Minutes for April 10, 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.

Chm. Martin
Gov. Szymczak x

1/ Gov. Vardaman x
Gov. Mills x
Gov. Robertson x
Gov. Balderston x
Gov. Shepardson x

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 Wednesday, April 10, 1957. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Riefker, Assistant to the Chairman
Mr. Thomas, Economic Adviser to the Board
Mr. Leonard, Director, Division of Bank Operations
Mr. Young, Director, Division of Research and Statistics
Mr. Hackley, General Counsel
Mr. Cherry, Legislative Counsel
Mr. Noyes, Adviser, Division of Research and Statistics

Items circulated to the Board. The following items, which had been circulated to the members of the Board and copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:

Letter to the Federal Reserve Bank of Chicago approving the appointment of Percival R. Guilder as Federal Reserve Agent’s Representative at the Detroit Branch.  

Letter to Bristol County Trust Company, Taunton, Massachusetts, approving the establishment of a branch on the eastern side of Broadway opposite Avon Street. (For transmittal through the Federal Reserve Bank of Boston.)

Letter to Dauphin Deposit Trust Company, Harrisburg, Pennsylvania, consenting to a merger with Carlisle Trust Company, Carlisle, Pennsylvania, and approving
the establishment of a branch at the present office of Carlisle Trust Company. (For transmittal through the Federal Reserve Bank of Philadelphia.)

Letter to The Union Commerce Bank, Cleveland, Ohio, approving the establishment of a branch at 2800 Euclid Avenue and the investment of not to exceed $125,000 in leasehold improvements at the proposed branch. (For transmittal through the Federal Reserve Bank of Cleveland.)

Letter to The Planters Bank of Bridgewater, Bridgewater, Virginia, approving the establishment of a branch in Dayton, Virginia. (For transmittal through the Federal Reserve Bank of Richmond.)

Letter to Burke State Bank, Burke, South Dakota, regarding the termination of the reserve city designation of Sioux City, Iowa. (With a copy to the Federal Reserve Bank of Chicago.)

Letter to the Federal Reserve Bank of Dallas extending the time within which Southern Arizona Bank and Trust Company, Tucson, Arizona, may establish a branch in the vicinity of Swan Road and Broadway, Tucson, Arizona.

Letter to California Bank, Los Angeles, California, approving the establishment of a branch in Tustin, California. (For transmittal through the Federal Reserve Bank of San Francisco.)

Letter to State Bank of Suffolk, Bay Shore, New York, approving the establishment of a branch at Ocean Beach, New York, to be operated as a seasonal agency. (For transmittal through the Federal Reserve Bank of New York.)

Letters to the Federal Reserve Banks of New York and Atlanta regarding the selection of two staff members from New York and one from Atlanta for a mission to Viet-Nam.

Telegram to the Federal Reserve Bank of San Francisco interposing no objection to calling for bids for construction of a new building for the Salt Lake City Branch.

Report on S. 1694 (Item No. 13). There had been sent to the members of the Board copies of a memorandum from Mr. Young dated April 9,
4/10/57

1957, commenting on the provisions of the subject bill, which would establish a National Mortgage Corporation to make mortgage loans to organizations and corporations authorized to provide housing for families and individuals of moderate income and for elderly persons. The Corporation would also be empowered to make mortgage loans directly to persons of moderate income purchasing houses in developments built under commitments by the Federal Housing Administration for insurance of the mortgages. The Corporation would obtain $100 million of capital from the Treasury on preferred stock, the rest of its capital would come from its corporate borrowers, and it would be authorized to issue its obligations in an aggregate annual amount not to exceed $500 million. With the memorandum from Mr. Young, there was submitted a draft of proposed letter to the Chairman of the Senate Banking and Currency Committee in response to his request for the Board's comments on the bill.

Following a discussion, unanimous approval was given to the Proposed letter in the form in which it was submitted. A copy is attached to these minutes as Item No. 13.

Report on S. 912 (Item No. 14). This bill would authorize the Federal National Mortgage Association to purchase, or commit to purchase, at par, $3 billion of mortgage loans insured under Title II of the National Housing Act or guaranteed under the Servicemen's Readjustment Act. Eligible loans would bear interest at no more than 4-1/2 per cent per annum, and would be no larger than $14,000. The comments of the Board had been
requested by the Senate Banking and Currency Committee and a draft of a proposed reply to the Chairman of the Committee had been distributed to the members of the Board.

Agreement being expressed with the approach taken in the proposed reply, the letter was approved unanimously in the form submitted. A copy is attached to these minutes as Item No. 14.

The meeting then adjourned.

Secretary's Note: Pursuant to the recommendation contained in a memorandum dated April 4, 1957, from Mr. Johnson, Director, Division of Personnel Administration, Governor Balderston, acting as alternate to Governor Shepardson, approved on behalf of the Board on April 9, 1957, acceptance of the resignation of Lacuta Gasser, Clerk-Typist in that Division, effective April 14, 1957.
April 10, 1957

Mr. Bert R. Prall, Chairman,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Prall:

In accordance with the action taken by the Board of Directors as reported in Mr. Dawes’ letter of February 25, 1957, the Board of Governors approves the appointment of Mr. Percival R. Guilder as a Federal Reserve Agent’s Representative at the Detroit Branch, effective today, to succeed Mr. John T. Neale upon his retirement on July 1, 1957.

This approval is given with the understanding that Mr. Guilder will be solely responsible to the Federal Reserve Agent or, during a vacancy in the office of the Federal Reserve Agent, to the Assistant Federal Reserve Agent, and to the Board of Governors, for the proper performance of his duties. When not engaged in the performance of his duties as Federal Reserve Agent’s Representative, he may, with the approval of the Federal Reserve Agent or, in his absence, of the Assistant Federal Reserve Agent, and the Vice President in charge of the Detroit Branch, perform such work for the Branch as will not be inconsistent with his duties as Federal Reserve Agent’s Representative.

It is assumed that Mr. Guilder has been or will be fully informed of the importance of his responsibilities as a member of the staff of the Federal Reserve Agent and the need for maintenance of independence from the operations of the Bank in the discharge of these responsibilities.

Mr. Guilder should execute the usual oath of office which should be forwarded to the Board of Governors.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.
April 10, 1957

Board of Directors,
Bristol County Trust Company,
Taunton, Massachusetts.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Boston, the Board of Governors of the Federal Reserve System approves the establishment of a branch on the eastern side of Broadway opposite Avon Street, Taunton, Massachusetts, by Bristol County Trust Company, Taunton, Massachusetts, provided the branch is established within six months from the date of this letter and the approval of the State authorities is in effect as of the date of the establishment of the branch.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.
April 10, 1957

Board of Directors,
Dauphin Deposit Trust Company,
Harrisburg, Pennsylvania.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Philadelphia, the Board of Governors of the Federal Reserve System hereby gives its written consent under the provisions of Section 18(c) of the Federal Deposit Insurance Act to the merger of Dauphin Deposit Trust Company, Harrisburg, Pennsylvania, with Carlisle Trust Company, Carlisle, Pennsylvania, and approves the establishment of a branch by Dauphin Deposit Trust Company at the present office of Carlisle Trust Company, 2 West High Street, provided the merger is effected substantially in accordance with the joint plan of merger dated May 28, 1956, and the merger and establishment of the branch are completed within six months from the date of this letter.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.
April 10, 1957

Board of Directors,
The Union Commerce Bank,
Cleveland, Ohio.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Cleveland, the Board of Governors of the Federal Reserve System approves the establishment of a branch at 2800 Euclid Avenue, Cleveland, Ohio, by The Union Commerce Bank, Cleveland, Ohio, provided the branch is established within nine months from the date of this letter and the approval of the State authorities is in effect as of the date of the establishment of the branch.

The Board of Governors also approves, under the provisions of Section 21A of the Federal Reserve Act, the investment of not to exceed $125,000 in leasehold improvements at the proposed branch.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.
April 10, 1957

Board of Directors,
The Planters Bank of Bridgewater,
Bridgewater, Virginia.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Richmond, the Board of Governors of the Federal Reserve System approves the establishment of a branch on Main Street, Dayton, Virginia, by The Planters Bank of Bridgewater, Bridgewater, Virginia, provided the branch is established within six months from the date of this letter, and the approval of the State authorities is in effect as of the date of the establishment of the branch.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.
April 10, 1957

Mr. L. L. Lillibridge, President,
Burke State Bank,
Burke, South Dakota.

Dear Mr. Lillibridge:

This refers to your letter of March 20 relative to the termination on March 1, 1957, of the reserve city designation of Sioux City, Iowa.

The provision that an existing reserve city may be continued as such, upon unanimous request of the member banks in the city, even if the city does not meet the standards prescribed for the reserve city designation, is one of the provisions included in the rule regarding classification of central reserve and reserve cities adopted by the Board on December 19, 1947. This rule also provides for a triennial designation of reserve cities.

Prior to the adoption of the rule, the Board published in the Federal Register on October 24, 1947, notice of a proposed action with respect to the classification of cities as reserve and central reserve cities and the termination of the designation of certain reserve cities. This notice stated that interested persons might submit to the Board written data, views, and arguments with respect to the proposal. Accordingly, a number of banks submitted letters expressing their views and comments. In addition, representatives of banks in a number of the cities whose status would be affected by the proposal appeared before the Board and made an oral presentation of their views. In the course of the presentation of these views, it was suggested by the representatives of the member banks that, since certain cities then classified as reserve cities had held their status for many years, such cities be continued as reserve cities if all the member banks in the respective cities requested that this be done. The proposal in the form in which it was prescribed in the Federal Register was amended to meet this suggestion. The requirement that such a request must have unanimous support appeared justifiable on the ground that if a city did not meet the standards prescribed, it would be unfair to request any bank in such a city to maintain the higher reserves against its will.
The Board is fully appreciative of the desires of individual member banks for whatever reserve status they deem would best enable them to serve their communities and trade areas. There is no provision of law, however, under which the Board could classify individual banks for reserve purposes. The Board is empowered merely to classify a city as a central reserve city or a reserve city, or to terminate such classification. Whatever the classification, it has to apply to all member banks in the city, the only exception being that the Board of Governors may, upon affirmative vote of five members of the Board, permit a bank in an outlying district of a reserve city to maintain the reserve requirements applicable to "country" banks, and it may permit a member bank in an outlying district of a central reserve city to maintain the reserve requirements applicable to either reserve city banks or "country" banks.

With regard to your statement that the termination of Sioux City as a reserve city is a backward step so far as the over-all area is concerned, it might be pointed out that member banks located in cities whose reserve city designations were terminated in earlier years, e.g., Lincoln, Nebraska, and St. Joseph, Missouri, appear to have lost no appreciable proportion of their deposits due to correspondent banks, nor do their other deposits appear to have suffered in comparison with those of reserve cities in their general area.

Very truly yours,

(signed) S. R. Carpenter

S. R. Carpenter,
Secretary.
April 10, 1957

Mr. L. G. Pondrom, Vice President,
Federal Reserve Bank of Dallas,
Dallas 13, Texas.

Dear Mr. Pondrom:

As recommended in your letter of March 29, 1957, the Board of Governors extends to June 25, 1957, the time within which the Southern Arizona Bank and Trust Company, Tucson, Arizona, may establish a branch in the vicinity of Swan Road and Broadway, Tucson, Arizona.

This extension is granted with the continuing understanding that the branch will be established as a successor to the branch now operating at Alvernon and Broadway, Tucson, Arizona.

Please advise the bank of the Board's action.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.
Board of Directors,  
California Bank,  
Los Angeles, California.  

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of San Francisco, the Board of Governors approves the establishment of a branch in Tustin, Orange County, California, by California Bank, Los Angeles, California, provided the branch is established within six months from the date of this letter and that formal approval of the Superintendent of Banks of the State of California is effective at the time the branch is established.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Assistant Secretary.
April 10, 1957

Board of Directors,
State Bank of Suffolk,
Bay Shore, New York.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors of the Federal Reserve System approves the establishment of a branch of State Bank of Suffolk, Bay Shore, New York, in the Community House Building of the Incorporated Village of Ocean Beach, Fire Island, Suffolk County, New York, provided such branch is operated only as a seasonal agency within the period from the first Monday in May until the first Friday in October each year beginning with the calendar year 1957.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.
April 10, 1957

Mr. Alfred Hayes, President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Hayes:

As stated in your letter of March 29, the National Bank of Viet-Nam has requested the Federal Reserve System to provide the services of three banking specialists for a period up to two months (plus travel time) for control of cash, for handling credits, and for general economic advice.

I am glad to inform you that the Board of Governors has acted favorably on this request. We have also obtained the concurrence of the Department of State to this technical assistance project. In accordance with established procedures for staffing foreign missions, the following personnel have been selected for this assignment:

- **cash man** - Mr. C. Mason Ford, Assistant Cashier, Federal Reserve Bank of Atlanta, Jacksonville Branch.
- **credit man** - Mr. C. R. Athern, Special Assistant in Foreign Department, Federal Reserve Bank of New York.
- **economist** - Mr. Frank Schiff, Chief, Domestic Research Division, Federal Reserve Bank of New York.

The Federal Reserve Bank of Atlanta has made Mr. Ford available for this assignment, and it is understood that Messrs. Schiff and Athern of your Bank are likewise available.

It is our understanding that your Bank will work out the necessary administrative arrangements for the assignment, that the salaries of the men will be paid by the Reserve Banks concerned, and that the National Bank of Viet-Nam will pay travel and local currency expenses.

Sincerely yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.
April 10, 1957

Mr. Malcolm Bryan, President,
Federal Reserve Bank of Atlanta,
Atlanta 3, Georgia.

Dear Mr. Bryan:

The National Bank of Viet-Nam has requested the Federal Reserve System to provide the services of three banking specialists for a period up to two months (plus travel time) for control of cash, for handling credits, and for general economic advice.

I am glad to inform you that the Board of Governors has acted favorably on this request. We have also obtained the concurrence of the Department of State to this technical assistance project. In accordance with established procedures for staffing foreign missions, the following personnel have been selected for this assignment:

- cash man - Mr. C. Mason Ford, Assistant Cashier
  Federal Reserve Bank of Atlanta,
  Jacksonville Branch.

- credit man - Mr. C. R. Athern, Special Assistant
  in Foreign Department, Federal Reserve
  Bank of New York.

- economist - Mr. Frank Schiff, Chief, Domestic
  Research Division, Federal Reserve
  Bank of New York.

The Federal Reserve Bank of New York has made Messrs. Schiff and Atherm available for this assignment, and it is understood that Mr. Ford of your Bank is likewise available.

It is our understanding that your Bank will work out the necessary administrative arrangements for the assignment, that the salaries of the men will be paid by the Reserve Banks concerned, and that the National Bank of Viet-Nam will pay travel and local currency expenses.

Sincerely yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.
Telegram

April 10, 1957

Mangels - San Francisco

Board interposes no objection to your Bank’s calling for bids for construction of a new building for the Salt Lake City Branch on the basis of plans and specifications referred to in your letter of March 21, 1957.

In accordance with customary procedures, a summary report of the bids should be forwarded to the Board together with recommendation of the Bank as to acceptance.

(Signed) S. R. Carpenter

CARPENTER.
April 10, 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 27 for the views of the Board of Governors on S. 1694, "relating to the provision of housing for moderate income families and for elderly persons."

This bill would not only introduce a new Federal agency into the field of housing and mortgage finance, but would also involve a fundamental change in the mechanisms by which aid is extended in this field. The area of Federal assistance rendered by the new corporation would substantially overlap areas presently covered by FHA programs and the mortgage acquisition authority of FNMA.

While the bill provides for some investment of private capital, largely on an instalment basis, its initial capital would come from the United States Treasury and its operations would generate what are essentially United States Government guaranteed securities. Thus, the establishment of such a corporation would involve both an immediate cash outlay and an additional strain on the market for guaranteed obligations.

The basic approach embodied in this bill is to use money borrowed with the benefit of the United States Government's guarantee to finance the full amount of costs of construction (including a reasonable profit) in return for a commitment to reserve the resultant construction for the use of certain specified groups in the population. In a sense it can be said to carry over the familiar cost-plus approach to the field of housing. In our judgment there is serious question that, despite the safeguards enumerated in the bill, this approach would lead to economies in the production of essential housing. Experience with cost-plus contracting in the past has generally tended in the opposite direction.

The bill would also make housing available to the ultimate occupant on the basis of lower downpayments and longer maturities than have been available to any substantial segment of the population in the past and probably more liberal than could be obtained in the market, even with the benefit of FHA insurance. There is at least a question as to whether the Government should sponsor the sale of property to elderly persons on terms which might well involve mortgage
amounts outstanding, over a considerable part of the life of the mortgage, which would be in excess of the current value of the underlying property. Prudent assumptions with respect to obsolescence and depreciation suggest that this might well be true of properties constructed under the provisions of the proposed bill.

From a technical standpoint the bill has been skillfully drafted and avoids certain technical difficulties which have been associated with legislation directed to the same general purposes in the past. If enacted, this legislation would almost certainly stimulate a substantial amount of construction. There is serious question, however, as to whether the economies envisaged by the bill would be realized and whether the ultimate cost to the consumer might not be higher than under alternative programs of Government assistance.

If the Congress is favorably disposed toward the establishment of a Commission on National Housing Policy, along the lines of S. 1711, consideration of a new federally-sponsored mortgage financing facility and such a drastic change in the basic approach to Federal aid to housing might well await the recommendations of such a Commission.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.
April 10, 1957

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

Dear Senator Fulbright:

This is in response to your request for the views of the Board of Governors on S. 912. This bill would authorize the Federal National Mortgage Association to purchase, or commit to purchase, at par, $3 billion of mortgage loans insured under Title II of the National Housing Act or guaranteed under the Servicemen's Readjustment Act. Eligible loans would bear interest at no more than 4-1/2 per cent per annum, and would be no larger than $14,000.

In effect, this is a plan for the Treasury, acting through the Federal National Mortgage Association, to make direct mortgage loans on terms that are out of touch with market realities. If enacted, it would add $3 billion to Treasury cash expenditures, to Treasury borrowing, and to the public debt. The disadvantages of this approach of Federal assistance to housing are discussed in more detail in Mr. Riefler's statement before the Subcommittee on Housing of the House Banking and Currency Committee and in my statement to the Housing Subcommittee of your Committee, copies of which are attached.

For these reasons, the Board believes the bill should not be enacted.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Enclosures