve Bank's favorable recommendation, the Board of Governors extends until June 21, 1957, the time within which The Toledo Trust Company, Toledo, Ohio, may establish a branch at the southeast corner of Central Avenue and Secor Road, Toledo, Ohio, under the authorization contained in its letter of December 21, 1955.

Approved unanimously.

Letter to Mr. Millard, Vice President, Federal Reserve Bank of San Francisco, reading as follows:

> As recommended in your letter of December 12, 1956, the Board of Governors extends to December 23, 1957, the time within which American Trust Company, San Francisco,

California, may establish a branch at El Camino Real and California Avenue, Palo Alto, California.

Approved unanimously.

There were presented telegrams to the Federal Reserve Banks listed below approving the establishment without change, on the dates indicated, of the rates of discount and purchase in their existing schedules:

Boston	December 17
New York	December 20
Philadelphia	December 20

Approved unanimously.

Prior to the meeting there had been distributed to the members of the Board a memorandum dated December 18, 1956, from Mr. Solomon relating to a proposed course of action in reply to a letter dated December 12, 1956, from the Comptroller of the Currency which stated that the Comptroller had before him an application of the Michigan National Bank of Lansing, Michigan, to purchase the assets and assume the liabilities of The Peoples Savings Bank of Port Huron, Michigan. The letter also said that more than two-thirds of the stock of the Peoples Savings Bank had already been acquired by the Michigan National Bank Profit-Sharing Trust and that the trustees of that Trust were the members of the executive committee of the Michigan National Bank. The letter requested the Board's view as to "whether the acquisition of the stock of the Peoples Savings Bank by the Michigan National Bank Profit-Sharing Trust violated Section 7 of the Clayton Act."

Mr. Vest reviewed the memorandum and the circumstances in this matter and pointed out that the Board has concurrent jurisdiction with the Department of Justice in administering Section 7 with respect to banks. He indicated that inasmuch as the Antitrust Division of the Department of Justice was engaged in investigating various aspects of the transaction it was questionable whether the Board should undertake an investigation of its own at this time.

The memorandum recommended:

"In the circumstances, the Board may wish to advise the Comptroller and the Antitrust Division that it does not plan a separate investigation at this time but will await completion of the investigation by the Antitrust Division. The Board might also wish to state that the Board and the Chicago Reserve Bank would be glad to supply the Antitrust Division with any information that they can. The Board might wish further to send copies of the correspondence to the Chicago Reserve Bank for its confidential information in the event the Antitrust Division should seek information from that Bank."

In response to a question from Governor Balderston, Governor Robertson indicated that the Comptroller of the Currency had taken the initiative in referring this matter to the Department of Justice and in asking that an investigation be made of the applicability of Section 7 of the Clayton Act.

Following the discussion, unanimous approval was given to the following letters:

Mr. Victor R. Hansen, Assistant Attorney General In Charge of Antitrust Division, Department of Justice, Washington, D. C.

In a letter dated December 12, 1956, the Comptroller of the Currency advised the Board that he had before him an application by the Michigan National Bank of Lansing, Michigan, to purchase the assets and assume the liabilities of the Peoples Savings Bank of Port Huron, Michigan. The letter also stated that more than two-thirds of the stock of the Peoples Savings Bank has already been acquired by the Michigan National Bank Profit-Sharing Trust, and that the trustees of that trust are the members of the Executive Committee of the Michigan National Bank. The letter requested the Board's views as to whether that acquisition by the Profit-Sharing Trust violated section 7 of the Clayton Act, and it indicated that the Department of Justice was investigating various aspects of the transaction.

Mr. Vest and Mr. Solomon of the Board's staff discussed the subject informally with Mr. Robert Bicks and other members of your staff on December 14, 1956, and it is understood that the Department of Justice has already initiated an investigation of both the Sherman Act and Clayton Act aspects of the matter. In the circumstances, the Board does not plan to undertake a separate investigation of the question at this time but will await the completion of your investigation. In the meantime, as indicated in the discussion with Mr. Bicks, both the Board and the Federal Reserve Bank of Chicago (including the Detroit Branch of that Bank), in whose district the banks in question are located, will be glad to make available such information as they can bearing on the subject.

The Honorable, The Comptroller of the Currency, Washington, D. C.

This refers to your letter of December 12, 1956, regarding the application before you by the Michigan National Bank of Lansing, Michigan, to purchase the assets and assume the liabilities of the Peoples Savings Bank of Port Huron, Michigan.

As indicated in the attached copy of a letter to the Department of Justice, it appears that that Department has already initiated but not yet completed an investigation which will cover both the Sherman Act and the Clayton Act aspects of this matter. In the circumstances, the Board does not plan to undertake a separate investigation of the subject at this time but will await the completion of that Department's investigation. In the meantime, as also indicated in that letter, the Board has advised the Department of Justice that the Board and the Federal Reserve Bank of Chicago will be glad to make available to the Department of Justice such information as they can bearing on the subject.

Mr. Allen, President, Federal Reserve Bank of Chicago

There are attached for the confidential information of your Bank and your Detroit Branch two copies of each of the following:

1. Letter of December 12, 1956 from the Comptroller of the Currency (and acknowledgment of December 13, 1956) regarding an application before his office by the Michigan National Bank of Lansing, Michigan, to purchase the assets and assume the liabilities of the Peoples Savings Bank of Port Huron, Michigan.

2. Memorandum to Files regarding informal discussion of the subject with the Department of Justice.

3. Letter of today's date to the Department of Justice.

4. Letter of today's date to the Comptroller of the Currency.

As indicated in the letter to the Department of Justice, it would be appreciated if your Bank or your Detroit Branch would, upon request, make available to the Department of Justice or its Detroit Office such information as you properly can bearing on the subject

During the foregoing discussion, Messrs. Young and Noyes, Director and Adviser of the Division of Research and Statistics, and Young, Assistant Counsel, joined the meeting.

Pursuant to the understanding at the meeting on December 7, 1956, there had been distributed to the members of the Board prior to the meeting a draft of letter to the Chairmen of all Federal Reserve Banks relating to the provision in the 1957 Federal Reserve Bank budgets for membership dues and contributions. In opening the discussion of the matter, Governor Shepardson said that, as directed, he and Messrs. Leonard and Farrell had prepared the draft letter in an effort to categorize those memberships which the Board considered appropriate for Reserve Bank expenditures and those which it did not. It was suggested that along with the letter to the Chairmen there should be enclosed a detailed listing of such expenditures proposed in the 1957 Reserve Bank budgets similar to the list dated December 5, 1956, which had been distributed to the members of the Board.

Governor Balderston said he wondered whether it was desirable to disclose to each Bank what all the other Banks had spent for these items.

Governor Shepardson replied that he had considered eliminating reference to the individual Banks and merely listing the memberships. He had rejected the idea because the names of so many of the organizations involved indicated the particular Reserve Banks involved.

Mr. Molony, Special Assistant to the Board, entered the meeting at this point.

During a discussion of whether the listing would be enclosed with the letter, Mr. Leonard suggested that it would be desirable to indicate on the list that the data had been compiled from information supplied with the Reserve Bank budgets and that there might be some differences in classification among the Banks. He also suggested a revision to make it clear that memberships in certain organizations, otherwise considered personal, could be regarded as an appropriate Bank expenditure if such memberships were necessary to obtain publications desired for the Bank's use.

Following the discussion, unanimous approval was given to the letter to the Chairmen of all Federal Reserve Banks with a copy to each President, over the signature of Chairman Martin, as follows:

At the recent Conference of Chairmen, I expressed the Board's concern about the variety and nature of some of the provisions in the 1957 Federal Reserve Bank budgets for membership dues and contributions. I also referred to this matter in the recent letters to the presidents of the Federal Reserve Banks regarding the 1957 budgets. The Board's concern is that all such expenditures reasonably qualify as "necessary expenses" within the meaning of section 7 of the Federal Reserve Act.

For example, payments to the American Institute of Banking in connection with the development of employees are regarded as appropriate. However, the Board feels that there are questions as to amount or type of some of the other contemplated expenditures. As background for this letter and to show the wide variety in type and amounts which has caused the Board's concern, I am enclosing a memorandum listing the budget provisions of the Federal Reserve Banks for membership dues and contributions during the coming year.

Expenditures for membership dues and contributions come within the general category of "discretionary expenditures", and the Board's policy with respect to this general subject is outlined in #3187 of the Federal Reserve Loose-Leaf Service. The paramount criterion in considering such proposed expenditures is the unique nature of the Federal Reserve Banks, rather than the practice of commercial banks and other organizations in the community.

Since the Board's policy as outlined in #3187 of the Federal Reserve Loose-Leaf Service does not specifically refer to membership dues, the following guides regarding such expenditures are suggested:

1. Reserve Bank expenditures for memberships should be limited to those organizations whose purposes are directly related to the work of the Reserve Bank, or organizations in which the Bank should be represented, such as appropriate financial, business, and agricultural organizations. This principle applies regardless of whether the membership is in the name of the Bank or an individual.

2. Individual memberships in general professional associations should be regarded as personal memberships at the expense of the individuals, as distinguished from individual memberships in associations which arise out of employment at the Bank and are appropriate expenses of the Bank.

Examples of the personal type of memberships are national, state, and local bar and medical associations; American Economic Association; American Statistical Association; Institute of Accountants, etc. A membership in such an organization, however, could be regarded as an appropriate Bank expense, if membership is necessary to obtain desired publications for the use of the Bank.

Examples of membership arising out of employment at the Bank are memberships in credit, personnel, management, and bank auditors' associations; Industrial Nurses Associations, etc.

3. Memberships in social, college, luncheon clubs, and other such organizations should be personal expenditures, as it is difficult to see how they are appropriate uses of Federal Reserve funds, even though it is recognized that the Bank may derive some indirect benefits from such memberships.

After you have had a chance to discuss this matter at a meeting of your directors, the Board will appreciate any comments you may care to make and your advice as to any action concerning the proposed expenditures at your Bank.

A copy of this letter is being sent to the president of the Bank for his information.

Messrs. Leonard and Molony then withdrew from the meeting.

The Board then considered a request from the Bureau of the Budget dated December 17, 1956, for the views of the Board with respect to a draft joint resolution submitted by the Housing and Home Finance Agency "To enable the Federal National Mortgage Association to give additional assistance in relieving the shortage of residental mortgage funds". A memorandum on this matter from Mr. Walter Young of the Legal Staff dated December 19 had been distributed to the Board prior to the meeting as well as a suggested letter of reply.

Mr. Vest reviewed the principal provisions of the bill which would raise the capitalization of the Federal National Mortgage Association by $100 million to a total of approximately $206 million. Since the Association was now permitted to borrow in an amount equal to ten times the sum of its capital and surplus, the effect of the legislation would be to increase its borrowing authority by about $700 million or an over-all total of approximately $2.3 billion.

At the request of the Vice Chairman, Mr. Riefler outlined his views to the effect that the proposed legislation was contrary to the original intent of the Federal National Mortgage Association which was to provide secondary financing facilities to cover temporary deficiencies in the market for mortgages. This proposal reflects an effort, he felt, to avoid the complications resulting from tight money conditions and was a resumption of the moves a year ago to expand the operations of the Association. At the present time it had become a prime source of funds for FHA and VA mortgages and they were being dumped on the Association in substantial volume. For these reasons, Mr. Riefler favored a reply to the Budget Bureau request along the lines suggested in the draft distributed before this meeting.

Mr. Thomas added that the situation called for a freeing of interest rates on Government insured or guaranteed mortgages so that they would be able to compete for available funds in the market. If this fundamental step had been taken a year ago, he said, the situation would have corrected itself by this time. There was a basic weakness in the approach, he felt, in that it encouraged short-term borrowing on the basis of Government credit for long-term lending.

Mr. Ralph Young indicated his approval for the proposed reply which would state that the Board felt strongly that this proposal was inadvisable at this time.

Governor Mills pointed out that the position suggested was entirely consistent with the Board's stand on this matter over the past two or three years and this view was shared by Governors Robertson and Shepardson.

Governor Balderston suggested a minor revision in the wording of the letter which was agreed upon.

After further discussion, unanimous approval was given to the following letter to Mr. Roger W. Jones, Assistant Director for Legislative Reference, Bureau of the Budget:

This letter is in response to your request of December 17, 1956, asking for the Board's views with respect to a draft of joint resolution "To enable the Federal National Mortgage Association to give additional assistance in relieving the shortage of residential mortgage funds".

The amendments proposed to be made to the Federal National Mortgage Association Charter Act would raise the Association's borrowing power by converting $100 million of notes it owes to the Treasury into preferred stock; permit the Association to do practically all of its borrowing from the Treasury rather than from the private capital market; and permit dividends paid to the Treasury on preferred stock to be treated as interest payments for purposes of computing Federal income tax liability. The major effect of these changes would be to increase substantially the amount of Treasury funds available for financing mortgages insured by the Federal Housing Administration or guaranteed by the Veterans Administration. Another effect would probably be to make the common stock more attractive to investors and thereby add to the disposition of mortgage holders to sell mortgages to the Federal National Mortgage Association.

The demand for capital funds from almost all sources is today very great and promises to remain so for some time to come. Both Federal Reserve credit policy and Treasury debt management and fiscal policies have been directed toward keeping expenditures at a level consistent with the amount of economic resources available, and thus to minimize the possibility of serious inflationary developments.

The strength of demands in the economy is indicated by the fact that, in the face of these policies, interest rates and prices of commodities and services have been rising, and resources are being used very close to capacity.

The proposed amendments would run counter to these policies. They would encourage an increase, rather than a reduction in Treasury debt; they would probably result in a lower borrowing rate for the FNMA, but, by increasing the amount of Treasury financing required, would raise the already-high rate the Treasury would have to pay; and they would hinder adjustments in the private mortgage market that have to be made if a sustainable allocation of funds to mortgages is to be achieved. The problem gaps in the home mortgage market arise primarily from the fact that limitation on the interest rates permitted to be paid on FHA and VA mortgages have prevented builders and borrowers whose operations are geared to these methods of financing from competing with other borrowers for funds. The futility of relying on expanded FNMA operations to repair these gaps has been demonstrated during the past year.

For these reasons the Board of Governors recommends that these amendments not be approved as part of the President's program.

Messrs. Sloan, Ralph Young, Walter Young, and Masters then withdrew from the meeting.

Governor Robertson informed the Board that there would be a limited Civil Defense exercise on January 10, 1957, which would involve the Chairman; and that in regard to other matters relating to defense planning it had been decided that the only way to get answers to some of the major questions that had been raised in the 1956 alert was to work out a definitive program. Only in this way he said, could it be determined if all foreseeable contingencies had been covered. He added that arrangements had been made to have Messrs. Noyes and Robinson, Advisers in the Division of Research and Statistics, and Freutel, Assistant Vice President of the Federal Reserve Bank of St. Louis, begin after the first of the year to work out such a plan. It seemed wise to augment this group with a lawyer so that in considering such problems both the legal and practical aspects could be taken into account. In discussing with Mr. Vest the availability of someone in the Board's Legal Division it became apparent that its current work-load would not permit an assignment for this purpose. Therefore, Governor Robertson requested authority to contact President Hayes of the Federal Reserve Bank of New York to see if the services of Mr. John J. Clarke, Assistant General Counsel, could be made available for this purpose, and in the event Mr. Clarke was not available, to contact President Leach of the Federal Reserve Bank of Richmond to see if Mr. Aubrey N. Heflin, Vice President and General Counsel, could work with this group.

Governor Robertson's request was approved unanimously.

All the members of the staff then withdrew from the meeting and the Board went into executive session.

The meeting then adjourned.

Secretary's Note: Pursuant to a recommendation contained in a memorandum dated December 21, 1956, from Mr. Young, Director, Division of Research and Statistics, Governor Shepardson today authorized, on behalf of the Board, the following persons in that Division to attend the annual meetings of the American Economic Association, American Finance Association, and similar professional associations to be held in Cleveland, December 27-29, 1956, with the understanding that their expenses would be paid by the Board:

Susan S. Burr	James B. Eckert
John Culbertson	Donald C. Miller

In addition, the following persons in the Division of Research and Statistics were granted official leave to attend the meetings, with the understanding that they would attend at their own expense:

Richard C. Pickering
Robert W. Johnson
Earl C. Hald

Secretary's Note: As stated in his memorandum to the Secretary dated today, Governor Shepardson approved on behalf of the Board the addition of the following persons to the list of those who are being allowed to carry over leave into 1957, with the understanding that this action will not set a precedent; that any such leave carried into 1957 will be used during 1957; that the individual leave ceiling of any of these individuals will not be raised by this action; and that, if any of the individuals leave the Board for any reason before using up this leave during 1957, it will not be added to any other earned leave for purposes of increasing the lump sum payment at time of termination:

Division of Research and Statistics

Daniel H. Brill	102	hours
Marie Butler Leven	38-1/2	hours
Elizabeth B. Sette	20	hours
Mona E. Dingle	117-1/2	hours

Division of Examinations

John M. Poundstone	71	hours
Andrew N. Thompson	60	hours
John N. Lyon	45	hours

Secretary's Note: Pursuant to the action taken by the Board on December 7, 1956, the following additional examiners on the examining staff of the Federal Reserve Bank of New York were selected for participation in the examination of American Overseas Finance Corporation:

Daniel J. Clifford	Examiner
John C. Kruer	Examiner

S. R. Carpenter
Secretary