To: Members of the Board

From: Office of the Secretary

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

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

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

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

A

B
Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, February 15, 1957. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Riefler, Assistant to the Chairman
Mr. Molony, Special Assistant to the Board

Messrs. Young, Noyes, Robinson, Williams, Dembitz, Eckert, Gehman, Jones, Miller, Clark, Trueblood, Wernick, and Wood and Miss Stockwell of the Division of Research and Statistics

Messrs. Marget, Furth, Katz, Sammons, Wood, Maroni, and Reynolds of the Division of International Finance

The members of the Division of International Finance presented a review of selected international financial developments, following which the members of the Division of Research and Statistics discussed domestic business and financial developments.

All of the members of those two Divisions then withdrew from the meeting along with Messrs. Riefler and Molony, and Messrs. Vest, General Counsel, Sloan, Director, Division of Examinations, and Masters, Associate Director of that Division, entered the room.

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. Phelan, Vice President, Federal Reserve Bank of New York, reading as follows:

In accordance with the recommendation contained in your letter of February 1, 1957, the Board of Governors extends to April 1, 1957, the time within which the proposed State Bank of Long Beach, Long Beach, New York, may accomplish admission to membership. Please advise the applicant accordingly.

Approved unanimously.

Letter to the Board of Directors, Ludington State Bank, Ludington, Michigan, reading as follows:

This refers to your request for permission, under applicable provisions of your condition of membership numbered 1, to exercise fiduciary powers.

Following consideration of the information submitted, the Board of Governors of the Federal Reserve System grants permission to the Ludington State Bank to exercise the fiduciary powers now or hereafter authorized under the terms of its charter and the laws of the State of Michigan.

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

There were presented telegrams proposed to be sent to the following Federal Reserve Banks approving the establishment without change of the rates of discount and purchase in their existing schedules:

- Boston: February 11
- San Francisco: February 13
- New York: February 14
- Cleveland: February 14
- Richmond: February 14
- St. Louis: February 14
- Minneapolis: February 14
- Kansas City: February 14
- Dallas: February 14

Approved unanimously.
At this point Mr. Young rejoined the meeting and Messrs. Shay, Assistant General Counsel, and Pickering, Economist, Division of Research and Statistics, entered the room.

Reference was made to a memorandum from Mr. Shay dated February 7, 1957, which had been circulated to the members of the Board, discussing further the question whether Regulation Q, Payment of Interest on Deposits, should be amended to prohibit the labeling of time certificates of deposits as "savings certificates". After citing 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, the memorandum went on to say that a question had now been raised by the Federal Reserve Bank of Kansas City regarding certain aspects of a time certificate which was labeled "savings certificate" so that the Board's disposition of the question raised originally through the Minneapolis Reserve Bank would be relevant also in preparing an appropriate reply to Kansas City. The memorandum pointed out, by way of background, that in the past the Board had not regarded the label "savings certificate" on a time certificate as conflicting with the law or its regulation, and that the same position had been taken by the Federal Deposit Insurance Corporation. It appeared, from information reaching the Board, that the practice was followed by banks in at least ten States. In conclusion, the memorandum set forth the following alternative courses of action for the Board's consideration: (1) continue to regard the practice as not objectionable, with appropriate advice to the Federal Reserve Banks; (2) advise the Reserve Banks that they
should endeavor to discourage the practice from spreading and that they
should attempt to discourage continuance of the practice where already
adopted; or (3) publish in the Federal Register for comment a proposed
amendment to Regulation Q (and companion provisions of Regulation D,
Reserves of Member Banks) which would prohibit a time certificate from
being labeled or designated as a "savings certificate". It was suggested
that if the Board favored either the second or third alternative, it would
be desirable to confer with the Federal Deposit Insurance Corporation.

In commenting on the matter, Mr. Shay responded to a question by
Governor Shepardson by saying that amendment of Regulation Q to prohibit
a time certificate from being labeled as a "savings certificate" ap-
parently would have the effect of causing deposits represented by such a
"savings certificate" to fall into the category of demand deposits, since
they would be excluded by definition from the time deposit category and
they would not qualify as savings deposits.

Governor Shepardson inquired regarding the competitive angle
stressed by the Reserve Bank Presidents, and Mr. Shay said he interpreted
the Presidents' comments to mean that, within the framework of the law and
the Board's regulations, the commercial banks were trying to make their
services as attractive as possible in competition for funds with other
financial institutions. Apparently, he said, the banks found an element
of public appeal in the designation "savings certificate" and wished to
take advantage of it.
Governor Shepardson then said that he had raised the question originally because it seemed to him that to permit the existing practice would be inconsistent with the Board's endeavor to maintain distinctions between time and savings deposits. However, in the light of the consideration given to the matter by the Board and the views expressed by the Reserve Bank Presidents, he would not want to press the matter further.

Accordingly, it was agreed unanimously, following further discussion of the matter, to follow the first alternative mentioned in Mr. Shay's memorandum; that is, to continue to regard the practice in question as not objectionable.

Secretary's Note: Pursuant to this action, the following letter was sent to the Presidents of all Federal Reserve Banks on February 18, 1957:

As you may recall from the Presidents' Conference on January 29, 1957, the Board has had under consideration a suggestion that Regulations D and Q be amended so as to prohibit a certificate evidencing a deposit from being labeled or designated as a "savings certificate", where the deposit, under the present regulations, would not qualify for classification as a saving deposit, but would qualify for classification as a time certificate of deposit.

Following further consideration of the matter, the Board has decided not to pursue the possibility of so amending the regulations, but rather to continue, as in the past, not to object to the classification of a deposit as a time certificate of deposit merely because the certificate is labeled or designated as a "savings certificate".
Mr. Shay then withdrew, Mr. Riefler rejoined the meeting, and Mr. Hackley, Assistant General Counsel, entered the room.

Pursuant to the understanding reached by the Board yesterday following discussion of a report to the Senate Banking and Currency Committee on bill S. 775, there had been distributed to the members of the Board copies of a draft of letter to the Presidents of the Federal Reserve Banks requesting their views on the need for broader facilities for marketing small issues of school bonds and other municipal securities.

At this meeting an alternative draft of letter to the Presidents was distributed. The principal difference between the two drafts was that the one distributed at this meeting would submit a list of questions as a basis for a survey by the Reserve Bank research departments regarding developments with respect to municipal bond offerings in the respective Reserve districts.

In a discussion of the alternative draft, Governor Mills suggested the inclusion of a question dealing with the extent to which potential issues might have been delayed because of higher construction costs which, along with higher interest rates, had resulted in opposition to bond issues and perhaps a deterioration in the community's credit status.

Agreement was expressed with Governor Mills' suggestion and with changes in the wording of some of the questions suggested by Governor Wardaman.

Thereupon, unanimous approval was given to a letter
In response to a request the Board has sent the attached letter to the Chairman of the Senate Banking and Currency Committee with respect to Senate Bill S. 775, "To encourage investment in school bonds and other tax-exempt government obligations by authorizing Federal Reserve member banks to invest in securities of regulated investment companies which invest 95 per centum of their assets in such obligations which are normally legal for member banks and 5 per centum in taxable Federal Government obligations."

During the discussion of this proposed legislation, questions were raised whether and to what extent there might be a problem in the marketing of small issues of school bonds and other municipal securities. It was suggested that, in view of the attention this subject is receiving in the Congress and in the press, it might be desirable if each of the Reserve Banks were to have its research department survey developments with regard to municipal bond offerings in its district. Attached is a list of suggested points which such a survey might cover.

The Board feels that this matter might well be discussed further within the System and will appreciate it if, when you come to the meeting of the Federal Open Market Committee on March 5, you will be prepared to have a preliminary discussion with the Board on the general situation in your district. If a memorandum on the subject could be submitted at that time or shortly after, that would be appreciated also.

The questions submitted with the letter were as follows:

(1) To what extent have local governmental units, including school districts, road and drainage districts, etc., in your District experienced difficulty in selling their bonds during the past twelve months, particularly the smaller local units which might usually expect them to be purchased by the local bank or banks.

(2) If there have been difficulties, to what extent has this been as the result of (a) legal or administratively established interest cost maxima (b) willingness to accept higher interest costs (c) lack of available funds locally, and lack of
interest in issues by outside investors? How do interest rates on locally sold issues compare with rates on general market issues?

(3) Has experience differed for different types of bond issues? School construction or other purpose? Revenue bonds or general obligations? Small or large issue?

(4) To what extent has failure to sell long-term bonds resulted in (a) postponement of construction (b) substitution of short-term debt (c) substitution of current revenue?

(5) To what extent do local governmental units in your District generally rely on local banks to (a) provide them with short-term credit (b) buy their bonds? Has the situation changed during the past year?

(6) To what extent have potential issues been delayed because construction costs have increased sharply in recent years necessitating larger bond issues which, along with higher interest rates, tax the finances of local units, and cause higher tax rates thus resulting in (a) local opposition to issues, (b) possibly a deterioration in the community's credit status?

At the meeting yesterday, consideration was given to a draft of letter to Mr. Hayes, President of the Federal Reserve Bank of New York, suggesting the possible need for certain additional information for inclusion in the record of the current hearing on the applications of The First National City Bank of New York and others to form a bank holding company, and it was understood that certain changes in the draft of letter and in the attached list of proposed questions would be made in the light of comments made at the meeting.

At this meeting, copies of a revised draft of letter to President Hayes were distributed and it was stated that appropriate changes had
also been made in the list of questions proposed to be sent with the letter.

Following a brief discussion, the revised letter, reading as follows, was approved unanimously:

As you may know, the hearing in the matter of the application of The First National City Bank of New York to form a bank holding company is in recess until Wednesday, February 27, 1957, at which time the hearing will reconvene unless in the interim other arrangements are made.

While a review of the record of the testimony already taken has not been completed, it is apparent that certain additional information will be necessary in order to make the record as complete as possible on the question of whether the size or extent of the bank holding company system which would be established would go "beyond limits consistent with adequate and sound banking, the public interest, and the preservation of competition in the field of banking".

With this in mind, we have prepared a list of proposed questions, a copy of which is enclosed, designed to bring out additional information that appears to be needed. It may well be that some or even a substantial portion of the information that these questions are calculated to develop will be brought out in the answers that will be given by The First National City Bank to the questions that the Department of Justice has raised, as contained in the letter of the Department of Justice of January 25, 1957 (Transcript of the Hearing, pp. 197-202). We understand that at an appropriate time The First National City Bank contemplates introduction into the hearing record of its responses to the questions of the Department of Justice.

To the extent that the answers submitted to the Department of Justice are responsive to the questions posed and to the extent that these and other related matters are sufficiently covered already in the record of the proceeding, it will, of course, be unnecessary to develop any further material along the lines suggested in the enclosed list. However, to the extent that this is not the case, the Board may find it necessary at a later date to ask the cooperation of the Federal Reserve Bank of New York in undertaking to develop this information.
It is not suggested that your bank take any steps in this matter at the moment. Our purpose in submitting these proposed questions to you at this time is merely to acquaint you with the kind of information which our staff thinks would be appropriate and to solicit any comments you may wish to make with regard to them. The Board, of course, will not make a decision as to what specific questions will eventually be asked until after it is informed with respect to the extent the ground is covered by the information introduced into the record by the First National City Bank.

If upon later consideration of this matter, including a review of any views which you may submit, it appears to the Board to be desirable that any of the information called for by these questions be further developed, the Board will communicate with you and request that the task be undertaken as promptly as possible in order that the information which might be developed can be placed in the record of the proceeding, in which case it is highly probable that it will be necessary for a representative of your Bank to appear as a witness in the Hearing to give such information.

The Board appreciates the assistance that your Bank has heretofore given in connection with this matter and will again appreciate your cooperation and further help in the manner suggested.

Reference was made to the visit of officers of the Consumer Bankers Association to the Federal Reserve Building, scheduled for 2:30 this afternoon.

After a discussion of the arrangements which should be made, it was agreed that Governors Vardaman and Mills, along with appropriate members of the staff, would meet with the visiting group and that the meeting would begin at 2:00 p.m. if convenient to the visitors.

The members of the staff then withdrew and the Board went into executive session.
After the meeting the Vice Chairman informed the Secretary that at the executive session he had reported a telephone call from Chairman Perrin of the Federal Reserve Bank of Minneapolis in which the latter confirmed the decision of the directors of the Reserve Bank to accept the resignation of Mr. Powell as President as of a date later to be determined and that the directors desired, subject to approval by the Board, (1) to provide the same retirement benefits for Mr. Powell as he would be entitled to receive if he were 65 at the time of retirement and (2) to appoint Mr. Frederick L. Deming, who is now serving as First Vice President of the Federal Reserve Bank of St. Louis, as President of the Federal Reserve Bank of Minneapolis for the unexpired portion of the five-year term ending February 28, 1961, with salary at the rate of $30,000 per annum for the period ending December 31, 1957, the appointment and salary to be effective as of the date upon which Mr. Deming enters upon the performance of his new duties. Governor Balderston also said he had been authorized by the Board to inform Chairman Perrin that the Board would approve the appointment and salary for Mr. Deming, but that it would not be willing at this time to approve any departure from the rules and regulations of the Retirement System of the Federal Reserve Banks.

The meeting then adjourned.

[Signature]

Secretary