

Minutes for February 7, 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 <u><i>TM</i></u>	_____
Gov. Szymczak	x <u><i>MS</i></u>	_____
Gov. Vardaman	x <u><i>MS</i></u>	_____
Gov. Mills	x <u><i>MS</i></u>	_____
Gov. Robertson	x <u><i>R</i></u>	_____
Gov. Balderston	x <u><i>ccrb</i></u>	_____
Gov. Shepardson	x <u><i>LS</i></u>	_____

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, February 7, 1957. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Assistant Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Fauver, Assistant Secretary
 Mr. Thurston, Assistant to the Board
 Mr. Riefler, Assistant to the Chairman
 Mr. Thomas, Economic Adviser to the Board
 Mr. Leonard, Director, Division of Bank Operations
 Mr. Vest, General Counsel
 Mr. Young, Director, Division of Research and Statistics
 Mr. Sloan, Director, Division of Examinations
 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. Wood, Economist, Division of Research and Statistics

There had been circulated to the members of the Board a draft of letter to the Board of Directors, The Keansburg National Bank, Keansburg, New Jersey, reading as follows:

The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers and grants you authority to act, when not in contravention of State or local law, as trustee, executor,

1/ Entered meeting at point indicated in minutes.

2/7/57

-2-

administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies or other corporations which come into competition with national banks are permitted to act under the laws of the State of New Jersey, the exercise of all such rights to be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

A formal certificate indicating the fiduciary powers which The Keansburg National Bank is now authorized to exercise will be forwarded to you in due course.

Approved unanimously, for
transmittal through the Federal
Reserve Bank of New York.

There had also been circulated to the members of the Board a draft of letter to the Federal Reserve Bank of Chicago which would state that the Board, in accordance with the request of The Morrice State Bank, Morrice, Michigan, waived the requirement of six months' notice of withdrawal of the bank from membership in the Federal Reserve System. Shortly before this meeting, however, a letter was received from the Chicago Reserve Bank enclosing a copy of a letter and resolution from the member bank indicating that the motion previously adopted by the bank's directors to withdraw from the System had been rescinded. Accordingly, no action on the part of the Board was necessary.

Reference was made to a memorandum from Mr. Young dated February 5, 1957, copies of which had been sent to the members of the Board, submitting a proposed reply to the Chairman of the Senate Banking and Currency Committee in response to a request for the Board's views on S. 726,

2/7/57

-3-

a bill whose major provision would make a part of the National Service Life Insurance Fund available for investment in direct home loans to veterans.

Agreement having been expressed with a change in the draft of reply suggested by Governor Balderston, unanimous approval was given to a letter to The Honorable J. W. Fulbright, Chairman of the Committee on Banking and Currency, United States Senate, in the following form:

This is in response to your request of January 24 for the Board's views on S. 726, a bill whose major provision would make up to 25 per cent of the National Service Life Insurance Fund available for investment in direct home loans to veterans.

In the Board's view, this measure would increase inflationary forces in the economy, in particular by reducing the support credit and monetary policy receives from fiscal and debt management policy.

During the past year the Federal Government has been able to retire Federal Debt held by financial institutions and the public. This repayment of debt has provided funds in a noninflationary manner to the capital markets. These funds have been available to meet the large private and State and local borrowing demands, including demands for mortgage financing. Under this bill, the Treasury will have to use perhaps as much as \$1.4 billion to retire obligations held by the Fund, rather than debt held by financial institutions and the public.

The most likely result of the bill, therefore, would be to reduce the supply of funds available in the private capital market and force interest rates to higher levels than would otherwise prevail. Even anticipation of a smaller amount of retirement of publicly held debt than is now budgeted, as a result of consideration of S. 726 and other bills of similar character, may produce some of this effect.

2/7/57

-4-

It may be noted that, if the bill were enacted, the amount of additional funds available to veterans for home purchase would probably be less than the \$1.4 billion of direct loans provided for in the bill, since the amount available to nongovernmental lenders would be reduced.

Senator Sparkman's Subcommittee on Housing is considering the desirability of improving the competitive position of insured and guaranteed mortgages through greater flexibility in their interest rates. This appears to the Board to provide a more constructive approach to the problem than the bill under review, which would increase the problems of fiscal and debt management policy as well as of credit and monetary policy.

Secretary's Note: The letter was sent over the signature of Vice Chairman Balderston on February 7, 1957.

At this point Governor Vardaman joined the meeting and, upon being advised of the actions that had been taken by the Board, expressed concurrence in such actions.

Mr. Wood then withdrew from the meeting.

There had been sent to the members of the Board copies of a memorandum from Mr. Hackley dated February 6, 1957, submitting a draft of statement to be made on behalf of the Board by Governor Robertson before the Senate Banking and Currency Committee on February 12, 1957, regarding the Committee Print of the proposed Financial Institutions Act of 1957, which would revise and codify the banking laws. The draft of statement was intended to be consistent with the Board's letter of January 23, 1957, to the Chairman of the Banking and Currency Committee reporting on the Committee Print. In addition, it included comments on certain provisions of the bill which were not covered by the Board's

2/7/57

-5-

letter. There was also submitted a brief memorandum of technical comments on the Committee Print which would be submitted for the record at the hearing.

The draft statement was reviewed fully and the members of the Board suggested a number of changes, some of which were of an editorial nature and some of which were designed to strengthen or clarify the Board's position. In the course of these comments, Governor Robertson presented for consideration certain revisions of the draft which he proposed to make if the Board concurred.

In making certain suggestions regarding the draft, Governor Mills called attention particularly to the section of the Committee Print which would conform to the Board's previous recommendation that provision be made for obtaining reports from State member banks on a sample basis in order to facilitate the collection of statistical data. This section contained a reference to required reports of dividends, and the draft of testimony by Governor Robertson would suggest the desirability of referring to "earnings and dividends". Governor Mills said that this raised a question whether it was in the public interest to specify publication of reports of earnings of State member banks because such publication would flag any lack of earnings and also because there was no uniformity among banks in the accounting procedures followed in computing earnings. In this connection, he said that

2/7/57

-6-

a review of the 1956 annual reports of certain central reserve city banks indicated substantial differences in the treatment of depreciation in bond accounts.

During a discussion of the point raised by Governor Mills, Governor Robertson expressed the view that the Board should have the power to require publication of the earnings of State member banks and that the authority would be given at some time, if not at present, despite the opposition of certain banking groups. He suggested that this would be comparable to the authority of the Securities and Exchange Commission in respect to corporations other than banks and that it was necessary to have a bank's statement of earnings in order to analyze the bank's condition. The position taken in the draft of testimony, he said, was essentially one of neutrality, and he felt that such a position was appropriate.

Governor Mills asked that the Board bear in mind for the future that there were differences of opinion with regard to requiring the publication of earnings reports unless uniformity of accounting among banks could be obtained.

Governor Vardaman indicated that he agreed with the views expressed by Governor Mills.

With respect to a provision of the Committee Print which would require every State member bank to keep and transmit to the Board on demand a full list of its shareholders, and to notify the Board of any

2/7/57

-7-

purchase or sale of its shares involving 10 per cent or more of the number outstanding, Governor Vardaman took the position that such requirements were unnecessary and could not be effectively enforced.

From a discussion of the matter it developed that the other members of the Board favored the proposal and concurred in the language of the draft statement, which would express the view that such requirements had merit and would not be unduly burdensome. It was understood that Governor Vardaman would send Governor Robertson a memorandum of the reasons underlying his position.

As to the other items covered in the draft of testimony, agreement was reached on the position proposed to be taken concerning each item, subject to such editing as was indicated by the discussion at this meeting.

With regard to the general form of the statement, Governor Balderston suggested certain revisions which would result in the testimony beginning with comments on Board recommendations that had not been incorporated in the Committee Print, followed by comments on provisions of the Committee Print to which the Board took exception. He felt that in such a way the attention of the Committee could be drawn more forcibly to the matters which, at this point, were of most concern to the Board.

At the conclusion of the discussion, it was understood that the statement would be presented by Governor Robertson in such form as he deemed most appropriate in the light of the views expressed at this meeting.

2/7/57

-8-

Messrs. Thurston and Noyes then withdrew from the meeting.

Consideration was given to a memorandum from Mr. Solomon dated January 30, 1957, discussing a suggestion made in a letter dated October 10, 1956, from President Bryan of the Federal Reserve Bank of Atlanta, that the Board amend Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange, to provide special treatment for loans to finance the purchase of stock under employee stock purchase plans. The memorandum, copies of which had been sent to the members of the Board, pointed out that on several occasions when such an amendment had been suggested, most recently in 1955, the Board expressed the view that it would not be desirable. It was noted, however, that arguments which were in many respects rather closely balanced could be offered on both sides of the question. Against this background, the memorandum discussed the two kinds of employee stock purchase plans (the "option" or "executive" type and the "nonoption" or "general employee" type), the extent of use of such plans, pertinent statutory provisions, arguments in favor of amending Regulation U, arguments against the proposal, and alternative actions that the Board might take, including the possibility of a similar amendment to Regulation T, Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges.

In a discussion of the matter, Governor Vardaman inquired whether President Bryan's position was similar to that taken by Mr. Sidney J. Weinberg several years ago, to which Mr. Solomon responded that the

2/7/57

-9-

positions were parallel and that the adoption of Mr. Bryan's suggestion would accomplish exactly what Mr. Weinberg proposed.

Governor Vardaman then stated that although he had been sympathetic to the Weinberg proposal in principle, he would not want to see the Board make a quick decision to reverse the stand which it had taken previously.

Chairman Martin said that this subject could be debated at great length, that he had always been inclined to favor a position such as now taken by President Bryan, but that he did not think the issue involved was an extremely vital one. In this connection he suggested that, despite the various reasons which might be given in favor of special treatment for loans of this kind under Regulation U, the requests probably could be traced in large measure to problems encountered under existing tax law. He felt that, all things considered, there was much to be said for not reversing at this time the position that the Board had taken on more than one occasion in recent years.

At the conclusion of the discussion, it was agreed unanimously not to amend Regulation U at this time to provide special treatment for loans to finance the purchase of stock under employee stock purchase plans, and it was understood that an appropriate letter would be sent to President Bryan.

Reference then was made to a memorandum from Mr. Solomon dated February 6, 1957, copies of which had been distributed to the members of the Board, reviewing arrangements which had been made, pursuant to Board instructions, for hearings on the requests of General Contract Corporation, St. Louis, Missouri, and Transamerica Corporation, San Francisco,

2/7/57

-10-

California, for determinations under section 4(c)(6) of the Bank Holding Company Act. The memorandum also discussed the function of the Board's Counsel at the hearings, possible requests to testify, possible requests to intervene, the probable course of the hearings, and the question whether the hearings should be public or private.

Following a statement by Mr. Solomon based on the material contained in the memorandum, Governor Vardaman stated that he would be inclined to have all hearings public in the interest of full disclosure. He also said that he questioned the assignment of the same hearing examiner to conduct both of the forthcoming hearings and that he felt it would be advisable to arrange for the availability of a sufficient number of hearing examiners to provide for orderly procedure and to guard against illness or the absence of a hearing examiner for other reasons. With regard to possible requests to intervene, he considered the procedure suggested by the memorandum to be too liberal. Although he would favor, in general, interposing no objection to a request by a State or Federal authority to intervene, he questioned whether it was advisable to admit competitors or other parties who might be affected by the Board's decision.

Governor Robertson commented that he was sympathetic to the point of view stated by Governor Vardaman regarding public hearings, but that he hoped the Board would not adopt a general policy today. Rather, he would like to see the Board gain additional experience with hearings under the Bank Holding Company Act, both public and private,

2/7/57

-11-

before a general policy was established. On the matter of requests to intervene, he felt that a liberal policy was in order and that the Board should not be in the position of attempting to preclude competitors from intervening and interrogating witnesses. While there would be certain cases where parties obviously should not be permitted to intervene, in the usual case he felt that the Board should not object. With respect to the availability of hearing examiners, he explained that the Legal Division had experienced difficulty in locating examiners and that several problems would be involved in a decision by the Board to employ an examiner of its own.

Mr. Vest added to Governor Robertson's comment on the last point by saying that the two forthcoming hearings were on related matters and that the hearing examiner's experience with the first hearing might be valuable in the second case. He also brought out that the Board was dependent upon the cooperation of the agencies on whose rolls the hearing examiners were carried, and that three examiners were now being borrowed -- one from the Federal Power Commission and two from the National Labor Relations Board.

Governor Vardaman said that inasmuch as it was known that more applications would be coming in under the Bank Holding Company Act, he continued to feel that arrangements should be made to enlarge the number of hearing examiners available to the Board, and Governor Robertson agreed that this was a point which could be explored further.

2/7/57

-12-

The discussion then reverted to the question of public and private hearings and Governor Mills suggested that there was a difference between a hearing having to do with the expansion of a bank holding company, that is, a hearing on a matter with a very definite public interest, and hearings on matters such as those involved in the requests of General Contract Corporation and Transamerica Corporation.

Mr. Vest said that it would be possible to let the forthcoming hearings start on a private basis and for the Board's Counsel to ask for a public hearing if factors developed which suggested the desirability of such a request.

The countersuggestion was made that a hearing could be started as a public hearing and then be put on a private basis if circumstances warranted.

Following further discussion, Chairman Martin suggested that the Legal Division inquire of the two holding companies concerned whether they would have any objection to a public hearing.

There was unanimous agreement with the suggested procedure, with the understanding that the matter then would be brought back to the Board for further consideration on the basis of the views expressed by the holding companies.

With further reference to possible requests of parties to intervene in hearings under the Bank Holding Company Act, Governor Mills said that his views were similar to those expressed at this meeting by Governor Vardaman.

2/7/57

-13-

On this point, Mr. Vest commented that if there was a competitor who might be adversely affected by a ruling of the Board, it was a very close question whether that party was not legally entitled to come into the case. While the law was unsettled and uncertain, an error on the side of liberality would seem less likely to result in a ruling being upset by the courts. He said it was the thought of the Legal Division that each request to intervene should stand on its own feet, but that where the requesting party might be adversely affected by the Board's decision the Board's Counsel would not object to the petition to intervene.

Chairman Martin expressed the view that, as in other procedures under the Bank Holding Company Act, a certain amount of experimenting was indicated and that it would be well to follow a middle course for the time being and handle each case on an ad hoc basis.

Further consideration then was given to the present arrangement for the verification and destruction of unfit United States paper currency in the light of the views of the Conference of Presidents of the Federal Reserve Banks, as stated at the joint meeting of the Board and the Presidents on January 29, 1957.

It was noted that the statement on this topic submitted by the Presidents referred to the consensus of the Conference. The suggestion therefore was made that the views of each individual Reserve Bank President be requested.

2/7/57

-14-

Agreement was expressed with this suggestion and it was understood that an appropriate letter to the Reserve Bank Presidents would be prepared and sent.

Secretary's Note: Pursuant to this action, the following letter was sent to the Presidents of all Federal Reserve Banks on February 12, 1957:

Since the joint meeting of the Board with the Presidents on January 29, 1957, the Board has had some further discussion of the problem of currency verification and destruction at the Federal Reserve Banks. At the joint meeting, President Leedy stated that a majority of the Presidents felt that the System would find it difficult to request the Treasury to relieve the Federal Reserve Banks of this work. It was understood that some of the Presidents held different views.

The Board of Governors has felt there is a real question whether the existing procedure should be continued. It would be helpful, therefore, if the Board could have the views of the individual Presidents to assist in its further consideration of the matter. For that reason, the Board is sending this letter to the President of each of the Federal Reserve Banks requesting an expression of his individual views. Accordingly, it would be appreciated if you will send the Board your comments on whether it would be desirable to suggest to the Treasury that the existing procedure be changed and, if so, what changes you would suggest.

At the request of the Chairman, Mr. Fauver reported developments with regard to arrangements for the meeting to be held on February 20, 1957, with newly-appointed directors of the Federal Reserve Banks and branches.

Discussion of the matter concerned principally the program for the day, and a number of suggestions were made, including proposals for deviations from the program followed last year.

2/7/57

-15-

The suggestion then was made that the matter be referred to Governor Balderston, with power to make such decisions as he deemed appropriate.

There was unanimous agreement with this suggestion.

The meeting then adjourned.

Secretary's Note: Pursuant to the recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson today approved on behalf of the Board the following matters relating to the Board's staff:

Appointment of Clifford A. Davis as Assistant Counsel, Legal Division, with basic annual salary at the rate of \$9,850, effective the date he assumes his duties.

Permission for Nathan B. Hughes, Jr., Personnel Technician, Division of Personnel Administration, to engage in two outside business activities: a part-time job on weekends with the Co-op Grocery, and the writing of abstracts for Personnel Management Abstracts.

Governor Shepardson also approved on behalf of the Board today the following letter to Mr. David S. Phillips, Assistant Commissioner for Buildings Management, General Services Administration, Washington, D. C.:

In response to your letter dated January 25, 1957 (PBT) addressed to Mr. Bethea relative to participation in the consolidation of Washington-New York tie line circuits, this is to advise that the Board of Governors is agreeable to participating in the plan.

It is understood that by consolidating New York tie line circuits under one contract thus taking advantage of the new multiple private line tariff (F.C.C.231) the annual saving to the Federal Reserve System will be about \$1,322.

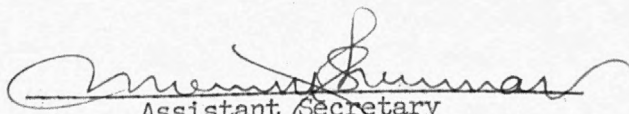
2/7/57

-16-

It is also understood that such contractual arrangement will in no way affect the manner of the operation of the circuit nor will the service or privacy of the line in any way be altered from the present service which the Board is receiving. It is understood, further, that while GSA will bill the Board on a reimbursable basis for the cost of this line, rather than have the telephone company bill the Board direct, General Services Administration will not make any service charge and will interpose no objection if at any time the Board wishes to revert to the present system of contracting directly with AT&T for such private line service.

Please advise us as soon as the arrangements have been completed and the cutoff date established in order that our Controller's office may make the necessary fiscal adjustments.

A copy of your letter and this reply are being forwarded to Mr. Robert L. Gradle, Division Commercial Manager, American Telephone and Telegraph Company, 801 19th Street, N. W., Washington 6, D. C., for his information.


Assistant Secretary