

Minutes for April 2, 1957

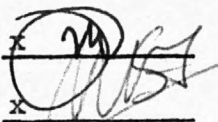
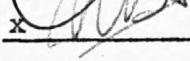
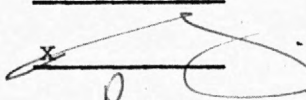
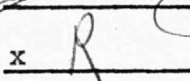
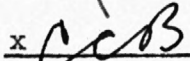
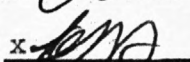
To: Members of the Board

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	<u>x</u> 	_____
Gov. Szymczak	<u>x</u> 	_____
<u>1/</u> Gov. Vardaman	_____	<u>x</u> _____
Gov. Mills	<u>x</u> 	_____
Gov. Robertson	<u>x</u> 	_____
Gov. Balderston	<u>x</u> 	_____
Gov. Shepardson	<u>x</u> 	_____

1/ In accordance with Governor Shepardson's memorandum of March 8, 1957, these minutes are not being sent to Governor Vardaman for initial.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, April 2, 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. Shepardson

Mr. Carpenter, Secretary
 Mr. Sherman, Assistant Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Riefler, Assistant to the Chairman
 Mr. Thomas, Economic Adviser to the Board
 Mr. Sloan, Director, Division of Examinations
 Mr. Hackley, General Counsel
 Mr. Molony, Special Assistant to the Board
 Mr. Horbett, Associate Director, Division of Bank Operations
 Mr. Noyes, Adviser, Division of Research and Statistics
 Mr. Masters, Associate Director, Division of Examinations
 Mr. Hostrup, Assistant Director, Division of Examinations
 Mr. Solomon, Assistant General Counsel
 Mr. Conkling, Assistant Director, Division of Bank Operations

Application for membership in the System (Item No. 1). There had been circulated to the members of the Board a memorandum from the Division of Examinations dated March 20, 1957, recommending favorable action on an application by The Twin City Bank, North Little Rock, Arkansas, for membership in the Federal Reserve System. The recommendation of the Federal Reserve Bank of St. Louis also was favorable.

Pursuant to these recommendations, unanimous approval was given to a letter to The Twin City Bank approving the application,

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for transmittal through the Federal Reserve Bank of St. Louis.

A copy of the letter is attached to these minutes as Item No. 1.

Application of First Old State Bank, Elkhart, Indiana, to establish a branch. This matter involved an application by the subject bank to establish a branch at 420 East Jackson Boulevard in Elkhart, principally to ease the congestion at its main office. However, a site for the branch had been chosen at a point where there was no apparent need for additional banking facilities, the area being served presently by existing offices of competing banks. In the circumstances, the Federal Reserve Bank of Chicago had recommended unfavorably, and the same recommendation also was made in a memorandum from the Division of Examinations dated February 26, 1957, which had been circulated to the members of the Board. A proposed letter to the applicant bank had been submitted which would state that the Board had concluded that it would not be justified in approving the application because of the absence of public need for additional banking facilities at the location of the proposed branch.

When the file was in circulation to the members of the Board, Governor Balderston indicated that he was not certain whether the proposed action was correct.

Governor Mills stated that he had somewhat the same feeling as Governor Balderston, even though favorable action would be contrary to the recommendation of the Federal Reserve Bank of Chicago.

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He said that if the decision on this application was adverse, a relatively small member bank would be precluded from operating in an area where it appeared that the city had experienced its greatest growth. If the applicant bank was willing to accept the risk of competing with the two larger banks which already maintain offices in the area, it appeared to him that perhaps the bank should be allowed to establish the proposed branch. He also noted that the unfavorable recommendation of the Chicago Reserve Bank in this admittedly borderline case represented an exercise of judgment, against which must be taken into account the conclusion reached in the discretion of the management of the applicant bank.

Mr. Sloan commented that the Division of Examinations had consulted with the Chicago Reserve Bank because the question was admittedly a close one. He said the Reserve Bank felt definitely that the applicant bank should be permitted to expand in order to relieve crowded conditions at its head office, but that the member bank had only a small amount of business originating in the area where it proposed to establish the branch. Therefore, the Reserve Bank concluded that the applicant bank was not likely to gain substantial relief from the current pressure at the main office. However, he said, the Division would be glad to review the matter further with the Reserve Bank if the Board so desired. As evidence of the borderline nature of the case, he cited the fact that the application was regarded unfavorably by the Indiana State banking superintendent but was approved by the State Banking Board.

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Thereupon it was agreed unanimously that the Division of Examinations should discuss the case further with the Chicago Reserve Bank on the basis that it was a questionable case, without giving the Reserve Bank any indication concerning the current views of the Board.

Annual reports of bank holding companies (Items 2, 3, and 4).

At its meeting on March 13, 1957, the Board approved Form F.R. Y-6 - Annual Report - for use pursuant to section 5(c) of the Bank Holding Company Act of 1956, subject to formal clearance of the form by the Bureau of the Budget. In this connection, the Board also approved an extension of time to July 1, 1957, for filing annual reports for the year 1956. Subsequent to the date of the Board's action, Budget Bureau approval was obtained and the forms had been printed. Accordingly, there had now been distributed to the members of the Board, with a memorandum from the Division of Examinations dated March 28, 1957, a draft of proposed letter to the Presidents of all Federal Reserve Banks advising of the forwarding of the annual report forms, the extension of time for filing of 1956 annual reports, and the steps to be taken in processing the reports. Also submitted were a draft of letter to the New York Reserve Bank with respect to annual reports by three foreign banks which are registered bank holding companies and a letter to the Boston Reserve Bank with respect to the annual report of the one bank holding company which is a nonmember, noninsured bank.

Following consideration of the information contained in the memorandum from the Division of Examinations, the Board approved unanimously the letters that had been submitted. Copies thereof are attached to these minutes as Items 2, 3, and 4, respectively.

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Mr. Hostrup then withdrew from the meeting.

Report on S. 1633 (Item No. 5). In a letter dated March 25, 1957, the Chairman of the Senate Banking and Currency Committee requested the Board's comments on bill S. 1633, introduced by Senator Sparkman, which would provide 100 per cent, 40-year, 4 per cent financing, through the Federal National Mortgage Association, for persons of "moderate" incomes and certain other specific groups. There had been sent to the members of the Board copies of a memorandum dated April 1, 1957, from Mr. Young, Director, Division of Research and Statistics, submitting a draft of proposed reply.

While there was no disagreement on the part of the Board with the substance of the proposed reply, Governor Mills suggested a rearrangement of the paragraphs which would give more prominence to the essential questions raised by the bill in terms of the Treasury's financing problems. He pointed out that the technical problems referred to in the draft of reply might be considered of lesser importance, because solutions to them conceivably could be found.

Agreement being expressed with the suggestion made by Governor Mills, unanimous approval was given to a letter to the Chairman of the Senate Banking and Currency Committee in the form attached to these minutes as Item No. 5.

Mr. Noyes then withdrew and Mr. Shay, Assistant Counsel, entered the room.

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Possible violation of Regulation U (Items 6, 7, and 8).

On March 11, 1957, the Board sent to the Federal Reserve Bank of New York and to the Department of Justice copies of a letter it had received from counsel for Fairbanks, Morse & Co., Chicago, Illinois, suggesting that there might have been a violation of Regulation U by Federation Bank & Trust Company of New York City in making loans to Penn-Texas Corporation on Fairbanks, Morse stock. The Board's letter asked the New York Reserve Bank to give this matter early attention and advise the Board if it found that violation of Regulation U appeared to have occurred.

Prior to this meeting there had been sent to the members of the Board copies of a memorandum from Messrs. Masters and Solomon dated March 27, 1957, discussing the New York Bank's reply of March 21, 1957, which set forth the results of the Bank's inquiry. It appeared that the borrower was not previously a customer of the member bank, but that the bank received a nonpurpose statement signed by the president and vice president of the borrower, and that the borrower indicated orally to the lending bank that the loan was for working capital purposes. While there might be some question as to the diligence exercised by the lending bank, there was no evidence in its records that would put the bank directly on notice that the proceeds of the loan were to be used for purchasing registered stocks. The memorandum from Messrs. Masters and Solomon also stated that a similar loan by an insured nonmember bank in New York City had been investigated by the Federal Deposit Insurance Corporation and

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that this loan appeared to have been made under similar circumstances. It was suggested that the Board might wish to furnish a copy of the New York Reserve Bank's letter to the Department of Justice, and also to the Securities and Exchange Commission as the agency having specific authority under the law to investigate a matter of this kind.

Following comments on the matter by Mr. Solomon and Mr. Masters, Governor Robertson expressed the view that the steps suggested in their memorandum should be taken. While this would not contemplate sending to the Justice Department and the Securities and Exchange Commission information concerning the investigation made by the Federal Deposit Insurance Corporation, Governor Robertson suggested sending to the Corporation a copy of the Board's letter to the Justice Department so that it might be on notice of the procedure that had been followed.

Governor Balderston indicated that he was not completely satisfied concerning the degree of diligence exercised by the lending member bank, and Governor Mills commented on this point by suggesting that Penn-Texas Corporation, a corporation engaged in numerous forms of activity, might well have drawn down its working capital in the course of its various financial transactions. If so, it might have been necessary for the corporation to replenish its working capital and technically this might have been the purpose of the loans in question. To put it another way, while there could well

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have been an evasion of Regulation U, it might be difficult to contend that the lending banks should have gone beyond the non-purpose statements. Since the previous correspondence on the matter had been sent to the Attorney General, he felt that the Reserve Bank's letter should now be sent also, so that the Justice Department might form its own opinion, and that the Securities and Exchange Commission likewise was entitled to the information in view of its responsibilities under the law.

At the conclusion of the discussion, unanimous approval was given to the letters of which copies are attached to these minutes as Items 6, 7, and 8.

Possible designation of Miami, Florida, as a reserve city.

On February 21, 1957, the Board acted to continue or terminate certain cities as reserve cities but deferred a final decision on the question whether Miami, Florida, should be designated as a reserve city. Pursuant to the Board's suggestion, the member banks in Miami subsequently submitted by letter dated March 8 a documented request that the Board exempt the city from classification as a reserve city at this time, subject to reconsideration at the next regular period of review. The request was based on the view that use of averages of call date figures in determining reserve city classifications under the Board's 1947 rule did not, in the case of Miami, provide a fair and accurate basis because of unusually

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wide seasonal swings in the city's economy and resultant wide deposit fluctuations. The letter pointed out that, whereas on the basis of call report figures the Miami member banks had interbank demand deposits during the two-year period ended June 30, 1956, amounting to .38 per cent of the total of such deposits held by all member banks, the ratio based on daily average figures was only .3076 per cent. Another letter, dated March 15, 1957, stated that representatives of the Miami member banks would like to make themselves available in Washington when the Board formally considered the question whether Miami should be designated as a reserve city.

A memorandum from Mr. Horbett dated March 20, 1957, copies of which had been distributed to the members of the Board, reported that computations made by the Federal Reserve Bank of Atlanta showed a daily average ratio only slightly different from the ratio computed by the Miami member banks. Therefore, if the Board should decide that the determination of the reserve city status of Miami should be based on daily average figures of interbank deposits during the two-year period ended June 30, 1956, Miami would not qualify for designation, the ratio based on such figures being definitely below the minimum ratio of $.33 \frac{1}{3}$ per cent prescribed by the applicable portion of the 1947 rule.

Mr. Horbett's memorandum suggested that daily figures would unquestionably provide a better basis than call date figures for determining the true level of deposits, but that their use would

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present certain operating problems. Since it had seemed possible to the Division of Bank Operations that some cities that heretofore qualified for reserve city designation or termination would not have similarly qualified on the basis of daily averages, a test was applied to three borderline cities other than Miami. The results showed that the status of those cities would not have been different had the daily average figures been used.

The memorandum then presented for the Board's consideration two possible alternative amendments to the 1947 rule, under either of which Miami would not qualify for reserve city designation at this time. One of these would provide that no additional city would be designated as a reserve city unless it met the standard prescribed in the 1947 rule on two consecutive triennial reviews, while the other would provide that no additional reserve city would be designated unless it met the requirements of the rule on the basis of daily average figures.

At the beginning of a discussion of the matter, question was raised whether it would be advisable to change the existing rule on the first occasion since 1947 when the Board was faced with a situation where application of the rule would result in the designation of an additional reserve city. To do so, it was suggested, might raise questions of unfairness in the use of the rule during the years since 1947.

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In commenting on this question and other relevant matters, Mr. Horbett pointed out that the only other time the Board had been faced with the designation of an additional reserve city under the rule was in 1947, when National City, Illinois, was designated as a reserve city effective March 1, 1948. While it was true that the Miami bankers should have been aware of the rule, there might be some question whether they actually had it in mind, since if they had they might have watched their interbank deposit levels more carefully. On the other hand, the city had of course been experiencing unusual growth and interbank deposits had been rising steadily. The greatest growth in such deposits had taken place in the first six months of 1956 and end-of-year call report figures were very high, possibly reflecting seasonal factors along with "window dressing".

Mr. Horbett then recalled that during recent discussions by the Board concerning reserve city designations, there had appeared to be an indication that some members of the Board favored the use of procedures under which reserve city designations would remain relatively stable. He believed that the suggested alternative amendments to the rule would have such an effect.

Mr. Thomas, who was called upon for comment, expressed the view that as a statistical procedure the daily average computation would have to be regarded as more justifiable on any technical grounds. The call dates are not uniform and at least two of the calls are

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subject to manipulation by the reporting banks. He went on to suggest several possible variations to the proposed alternative amendments to the 1947 rule, stating that the call report figures could continue to be used as a rough approximation in obvious cases and could be supplemented by the daily averages in borderline situations. Another possibility would be to use the call report figures unless tentative action by the Board resulted in a request from affected member banks that the daily average figures be used as a secondary measurement. If the Board should prefer to continue use of the call report figures, he felt that something might be said for basing the Board's rule on figures for each of five consecutive years.

The Chairman then called upon the members of the Board for their views, and Governor Robertson expressed a preference for making no change in the present rule. Pointing out that this was really the first test of the rule, he asked what the Board would do if it changed the rule and was later confronted with other problems. While admitting that the daily averages might provide a better basis of measurement than the call report figures, he felt that the difficulties involved in changing the rule would outweigh the difficulties in adhering to the present rule for the time being. With regard to the Miami situation, he would be inclined to follow a lenient policy so as to help the member banks in that city to adjust to the higher level of required reserves, but he would act within the framework of the existing rule.

Governor Mills took a different position, stating that he

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would favor adoption of the first alternative suggested in Mr. Horbett's memorandum in the belief that it offered the simplest and most effective solution to the problem. This would give a three-year advance notice to the Miami banks concerning the classification of the city for reserve purposes if adjustments were not made in the interim. In view of the work that would be necessary at the Reserve Banks if the daily average basis was used, he would favor continuing to use the call report figures and would regard them as adequate. In addition, there was the possibility that within the next three years a different formula for the computation of reserve requirements might be put into effect.

Governor Shepardson also took a position in favor of the first alternative amendment to the rule. While he granted the greater accuracy of the daily average figures, he brought out that the formula as adopted originally by the Board involved the establishment of an arbitrary standard and he saw no compelling reason to change at this time. The first alternative, he pointed out, would have the added advantage of providing assurance that a city was clearly within the prescribed standard for classification as a reserve city over a substantial period of time, thus tending to lessen the possibility that an inappropriate designation would be made on the basis of short-term fluctuations. Since the amendment would represent in effect a relaxation of the present rule, he saw no strong reason for

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advance publication in the Federal Register. On the other hand, he would have no substantial objection to such publication if it was considered desirable from a legal or policy standpoint.

Governor Szymczak recalled the lengthy deliberations by the Board prior to adoption of the 1947 rule and went on to express doubt regarding the advisability of changing the rule on the first occasion when any significant question had been raised. No matter what changes were made in the rule, he thought that problems were likely to arise in the application of the formula. He suggested that the Miami bankers be permitted to meet with the Board to express their views, and if the designation of Miami as a reserve city was made, he would favor accommodating the Miami banks as much as possible in adjusting to the new reserve requirements.

Governor Balderston suggested that the activities of one Miami bank, known to be of concern to the other banks in the city, might have contributed substantially to the present situation. If such was the case, he would be inclined to support the position stated by Governor Mills.

In response to the question raised by Governor Balderston, Mr. Horbett reviewed the growth in interbank demand deposits at the principal Miami member banks, from which it appeared that the recent growth of such deposits at the bank mentioned by Governor Balderston had been substantial but that there had also been growth at other banks, in one case exceeding the dollar increase at the bank referred to by a considerable amount.

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In further discussion, Chairman Martin stated that he leaned toward adoption of the first alternative amendment. However, since there appeared to be a substantial difference of opinion within the Board, he expressed doubt whether the Board should attempt to act at this time. At the same time, he recognized the time factor involved, particularly if it should be decided to publish a proposed amendment to the 1947 rule in the Federal Register. In the circumstances, he suggested that Mr. Thomas be requested to submit a memorandum for the Board's further study based on his comments at this meeting, and that an invitation be extended to the Miami bankers to have their representatives meet with the Board and present the banks' views at the earliest mutually convenient date.

There was unanimous agreement with the procedure proposed by Chairman Martin. In this connection, it was understood that President Bryan of the Federal Reserve Bank of Atlanta would be invited to attend the meeting of the Board when the Miami bankers were present.

Proposed changes in the Retirement System of the Federal Reserve Banks. Chairman Martin stated that President Johns, who met with the Board on March 26, 1957, to discuss questions of procedure relating to further consideration by the Board of the proposed changes in the Bank Plan of the Retirement System, called on the telephone this morning and said he was finding it difficult to arrange a date in the

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near future when members of the Special Joint Committee concerned with this subject would be available. However, Mr. Johns could meet with the Board if the Board so desired.

It was noted that three members of the Board would be absent on Thursday and four on Friday of this week, but that all members except Governors Vardaman and Shepardson were scheduled to be present most of next week. In this connection, Governor Shepardson suggested that the Board arrange a meeting with Mr. Johns in his absence. He also said that in his present thinking, he would be inclined to accept the proposals of the Special Joint Committee.

Accordingly, it was agreed to invite President Johns to meet with the Board on Monday or Tuesday of next week.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board a letter to the Federal Reserve Bank of San Francisco approving the appointment of Jack A. Byers as an assistant examiner. A copy of the letter is attached to these minutes as Item No. 9.

Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson also approved on behalf of the Board today the following actions with respect to members of the Board's staff:

Salary increases, effective April 7, 1957

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
	<u>Research and Statistics</u>		
Lucile MacLean, Librarian		\$4,795	\$4,930

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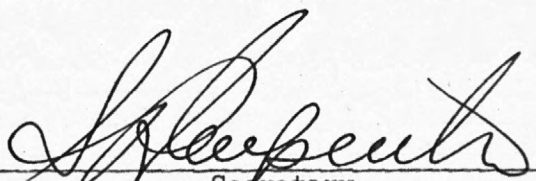
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Salary increases, effective April 7, 1957 (continued)

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>Research and Statistics</u>			
Lyndall C. McCloud, Economist		\$7,785	\$8,000
Laura B. Robinson, Clerk		3,670	3,755
<u>Examinations</u>			
Jerry B. Riley, Assistant Federal Reserve Examiner		5,440	5,575
<u>International Finance</u>			
Mary F. Miller, Statistical Assistant		4,345	4,480
<u>Administrative Services</u>			
J. Frank Bell, Head Chauffeur		4,210	4,345
Herbert E. Haney, Operator, Tabulating Equipment		4,215	4,350
Abner Thompson, Mail Clerk		3,385	3,470

Acceptance of resignation

Janet Weeks, Clerk in the Division of Bank Operations, effective April 5, 1957.


Secretary

Item No. 1
4/2/57

April 2, 1957

Board of Directors,
The Twin City Bank,
North Little Rock, Arkansas.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the application of The Twin City Bank, North Little Rock, Arkansas, for stock in the Federal Reserve Bank of St. Louis, subject to the numbered conditions hereinafter set forth:

1. Such bank at all times shall conduct its business and exercise its powers with due regard to the safety of its depositors, and, except with the permission of the Board of Governors of the Federal Reserve System, such bank shall not cause or permit any change to be made in the general character of its business or in the scope of the corporate powers exercised by it at the time of admission to membership.
2. The net capital and surplus funds of such bank shall be adequate in relation to the character and condition of its assets and to its deposit liabilities and other corporate responsibilities.

In connection with the foregoing conditions of membership, particular attention is called to the provisions of the Board's Regulation H, as amended effective September 1, 1952, regarding membership of State banking institutions in the Federal Reserve System, with especial reference to Section 7 thereof. A copy of the regulation is enclosed.

If at any time a change in or amendment to the bank's charter is made, the bank should advise the Federal Reserve Bank, furnishing copies of any documents involved, in order that it may be determined whether such change affects in any way the bank's status as a member of the Federal Reserve System.

Acceptance of the conditions of membership contained in this letter should be evidenced by a resolution adopted by the Board of Directors and spread upon its minutes, and a certified copy of such resolution should be filed with the Federal Reserve Bank. Arrangements will thereupon be made to accept payment for an appropriate

The Twin City Bank

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amount of Federal Reserve Bank stock, to accept the deposit of the required reserve balance, and to issue the appropriate amount of Federal Reserve Bank stock to the bank.

The time within which admission to membership in the Federal Reserve System in the manner described may be accomplished is limited to 30 days from the date of this letter, unless the bank applies to the Board and obtains an extension of time. When the Board is advised that all of the requirements have been complied with and that the appropriate amount of Federal Reserve Bank stock has been issued to the bank, the Board will forward to the bank a formal certificate of membership in the Federal Reserve System.

The Board of Governors sincerely hopes that you will find membership in the System beneficial and your relations with the Reserve Bank pleasant. The officers of the Federal Reserve Bank will be glad to assist you in establishing your relationships with the Federal Reserve System and at any time to discuss with representatives of your bank means for making the services of the System most useful to you.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

Enclosure.

Item No. 2
4/2/57

S-1626

April 2, 1957

Dear Sir:

There is enclosed a copy of Form F.R. Y-6, Annual Report, which has been adopted by the Board of Governors, and which is to be submitted by all bank holding companies. A supply of the form is being sent to you under separate cover, and additional copies are, of course, available on request.

The Board has extended the time within which bank holding companies shall file their annual reports covering the year 1956 to July 1, 1957, in order to give them approximately three months from the date of receipt of the form in which to prepare and file such reports. Please inform the holding companies in your district of the Board's action at the time of forwarding the forms for completion and filing.

Annual reports are to be requested from only those bank holding companies which have registered with the Board and are presently bank holding companies. It is not deemed necessary to obtain reports from companies which have terminated their status as bank holding companies either prior to or after December 31, 1956.

It is requested that the annual reports be processed by your Bank in the same manner as the previous annual reports of "holding company affiliates." This contemplates that one copy of each report will be forwarded to the Board immediately after receipt by your Bank, to be followed as soon as possible by such additional data and explanations as you may find it necessary to obtain from the respective bank holding companies to complete or correct their reports. It is contemplated also that, when your Bank has analyzed and reviewed the reports of examination by the supervisory authorities of the banks and other organizations in each group, and has completed the review of each report filed by a bank holding company, a copy of the memorandum relating to the review will be forwarded to the Board, together with any recommendations, comments, or suggestions which you may have regarding each case.

In the past, the Board has issued a specific request each year that the Reserve Banks obtain annual reports from holding company

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affiliates. In view of the provisions of section 8 of Regulation Y, such annual requests will not be made regarding the reports of bank holding companies on Form F.R. Y-6.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Item No. 3
4/2/57

April 2, 1957

Mr. R. B. Wiltse, Vice President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Wiltse:

This refers to the annual reports (Form F.R. Y-6) to be filed by foreign banks which are bank holding companies; namely, Bank of Montreal, Montreal, Canada, The Canadian Bank of Commerce, Toronto, Canada, and The Bank of Tokyo, Ltd., Tokyo, Japan.

It is deemed advisable that the instructions for the preparation of the annual reports to be filed by the aforementioned bank holding companies should be changed in certain respects as follows: (1) in lieu of the balance sheet, statement of income, and analyses of surplus and reserve accounts, there may be substituted similar financial statements and information in the form usually followed by the respective bank holding companies; (2) Schedule A may be limited to voting shares; (3) Schedule B may be omitted; (4) Schedules F and G may be limited to amounts due to subsidiaries; and (5) Item 1 of Supplemental Information may be omitted, and Item 2(a) may be limited to companies owning 25 per cent or more of the outstanding voting shares of the bank holding company.

At the time of forwarding the annual report forms to the three bank holding companies named, please advise them accordingly.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.

Item No. 4
4/2/57

April 2, 1957

Mr. E. O. Latham, Vice President,
Federal Reserve Bank of Boston,
Boston 6, Massachusetts.

Dear Mr. Latham:

This refers to your letter of January 9, 1957, regarding Form F.R. Y-6, in which you raised a question as to the need for modifying some of the requirements of the form in connection with the annual report to be filed by Eastern Trust & Banking Company, Bangor, Maine.

In view of the fact that the aforementioned bank holding company is a noninsured bank, the instructions for the preparation of its annual report should be changed in certain respects as follows: (1) there may be substituted for the balance sheet and statement of income, copies of the report of condition as of the end of the calendar year and the earnings and dividends report for the calendar year, which have been filed with the State supervisory authority; (2) the analyses of surplus, undivided profits, and each unallocated reserve account may include in summary form only such analyses as are not shown in its earnings and dividends report; (3) Schedule A may be limited to a grouping of securities by classes, other than voting shares which should be shown in detail; (4) Schedule B may be omitted; and (5) Schedule G may be limited to amounts due to subsidiaries.

Please advise the bank holding company of these revised instructions at the time the form is forwarded to it for filing.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.

Item No. 5
4/2/57

April 2, 1957

The Honorable J. W. Fulbright, Chairman,
Senate Committee on Banking and Currency,
United States Senate,
Washington 25, D. C.

Dear Senator Fulbright:

This is in response to your request of March 25 for the views of the Board of Governors on the bill S. 1633 now before the Committee on Banking and Currency.

This bill is designed to place five enumerated groups in the population in a position to obtain what amounts to direct financing of house construction and purchase from the Federal Treasury on terms considerably more favorable than are currently available in the private market.

Apart from the technical problems involved in the specific approach proposed in this bill, the Board would urge that your Committee give special consideration to any legislation which will increase the Treasury's financing problems in the period immediately ahead. The large demands for loanable funds for all purposes and the volume of financing which the Treasury must carry out simply to maintain the huge Federal debt outstanding make it essential that additional borrowing be held to an absolute minimum if we are to avoid further tightening and congestion in the capital markets.

A major technical problem would be that future ownership or occupancy of properties built under the proposed program could not be restricted to the enumerated groups without creating grave legal problems about real estate titles. The result would be likely to be, therefore, that properties would be built in technical compliance with the regulations governing the program, and then sold or rented in the best market without necessarily benefiting the enumerated groups. Evidence that this is happening under the provisions of section 221 of the National Housing Act now in effect, is contained in an article in the current issue of the Journal of Homebuilding, published by the National Association of Home Builders.

Experience with the special mortgage insurance programs in recent years has not been wholly satisfactory, quite apart from judgments about the objectives sought. These schemes have cost a good deal,

The Honorable J. W. Fulbright

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not only in money directly, but in respect for the integrity of the Government-aided housing program as a whole.

Before going ahead with a further extension of this approach to the subsidization of housing for selected groups, it might be well to study the economic history of properties and projects financed under several of the special programs that have been in effect in the past fifteen years.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Item No. 6
4/2/57

April 3, 1957

The Honorable
Herbert Brownell, Jr.,
Attorney General of the United States,
Washington 25, D. C.

Dear Mr. Brownell:

It may be recalled that on March 11, 1957, the Board forwarded to you correspondence regarding a possible violation of Regulation U by the Federation Bank & Trust Co., and Commercial State Bank and Trust Company of New York, both banks being located in New York City. For your further information in connection with this matter, there are attached copies of the following:

1. Letter dated March 21, 1957, from the Federal Reserve Bank of New York to the Board of Governors.
2. Letter of today's date to the Securities and Exchange Commission forwarding copies of correspondence regarding this matter.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Enclosures

Item No. 7
4/2/57

April 3, 1957

The Honorable
J. Sinclair Armstrong, Chairman,
Securities and Exchange Commission,
Washington 25, D. C.

Dear Mr. Armstrong:

There are enclosed for your information copies of the following:

1. Letter of February 26, 1957, to the Board of Governors from Mr. W. D. Randolph, Counsel for Fairbanks, Morse & Co., regarding possible violations of Regulation U by the Federation Bank & Trust Co., and Commercial State Bank and Trust Company of New York, both banks being located in New York City.
2. Reply dated March 1, 1957, from Mr. W. M. Taylor, Deputy Comptroller of the Currency to Mr. Randolph.
3. Letter of March 11, 1957, from the Board of Governors to Mr. Randolph acknowledging receipt of his letter.
4. Letter of March 11, 1957, from the Board of Governors to the Federal Reserve Bank of New York forwarding copies of this correspondence for its information in connection with Federation Bank & Trust Co. (a State member bank).
5. Letter of March 11, 1957, from the Board of Governors to the Federal Deposit Insurance Corporation forwarding copies of the above correspondence for its information in connection with Commercial State Bank & Trust Co. (an insured nonmember bank).
6. Letter of March 11, 1957, from the Board of Governors to the Department of Justice forwarding copies of the above correspondence.
7. Letter of March 21, 1957, to the Board from the Federal Reserve Bank of New York.
8. Letter of today's date from the Board to the Department of Justice forwarding a copy of the letter of March 21, 1957, from the Federal Reserve Bank of New York.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.

Enclosures

Item No. 8
4/2/57

April 3, 1957

The Honorable
H. Earl Cook,
Chairman,
Federal Deposit Insurance Corporation,
Washington 25, D. C.

Dear Mr. Cook:

It may be recalled that on March 11, 1957, the Board forwarded to you correspondence regarding possible violation of Regulation U by Federation Bank & Trust Co., and Commercial State Bank and Trust Company of New York, both banks being located in New York City.

For your further information in connection with this matter there are attached copies of the following.

1. Letter dated March 21, 1957, from the Federal Reserve Bank of New York to the Board of Governors.
2. Letter of today's date forwarding to the Department of Justice a copy of the above letter.
3. Letter of today's date to the Securities and Exchange Commission forwarding copies of correspondence regarding this matter.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.

Enclosures

Item No. 9
4/2/57

April 2, 1957

Mr. R. H. Morrill, Vice President,
Federal Reserve Bank of San Francisco,
San Francisco 20, California.

Dear Mr. Morrill:

In accordance with the request contained in your letter of March 26, 1957, the Board approves the appointment of Jack A. Byers as an assistant examiner for the Federal Reserve Bank of San Francisco.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.