

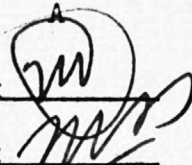
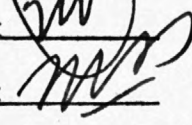
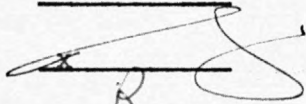
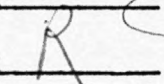
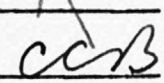
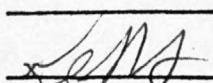
Minutes for January 22, 1957

To: Members of the Board
From: Office of the Secretary

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

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

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

	A	B
Chm. Martin	x 	_____
Gov. Szymczak	x 	_____
<input checked="" type="checkbox"/> Gov. Vardaman	_____	x _____
Gov. Mills	x 	_____
Gov. Robertson	x 	_____
Gov. Balderston	x 	_____
Gov. Shepardson	_____	x 

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 Tuesday, January 22, 1957. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Leonard, Director, Division of Bank Operations
Mr. Vest, General Counsel
Mr. Young, Director, Division of Research and Statistics
Mr. Sloan, Director, Division of Examinations
Mr. Horbett, Associate Director, Division of Bank Operations
Mr. Hackley, Associate General Counsel
Mr. Solomon, Assistant General Counsel
Mr. Noyes, Adviser, Division of Research and Statistics
Mr. Masters, Associate Director, Division of Examinations
Mr. Goodman, Assistant Director, Division of Examinations
Mr. Cherry, Legislative Counsel
Mr. Thompson, Supervisory Review Examiner, Division of Examinations

Pursuant to the understanding at the meeting on January 18, 1957, there had been sent to the members of the Board copies of a further revision of a draft of letter for the signature of Chairman Martin to Senator John Sparkman, Chairman of the Subcommittee on Housing of the Senate Committee on Banking and Currency, relating to interest rates for Federally underwritten mortgages.

Following a brief discussion, the letter, reading

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as follows, was approved
unanimously:

Thank you for the opportunity extended in your letter of January 2 to present the Board's views on the question of an appropriate policy for interest rates for federally underwritten mortgages. As you suggest in your letter, this question is a complex one to which there cannot be a simple answer. Difficult administrative problems are likely to arise regardless of the solution finally adopted.

In allocating the credit and savings supply, the capital market functions most effectively when all classes of borrowers are able to compete actively and freely for loanable funds. In the case of federally underwritten mortgages, this suggests that ceiling interest rates should be sufficiently flexible to permit mortgage originators to adjust readily to conditions prevailing in the market at any time. It also implies that an inflexible ceiling rate on Government underwritten mortgages is not in the interest either of the economy as a whole, or of those groups who might normally be expected to benefit from the availability of Federal guarantee and insurance of mortgage loans.

Maximum flexibility in interest rates for federally underwritten mortgages could be attained by eliminating the specification of a ceiling rate in the law and giving to the FHA Commissioner and VA Administrator authority to refuse to insure or guarantee a mortgage loan submitted to them if, in their judgment, the rate specified was exorbitant.

As you suggest, there are a variety of possibilities between the extreme of complete flexibility and even more rigorous legislative determination of ceiling rates. The proposal made by Mr. Clarke in 1950 for a flexible self-executing formula based on the yield of long-term U. S. Government securities is an interesting compromise suggestion.

With regard to the first question which you raise on Mr. Clarke's plan, namely, the appropriateness of the suggested base, we see no reason for regarding the proposed base as inappropriate. The spread between any two series of interest rates is never stable over time and, therefore, any differential selected might have to be adjusted periodically to keep abreast of changing market conditions. However, this would be equally true of other alternative bases.

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As to appropriate allowance for the cost of procuring and servicing loans and for administrative expenses, those more closely associated with the mortgage lending business than the Board or its staff will need to advise you. Our staff has made no studies of such expenses. We are aware that many people experienced in the mortgage lending field regard the two points mentioned by Mr. Clarke in his proposal as a workable differential.

Unlike U. S. Government securities, which are homogeneous and are traded in a national market at a nationally quoted yield, mortgages vary in quality and in other respects such as costs and conditions of settlement and foreclosure, and even those with Government insurance or guarantee are originated and traded in local markets at varying yields. The differential appropriate to a mortgage on a well-located property with a substantial downpayment and a relatively short maturity might not be sufficient to attract investment into 30-year no-downpayment mortgages. Similarly, a rate on federally underwritten mortgages which would be appropriate for Eastern markets might hinder the movement of mortgage funds from that area of the country to others more remote from the principal sources of savings. In the light of these aspects of the mortgage market your Committee may wish to explore the question of whether any arbitrary formula might not encounter many of the same problems which arise under present arrangements for ceiling interest rates on FHA-insured and VA-guaranteed mortgages.

The Board concurs completely in your judgment that re-examination of the complex subject of mortgage interest rates is timely and will be glad to provide to your Committee any assistance in this study that is within our competence.

Mr. Noyes then withdrew from the meeting and Messrs. Sherman, Assistant Secretary, Riefler, Assistant to the Chairman, and Thomas, Economic Adviser to the Board, entered the room.

At the meeting on January 18, 1957, reference was made to a letter written to the Board on behalf of the eight member banks in Miami, Florida, concerning the reserve city designation of Miami. Prior to this meeting

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there had been sent to the members of the Board copies of a memorandum from Mr. Horbett, dated January 18, which submitted a draft of proposed reply. The memorandum also stated that although the Miami member banks merely requested deferment of the effective date (March 1, 1957) of the designation of that city as a reserve city, the Board might wish to consider deferring all action under the rule adopted in 1947 for the triennial designation of reserve cities; and that, if so, the Board might wish to advise all Federal Reserve Banks to that effect. The memorandum reported that, according to the available information, it seemed possible that all seven reserve cities scheduled for termination as such on March 1, 1957, would be redesignated pursuant to requests from member banks in those cities.

In discussing the matter, Mr. Horbett supplemented the information contained in his memorandum by saying it now appeared that the one member bank in Cedar Rapids, Iowa, carrying reserves applicable to reserve city banks probably would not request that the designation of Cedar Rapids as a reserve city be continued.

Governor Mills stated that, as he saw it, the only real issue was the Miami question, that the member banks in Miami perhaps would find themselves under some pressure in adjusting to the requirements applicable to reserve city banks, especially at a time like the present, and that he could therefore make a case on grounds of equity for deferring the effective date of the designation of Miami as a reserve city. He did not see

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any reason to fear that such action in the case of Miami would be inequitable to banks in other reserve cities, particularly in view of the information contained in Mr. Horbett's memorandum.

Agreement having been expressed with the position taken by Governor Mills, unanimous approval was given to a letter to Mr. Comer J. Kimball, Chairman, The First National Bank of Miami, Miami, Florida, reading as follows, with the understanding that a copy would be sent to the Federal Reserve Bank of Atlanta but that no advice would be sent to the other Federal Reserve Banks because of the Board's decision to confine its action to the reserve city designation of Miami, Florida:

Pursuant to the request made by the eight Miami member banks, conveyed in the letter dated January 15, 1957, signed by you and Mr. C.P. Shewmake, President of the Florida National Bank and Trust Company, the Board will defer until June 1, 1957, the designation of Miami, Florida, as a reserve city.

The Board will be glad to hear representatives of the eight banks on this matter, if such a hearing should be found necessary or desirable. However, in accordance with established procedure, the Board will appreciate it if you will furnish, at your early convenience, whatever letters, memoranda, and other pertinent documents might, in your opinion, have a bearing on and be of assistance to the Board in the final determination of the appropriate reserve classification of the City of Miami. If, after submitting the desired data, the Miami member banks still desire their representatives to be heard personally, please advise the Board to that effect.

It is suggested that the Federal Reserve Bank of Atlanta be furnished a copy of whatever data are supplied to the Board.

There had been circulated to the members of the Board with a memorandum from the Division of Examinations dated January 14, 1957, a draft

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of telegram to Mr. Brawner, Federal Reserve Agent at the Federal Reserve Bank of San Francisco, authorizing the issuance of a limited voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to Transamerica Corporation, San Francisco, California, entitling such organization to vote the stock which it owns or controls of Southern Arizona Bank and Trust Company, Tucson, Arizona, at any time prior to April 1, 1957, to elect directors of such bank at the annual meeting of shareholders, or any adjournments thereof, and to act thereat upon such matters of a routine nature as are ordinarily acted upon at the annual meetings of such bank.

Approved unanimously.

Mr. Thompson then withdrew from the meeting.

At the meeting on January 18, 1957, it was decided to request the views of the Presidents' Conference with regard to the first of two specific questions concerning the application of Regulation Q, Payment of Interest on Deposits, which had been submitted by the Federal Reserve Bank of Minneapolis on behalf of a member bank. With regard to the second question, it was proposed that a letter in the following form be sent to Mr. Powell, President of the Minneapolis Reserve Bank:

With your letter of December 17, 1956, you enclosed a copy of a letter of December 14, 1956, to you from Mr. Arnulf Ueland, President, Midland National Bank of Minneapolis, Minnesota, which presented two specific questions concerning the application of Regulation Q. Mr. Ueland suggested that these questions might be made the subjects of clarifying amendments to the regulation, and you stated that you felt that there was merit in his suggestion.

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The first of Mr. Ueland's two questions is whether a deposit that is clearly a time deposit and not a savings deposit may be evidenced by a certificate which is labeled "savings certificate". He explained that such labeling is rather generally used but that, in his opinion, it adds undesirable confusion between ordinary time deposits and true savings deposits.

With respect to this question, there is enclosed a copy of a telegram of January 18, 1957, by which the Board asked that the matter be placed on the agenda of the forthcoming Presidents' Conference. Accordingly, further reply concerning the matter will be deferred for the present.

Mr. Ueland's second question may be stated as follows: A bank has two classes of savings deposits, one being evidenced by a pass book and the other by a written receipt or agreement as permitted by the May 16, 1955, amendment to the definition of "savings deposits". The deposit contract with respect to both classes provides that the bank at its option may require 60 days' advance written notice of withdrawal. Mr. Ueland asked whether it would be permissible for the bank not to require written notice of withdrawal as to one class while regularly requiring it as to the other.

This question involves section 5(a) of the regulation which provides, among other things, that if a member bank exercises its right to require notice of withdrawal as to the savings deposits of any depositor, it shall require such notice as to the savings deposits of any other depositor "which are subject to the same requirement". Section 5(a) contains no distinction based on how savings deposits may be evidenced. Consequently, it seems clear that since the two classes of deposits in question are subject to "the same requirement" of notice of withdrawal, the bank could not permit withdrawals without exercising its option to require the advance written notice of 60 days as to one class, while exercising such option as to the other. For the reasons just indicated, the Board questions whether the situation is such as to require any clarifying change in the regulation.

The Board, of course, always welcomes suggestions for needed improvements in its regulations and is glad to have Mr. Ueland's views and your comments.

Approved unanimously.

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At the meeting on January 17, 1957, preliminary consideration was given to a request of The Chase Bank, New York, New York, to make an additional investment in Arcturus Investment & Development, Ltd., and it was agreed to defer action until additional information had been obtained on whether it appeared that The Chase Bank was going to request permission (1) to change its name and (2) to be a "financing corporation" under Regulation K, Corporations Doing Foreign Banking or Other Foreign Financing under the Federal Reserve Act.

In a memorandum dated January 17, 1957, copies of which had been sent to the members of the Board, Mr. Goodman reported that according to an officer of The Chase Bank the matter of requesting a change in the name of the corporation was under consideration and a letter had been forwarded to the Board through the Federal Reserve Bank of New York requesting permission to be a financing corporation.

Governor Szymczak stated that the letter from The Chase Bank mentioned in Mr. Goodman's memorandum had not yet reached the Board's offices, that a memorandum on the history and purposes of Arcturus was being prepared for the Board by the staff, and that in the circumstances he would suggest deferring further consideration of The Chase Bank's request to make an additional investment in Arcturus until the letter and memorandum were available.

There was unanimous agreement with this suggestion.

At this point Mr. Shay, Assistant General Counsel, entered the room.

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There had been sent to the members of the Board copies of a memorandum from Mr. Solomon dated January 17, 1957, relating to arrangements for hearings required under the Bank Holding Company Act on the requests of General Contract Corporation, St. Louis, Missouri, and Trans-america Corporation, San Francisco, California, to have certain companies determined to be "so closely related" to their banking businesses as to be exempt from the requirement that bank holding companies dispose of non-banking businesses. The memorandum summarized arrangements for the hearings which had been made pursuant to the understanding at the meeting of the Board on January 4, 1957, and submitted drafts of Orders pertaining to the hearings. With regard to the borrowing of a trial examiner, the memorandum stated that the National Labor Relations Board, in cooperation with the Civil Service Commission, would be willing to lend Mr. Arthur Leff to the Board for a period of six months beginning February 1, 1957, with the understanding that the Board of Governors would pay the examiner's salary and travel expenses only while he worked on Board matters. The memorandum suggested that the Board issue the Orders for hearings and authorize the necessary exchange of letters to borrow the trial examiner.

After Mr. Solomon had reviewed the contemplated arrangements, as set forth in his memorandum, there was a brief discussion during which Governor Robertson suggested that the Board be careful in making the hearing arrangements not to indicate preference for a private hearing, particularly in the General Contract Corporation case.

At the conclusion of the discussion, the arrangements outlined

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in the memorandum were approved unanimously, the necessary exchange of letters to borrow a trial examiner was authorized, and unanimous approval was given to Orders reading as follows, with the understanding that the Orders would be published in the Federal Register and that copies would be sent to the bank holding companies concerned and to the appropriate Federal Reserve Banks:

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

NOTICE OF REQUEST FOR DETERMINATION
PURSUANT TO SECTION 4(c)(6) OF
BANK HOLDING COMPANY ACT OF 1956 AND
ORDER FOR HEARING THEREON

Notice is hereby given that request has been made to the Board of Governors of the Federal Reserve System, pursuant to section 4(c)(6) of the Bank Holding Company Act of 1956 [12 U.S.C. 1843] and section 5(b) of the Board's Regulation Y [12 CFR 222.5 (b)], by General Contract Corporation, St. Louis, Missouri, a bank holding company, for a determination by said Board that each of the companies listed below and the activities thereof are of the kind described in those provisions of the Act and the regulation so as to make it unnecessary for the prohibitions of section 4 of the Act with respect to retention of shares in nonbanking organizations to apply in order to carry out the purposes of the Act:

1. Washington Fire and Marine Insurance Company.
2. Insurance Company of St. Louis.
3. Midwestern Fire and Marine Insurance Company.
4. Securities Investment Company of St. Louis and its subsidiaries
 - Securities Credit Company (Mo.)
 - Securities Loan Company
 - Securities Credit Company (Fla.)
 - Broadway Insurance Agency, Inc.
 - Securities Insurance Agency, Inc.

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- Davidson Insurance Agency, Inc.
 Investment Insurance Agency, Inc.
 Craighead Insurance Agency, Inc.
 Palafox Insurance Agency, Inc.
5. Industrial Loan Company.
 6. Industrial Finance Company of Wellston.
 7. Springfield Union Finance Company
 8. Quincy Union Finance Company.
 9. Baden Loan Company.
 10. General Contract Loan Company.
 11. SIC Loan Company.
 12. General Loan Company.
 13. General Contract Loan Company, Inc.
 14. General Contract Loan Brokers, Inc.
 15. Investment Company of St. Louis.
 16. Apex Insurance Agency, Inc.
 17. Jefferson-Gravois Insurance Agency, Inc.
 18. Reid-Kruse, Inc.
 19. St. Louis-Washington Insurance Agency, Inc.
 20. Northwestern Insurance Agency, Inc.
 21. Springfield Insurance Agency, Inc.
 22. Quincy Insurance Agency, Inc.
 23. Sterick Insurance Agency, Inc.
 24. Texarkana Agency, Inc.

Inasmuch as section 4(c)(6) of the Bank Holding Company Act of 1956 requires that any determination pursuant thereto be made by the Board after due notice and hearing and on the basis of the record made at such hearing,

IT IS HEREBY ORDERED That pursuant to section 4(c)(6) of the Banking Holding Company Act of 1956 and in accordance with sections 5(b) and 7(a) of the Board's Regulation Y [12 CFR 222.5(b), 222.7(a)], promulgated under the Bank Holding Company Act of 1956, a hearing with respect to this matter be held commencing on February 18, 1957, at 10 o'clock a.m., in Room 4 at the office of the Federal Reserve Bank of St. Louis, 411 Locust Street, in the City of St. Louis, State of Missouri, before a hearing examiner selected by the Civil Service Commission pursuant to Sec. 11 of the Administrative Procedure Act, such hearing to be conducted in accordance with the Rules of Practice for Formal Hearings of the Board of Governors of the Federal Reserve System [12 CFR Part 263]. The Board's Rules of Practice for Formal Hearings provide, in part, that

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"all such hearings shall be private and shall be attended only by respondents and their representatives or counsel, representatives of the Board, witnesses, and other persons having an official interest in the proceedings; Provided, however, That on the written request of one or more respondents or counsel for the Board, or on its own motion, the Board, when not prohibited by law, may permit other persons to attend or may order the hearing to be public."

Any person desiring to give testimony in this proceeding should file with the Secretary of the Board, directly or through the Federal Reserve Bank of St. Louis, on or before February 8, 1957, a written request relative thereto, said request to contain a statement of the reasons for wishing to appear, the nature of the petitioner's interest in the proceeding, and a summary of the matters concerning which said petitioner wishes to give testimony. Such request will be presented to the designated hearing examiner for his determination in the matter at the appropriate time. Persons submitting timely requests will be notified of the hearing examiner's decision in due course.

(Signed) S. R. Carpenter

 S. R. Carpenter,
 Secretary

Dated January 22, 1957

[SEAL]

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

NOTICE OF REQUEST FOR DETERMINATION
 PURSUANT TO SECTION 4(c)(6) OF
 BANK HOLDING COMPANY ACT OF 1956 AND
 ORDER FOR HEARING THEREON

Notice is hereby given that request has been made to the Board of Governors of the Federal Reserve System, pursuant to section 4(c)(6) of the Bank Holding Company Act of 1956 ¹² U.S.C. 18437 and section 5(b) of the Board's Regulation ¹² CFR 222.5(b)7, by Transamerica Corporation, San Francisco, California, a bank holding company, for a determination by said

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Board that Occidental Life Insurance Company of California and its activities are of the kind described in those provisions of the Act and the regulation so as to make it unnecessary for the prohibitions of section 4 of the Act with respect to retention of shares in nonbanking organizations to apply in order to carry out the purposes of the Act.

Inasmuch as section 4(c)(6) of the Bank Holding Company Act of 1956 requires that any determination pursuant thereto be made by the Board after due notice and hearing and on the basis of the record made at such hearing,

IT IS HEREBY ORDERED That pursuant to section 4(c)(6) of the Bank Holding Company Act of 1956 and in accordance with sections 5(b) and 7(a) of the Board's Regulation Y [12 CFR 222.5(b), 222.7(a)], promulgated under the Bank Holding Company Act of 1956, a hearing with respect to this request be held commencing on March 4, 1957, at 10 o'clock a.m., in the hearing room at the office of the Federal Reserve Bank of San Francisco, 400 Sansome Street, in the city and county of San Francisco, State of California, before a hearing examiner selected by the Civil Service Commission pursuant to Sec. 11 of the Administrative Procedure Act, such hearing to be conducted in accordance with the Rules of Practice for Formal Hearings of the Board of Governors of the Federal Reserve System [12 CFR Part 263]. The Board's Rules of Practice for Formal Hearings provide, in part, that "all such hearings shall be private and shall be attended only by respondents and their representatives or counsel, representatives of the Board, witnesses, and other persons having an official interest in the proceedings; Provided, however, That on the written request of one or more respondents or counsel for the Board, or on its own motion, the Board, when not prohibited by law, may permit other persons to attend or may order the hearing to be public."

Any person desiring to give testimony in this proceeding should file with the Secretary of the Board, directly or through the Federal Reserve Bank of San Francisco, on or before February 21, 1957, a written request relative thereto, said request to contain a statement of the reasons for wishing to appear, and a nature of the petitioner's interest in the proceeding, and a summary of the matters concerning which said petitioner wishes

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to give testimony. Such request will be presented to the designated hearing examiner for his determination in the matter at the appropriate time. Persons submitting timely requests will be notified of the hearing examiner's decision in due course.

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.

Dated January 22, 1957

[Seal]

At this point Mr. Molony, Special Assistant to the Board, entered the room.

Reference was made to a memorandum from Mr. Hackley dated January 18, 1957, copies of which had been sent to the members of the Board, concerning a request by the Senate Banking and Currency Committee for a report on the "Committee Print" (dated January 7, 1957) of a bill to amend and revise the statutes governing financial institutions and credit.

This bill was based on recommendations made by the Federal supervisory agencies last fall and on recommendations made by an advisory committee to the Banking and Currency Committee in a report of December 17, 1956.

Hearings on the bill were scheduled to commence on January 28, 1957. Attached to the memorandum was a draft of a proposed report which would be limited to the Federal Reserve portion of the bill and certain other provisions of direct concern to the Federal Reserve System. Also

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submitted was a summary of the most important changes which would be made by the bill in the Federal Reserve Act and other statutes of interest to the Board.

In a discussion of the summary and proposed report, Governor Robertson and Mr. Hackley brought out that at the time of the hearings the Board might wish to comment on several provisions of the bill not mentioned in the proposed report. On those points, Governor Robertson said, the Board probably would want to have further discussions before making any decisions.

Following comments by members of the Board concerning various portions of the proposed report, it was agreed unanimously that the draft would be modified in certain respects by Governor Robertson and Mr. Hackley in the light of views expressed at this meeting, and that the report would then be transmitted.

Secretary's Note: Pursuant to this action, the following letter was sent on January 23, 1957, over the signature of Chairman Martin to the Honorable J. W. Fulbright, Chairman, Senate Banking and Currency Committee, with copies to the Bureau of the Budget and the Presidents of the Federal Reserve Banks:

This is in response to your letter of January 5, 1957, requesting a report by the Board on a Committee Print draft of a bill "To amend and revise the statutes governing financial institutions and credit."

The draft bill embodies a complete revision of existing statutes relating to national banks, member banks, insured banks, savings and loan associations, and Federal credit unions. Because of the bill's length and great number of changes which it would make, it would be impracticable for the Board to

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attempt to comment on all its provisions in detail. Many of them, of course, relate to matters beyond the Board's jurisdiction and have no direct effect upon the Federal Reserve System. Accordingly, it seems desirable at this time to limit the Board's comments to that portion of the bill which would revise the Federal Reserve Act and to certain other provisions which are of direct interest to the Board and the System.

It is noted that the bill would incorporate most of the technical and clarifying changes in Federal Reserve laws which were recommended by the Board to your Committee in October 1956, and in the course of the hearings held by the Committee in November. Certain of the changes recommended by the Board have been followed in the bill with modifications; and the Board sees no objection to the modifications made in the bill with respect to Recommendations 51, 60, and 66, relating respectively to residence of Federal Reserve Bank directors (Title II, § 17(a)), stock acquisitions in connection with bank absorptions (Title II, § 23(d)), and concurrence of a majority of Board members in taking certain actions (Title II, §§ 10(b), 39(1), 42(a) and (b)). Nor would the Board interpose objection to the provision of the bill (Title II, § 28(e)) which, in addition to increasing the dollar exemption from the prohibition upon loans by member banks to their executive officers, as recommended by the Board (No. 81), would also liberalize present requirements as to reports by such officers of their indebtedness to other banks.

On the other hand, the bill would not carry out the recommendations made by the Board with respect to elimination of the provision of section 7 of the present Federal Reserve Act as to the application by the Treasury of funds received from the Federal Reserve Banks (No. 55), taxation of dividends on Federal Reserve Bank stock (No. 56), fiscal agency operations of the Federal Reserve Banks (No. 67), repurchase agreements by the Reserve Banks (No. 72), revocation of trust powers of national banks (No. 69), and payment of interest on deposits by member and nonmember insured banks (No. 77). For the reasons stated when these recommendations were submitted, the Board continues to feel that they should be adopted; and the Board hopes that at least Recommendations 77, 72, and 67, in that order of importance, will be given further consideration by your Committee.

Title II of the bill, revising the Federal Reserve Act, contains a number of changes in present law which were not

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included in the recommendations submitted by the Board last October. The Board will wish to give further study to the effect of these changes. However, it may be stated at this time that, as indicated at the Committee hearings in November, the Board approves those new provisions of the bill which relate to audits of the Board and the Federal Reserve Banks (Title II, §§ 38(h) and 39(m)); and the Board would have no objection to the proposed repeal of the business loan authority of the Reserve Banks now contained in section 13b of the Federal Reserve Act or to the proposed transfer of regulatory authority over trust powers of national banks from the Board to the Comptroller of the Currency. On the other hand, the Board questions the desirability of certain of the other changes which would be made by Title II of the bill.

Section 33(b)(3) of Title II would authorize a holding company affiliate to use the reserve of readily marketable assets required by the statute for additions to capital in its affiliated banks as well as for replacement of capital. The Board feels that the proposed use for capital additions would be inconsistent with the general purposes of the reserve requirement of the law and the Board would question the advisability of broadening the provision as proposed in the bill. The statutory reserve was intended to enable a holding company affiliate to come to the assistance of its subsidiary banks in times of local or national emergency. If the reserve were to be used in normal times for additions to capital, it might well be depleted and not be available when it would be needed in unusual circumstances in order to maintain the sound condition of the banks.

Section 29 of Title II would incorporate in provisions relating to removal of officers and directors of State member banks a new specific requirement that the hearing in connection therewith shall be held in accordance with the Administrative Procedure Act and be subject to review as therein provided and that review by the court shall be upon the "weight of the evidence". The Board sees no need for this special provision, since hearings under this section would be subject to the Administrative Procedure Act without the provision; and the Board questions the desirability of departing from the provisions of that Act which, among other things, states that the reviewing court may set aside agency action if it is "unsupported by substantial evidence".

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Section 38(i) of Title II would prohibit employees and former employees of the Board and the Federal Reserve Banks from accepting employment in member banks except pursuant to regulations of the Board. While the Board understands and concurs in the general objective of this provision, it believes that it would be unduly severe. Although subject to regulations, the provision would place a heavy burden upon individuals who may have been employed by the Board 20 or 25 years ago; the provision should at least be qualified so as to apply only for a specified period, such as two years. Moreover, while isolated abuses may be cited, it seems probable that the employment by banks of former employees of the supervisory agencies would in general be beneficial rather than injurious to both the public service and the banking system. In addition, the provision would be likely to impede the recruitment of personnel by the supervisory agencies. It should also be noted that this section may be somewhat inconsistent with some of the criminal provisions of section 803 of the Committee Print, as to which comment will be made later in this letter.

With respect to provisions of the bill other than those contained in Title II, the Board wishes to comment at this time on four provisions which appear to be directly related to the Federal Reserve System.

Provisions which would make reports of examinations and related correspondence privileged against disclosure except with the consent of the supervisory agency are incorporated in Titles I and III, with respect to national banks and insured nonmember banks. No similar provision is found in Title II. The Board believes that a comparable provision should be included in Title II regarding the confidentiality of examination reports of State member banks.

Section 6 of Title III of the bill would replace the Board of Directors of the Federal Deposit Insurance Corporation with a single Administrator, and section 7 would create an Advisory Board consisting of the Comptroller of the Currency, the Chairman of the Board of Governors of the Federal Reserve System or his designee, and one person selected by the President who would be a State officer exercising functions relating to the supervision of State banks. The Board believes that, in view of the extensive nature of the Board's functions in other

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important fields, it would not be appropriate or desirable for the Chairman of the Board or his designee to serve as a member of the proposed Advisory Board.

Section 26 of Title III would eliminate a requirement of the present Federal Deposit Insurance Act that "the board of directors (of the Federal Deposit Insurance Corporation) shall by regulation prohibit the payment of interest on demand deposits in insured nonmember banks" and would substitute language providing that "no insured bank shall, directly or indirectly, by any device whatsoever, pay any interest on any deposit which is payable on demand". This change would not, in the Board's opinion, be adequate to meet the administrative problems and inequities which have arisen in the administration of these provisions. On the contrary, the Board believes that the proposed change would further complicate the situation, since the language of the bill would literally authorize the Administrator of the Federal Deposit Insurance Corporation to define the term "demand deposits" (though not the term "interest") for all "insured banks", both member banks and nonmember insured banks.

In its Recommendation No. 77 on this subject, the Board proposed that the words "directly or indirectly, by any device whatsoever" be deleted from the provisions of the Federal Reserve Act relating to payment of interest on deposits by member banks, and that a "payment of interest" be defined as including only cash payments made, or credits given, by a bank for the account or benefit of a depositor. The Board also recommended that competing member and nonmember insured banks be made subject to the same rules as to what constitutes a payment of interest on deposits, particularly with respect to absorption of exchange charges; and, to this end, the Board suggested that the relevant provisions in the Federal Reserve Act and in the Federal Deposit Insurance Act should contain an explicit identical statement on this point, or, in the alternative, that the Board or the Federal Deposit Insurance Corporation should be authorized to define "interest" for both classes of banks.

In its report of December 17, 1956, the Advisory Committee that assisted your Committee in its study, recommended that provisions of the Federal Deposit Insurance Act on this subject be changed to read like those in the Federal Reserve Act so

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that uniform interpretations would necessarily follow, and that the Board's ruling as to absorption of exchange as a payment of interest should be applicable to all insured banks alike. The change made by section 26 of Title III of the Committee Print may have been designed to follow the Advisory Committee's recommendation; but, in the Board's opinion, it falls short, perhaps inadvertently, of achieving the Committee's stated objective.

This objective could be achieved, and in a manner which would be in accord with the Board's recommendation, if the words "directly or indirectly, by any device whatsoever" were omitted from the provisions of law regarding payment of interest on demand deposits by member banks (contained in section 41 of Title II of the bill) and if the provisions regarding payment of interest on demand deposits by nonmember insured banks (contained in section 26 of Title III of the bill) were made to read exactly like those with respect to member banks but were made applicable only to nonmember insured banks, and if in both instances a proviso were added to the effect that a "payment of interest" shall include only cash payments made, or credits given, by a bank for the account or benefit of a depositor, and that absorption of exchange charges shall be deemed to be a payment of interest.

Section 803 of the bill would revise sections 217 and 218 of the Criminal Code, which now relate to the making of loans and gratuities by a bank to examiners authorized to examine such bank and, conversely, to the acceptance of loans and gratuities by examiners from banks examined by them. The proposed revision of these sections would make them applicable not only to member and insured banks but also to institutions insured by the Federal Savings and Loan Insurance Corporation, Federal credit unions, and any stockholder of any such bank or other institution holding 10 per cent or more of the stock thereof. The revision would also extend these sections to apply not only to examiners but to officers and employees of the Federal supervisory agencies; and they would cover not only loans and gratuities but also employment or offers of employment.

While some expansion of these criminal provisions along the lines indicated may be desirable, the Board believes that the revision proposed by the bill would be unduly rigid and

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severe and give rise to difficult problems of interpretation and administration. For example, the bill would seem to make it a crime for any insured savings and loan association or Federal credit union, as well as any member bank, to make a loan or offer of employment to any employee of the Board of Governors without the Board's written approval. Again, it would be made a crime for any member, officer, or employee of the Board to accept a loan or offer of employment from any member bank with respect to which the individual may have performed any "duties" in the preceding two years. Moreover, the provisions in question appear to be inconsistent with other provisions of the bill relating to the employment by banks of employees and former employees of the supervisory agencies. The Board, therefore, would be strongly opposed to the revision of sections 217 and 218 of the Criminal Code as contemplated by the Committee Print.

As previously indicated, the Board may wish, on the basis of further study, to submit additional comments with respect to other provisions of the bill. The Board may also wish to submit certain comments and suggestions of a technical nature; and as to such matters the Board's legal staff will be glad to render any assistance which may be desired.

In conclusion, the Board would like to compliment your Committee and its staff for the care with which this comprehensive bill has been prepared.

In connection with the foregoing discussion, question was raised as to who would represent the Board at the hearings on the bill.

Chairman Martin suggested that Governor Robertson, who testified on behalf of the Board last fall with respect to this subject, be designated to represent the Board at the hearings.

This suggestion was approved unanimously.

Reference then was made to a memorandum from Mr. Cherry dated January 18, 1957, concerning prospects for bank merger legislation. The memorandum, of which copies had been distributed to the members of the

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Board, stated that certain bills might be reported out shortly by the House and Senate Judiciary Committees and appeared likely to receive favorable consideration, while no separate bill embodying the approach agreeable to the Federal banking agencies had yet been introduced. The question was raised whether the Board would wish to call this situation to the attention of Senator Robertson of Virginia, with a view to determining his willingness to introduce a separate bill.

Governor Robertson said he understood the Treasury Department had been attempting to get in touch with Senator Robertson for this purpose, and that in the circumstances he would suggest that the Board let the Treasury Department take the initiative.

There was unanimous agreement with this suggestion.

Messrs. Solomon, Cherry, and Molony then withdrew from the meeting.

At the meeting on December 18, 1956, the Board considered, in the light of a memorandum from Mr. Shay dated December 14, 1956, whether certain practices on the part of three national banks in Lubbock, Texas, involved indirect payments of interest under Regulation Q, Payment of Interest on Deposits. Mr. Shay's memorandum suggested that none of the services and benefits provided by the three banks be held to constitute an indirect payment of interest. A decision on the matter was deferred in order that the Division of Examinations might submit a recommendation,

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and the views of that Division were set forth in a memorandum dated January 9, 1957, copies of which had been distributed to the members of the Board. For reasons stated in this memorandum, the Division recommended that the total effect and extent of the services and benefits be held to constitute an indirect payment of interest and that the Comptroller of the Currency be advised accordingly.

During a discussion of the matter, question was raised as to what enforcement steps would be envisaged if the Board expressed the view recommended by the Examining Division and the practices were not terminated. In this connection, reference was made to the provisions of the pertinent statute and the Board's regulation issued thereunder.

Governor Robertson then suggested how the letter to the Comptroller of the Currency might be phrased to indicate that, although the practices concerned gave rise to real doubts, the services and benefits in question need not be regarded as constituting indirect payments of interest within the provisions of the Board's present regulation. He felt that in this way the borderline nature of the case could be emphasized without going so far as to produce a difficult problem of enforcement.

Agreement having been expressed with the language proposed by Governor Robertson, unanimous approval was given to a letter to Mr. L. A. Jennings, Deputy Comptroller of the Currency, Treasury Department, reading as follows, with the understanding that copies would be sent to the Presidents of all Federal Reserve Banks:

This refers to the previous correspondence between the Office of the Comptroller of the Currency and the Board

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concerning whether certain practices of three national banks in Lubbock, Texas, constitute indirect payments of interest on deposits under the Board's Regulation Q. The question was raised by Deputy Comptroller of the Currency Garwood's letter of October 28, 1955, which presented excerpts from September 1955 examination reports of the national banks. Additional information furnished by your examiners was forwarded with your letter of July 3, 1956.

Briefly, the information developed by your examiners reveals that the Lubbock National Bank is depository for funds of Lubbock County; that the Citizens National Bank is depository for funds of the City of Lubbock and of the Lubbock Independent School District; and that the First National Bank is depository for funds of the Texas Technological College, Lubbock, Texas. It appears further that, in order to obtain these funds, the banks agreed to pay the depositors in question the maximum permissible rates of interest on time deposits, and also to make available to such depositors the following benefits and services, which, however, are not uniform among the three banks: loans to the depositors at rates of interest which apparently are substantially lower than those available to other depositors and, in some instances, without any interest; free armored car and messenger service; free safety deposit boxes; free printed checks; free parking facilities; no service charges on demand deposits; free night depository service; free foreign and domestic exchange; free travelers' checks; and no charge for acting as paying agent on bonds. The examiners have indicated, however, that only some of these services and benefits have been actually furnished to the depositors.

This matter has been considered carefully in the light of the Board's present regulation, the past interpretations thereof, and the Board's experience over the years under section 19 of the Federal Reserve Act pursuant to which the regulation is issued.

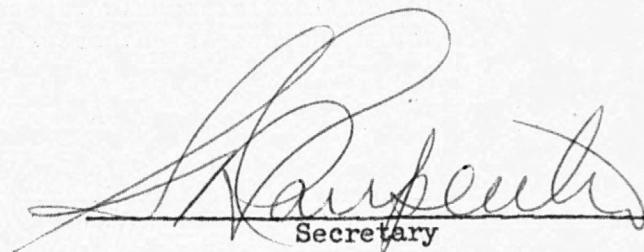
All of the services and benefits named above appear to be matters for which the particular bank merely agrees to refrain from making a charge against the depositor or for which the bank agrees to make a reduced charge. Furthermore, each service or benefit is one which reasonably may be regarded as a normal banking function or service. The degree to which some

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of the services and benefits are made available to the specified depositors would seem to be beyond the benefits and concessions offered all depositors, and the total effect and extent of such services and benefits apparently given in consideration of deposit balances maintained gives rise to real doubts as to whether, taken as a whole, they constitute an indirect payment of interest. Nevertheless, on the basis of the Board's understanding of the information submitted with the correspondence referred to above, it is the Board's view that the services and benefits in question need not be regarded as constituting indirect payments of interest within the provisions of its present regulation.

The meeting then adjourned.



Secretary