Minutes for April 19, 1957

To: Members of the Board

From: Office of the Secretary

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

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

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

	A	B
Chm. Martin	X	
Gov. Szymczak	X	
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 Friday, April 19, 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. Kenyon, Assistant Secretary
Mr. Fauver, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Young, Director, Division of Research and Statistics
Mr. Sloan, Director, Division of Examinations
Mr. Johnson, Controller, and Director, Division of Personnel Administration
Mr. Hackley, General Counsel
Mr. Sprecher, Assistant Director, Division of Personnel Administration

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:

	Item No.
Letter to the Federal Reserve Bank of Chicago approving the payment of salaries at specified rates to the Bank's electricians.	1
Letter to the Federal Reserve Bank of New York approving its acting as fiscal agent in connection with a proposed issue of bonds of the International Bank for Reconstruction and Development.	2
Letter to the Federal Reserve Bank of Cleveland extending the time within which The Community Bank, Napoleon, Ohio, may establish a branch at 409-413 South Perry Street.	3

	Item No.
Letter to The Dollar Savings and Trust Company, Youngstown, Ohio, approving the establishment of a branch at 2296 McCartney Road. (For transmittal through the Federal Reserve Bank of Cleveland.)	4
Letter to the Federal Reserve Bank of Dallas regarding the bank holding company status of Farmers & Mechanics Trust Company of Childress, Texas.	5
Letter to American Trust Company, San Francisco, California, approving the establishment of a branch at Kearny and Sacramento Streets for a temporary period. (For transmittal through the Federal Reserve Bank of San Francisco.)	6
Letter to Pacific State Bank, Hawthorne, California, approving the establishment of a branch in Los Angeles at a location different from that approved by the Board on February 26, 1957.	7
Letter to the Federal Reserve Bank of San Francisco transmitting the above letter and confirming the Board's previous action with respect to the carrying of reduced reserves by the member bank.	8
Letter to the Comptroller of the Currency recommending approval of an application to organize a national bank at Hampton, New Hampshire. (With a copy to the Federal Reserve Bank of Boston.)	9
Letter to the Federal Reserve Bank of Chicago concerning a proposal by a brokerage house to execute purchases of securities for a bank in a special cash account under section 4(c) of Regulation T.	10
Letter to the Bureau of the Budget regarding a spring survey of credit extended to real estate mortgage lenders to be made as of May 15, 1957.	11
Letter to the Presidents of all Federal Reserve Banks relating to the abovementioned survey. (To be sent upon receipt of advice of clearance by the Bureau of the Budget.)	12

Discount rates. Telegrams to the Federal Reserve Banks of New York, Philadelphia, and Chicago stating that the Board approved

the establishment without change by the respective Banks on April 18, 1957, of the rates of discount and purchase in their existing schedules were approved unanimously.

Inquiry from the Senate Subcommittee on Constitutional Rights (Item No. 13). In a letter dated April 2, 1957, Senator Hennings, Chairman of the Subcommittee on Constitutional Rights of the Senate Committee on the Judiciary, advised of the Subcommittee's continuing interest in the free flow of information to Congress and the public from a constitutional point of view, and inquired whether there had been any instances since May 17, 1954, when the Board of Governors had refused information to Congressmen or Congressional committees. Copies of this letter were sent by the Secretary's Office to all division heads and senior members of the staff with a request for information concerning any circumstances which conceivably might have been construed as a refusal to provide information. As stated in a memorandum from Mr. Fauver dated April 12, 1957, copies of which had been sent to the members of the Board, it was the unanimous view that there had been no instances where, technically speaking, it could be said that the Board had refused to provide information. However, reference was made to three instances of a borderline nature and it was noted that two of these had been reported by the Board in 1955 in response to a similar request from a House subcommittee. Submitted with Mr. Fauver's memorandum were alternative drafts of reply to Senator Hennings, one of which would take the position that the Board had not refused requested information while the other would refer to the three borderline cases in the interest of making a complete reply.

Discussion of the matter revealed an initial impression on the part of some members of the Board that a reply along the lines of the shorter of the two drafts would be justified, since it seemed doubtful whether the three cases mentioned in Mr. Fauver's memorandum would fall within the scope of the inquiry. However, for the sake of completeness and in view of the letter sent to the House subcommittee in 1955, it was felt that something might be said for defining the inquiry in the broadest possible terms and using the alternative draft of reply.

Accordingly, the alternative draft of letter to Senator Hennings was approved unanimously. A copy thereof is attached to these minutes as Item No. 13.

Proposal to obtain expert advice in the field of labor relations. At the meeting on April 9, 1957, the Board discussed a suggestion by Governor Balderston that, in view of problems in the field of labor relations which could arise from time to time throughout the System, it might be desirable to obtain expert advice to guard against inadvertent errors of policy and to be able to give appropriate consideration to questions raised by the Federal Reserve Banks. It was understood at that time that Governor Balderston would explore the possibility of obtaining such advice with Professor George W. Taylor of the Wharton School of Finance, one of the leading experts in this field.

Governor Balderston stated that since the meeting on April 9 he had given further thought to various aspects of the matter and had had an informal discussion with Dr. Taylor. From the discussion it developed that Dr. Taylor saw no difficulty in the fact that he and

Governor Balderston had at one time been associates at the Wharton School or in the fact that on occasions he had been closely related with union groups. On the latter point, Dr. Taylor noted that his advice had been equally available to management.

Governor Balderston went on to report an informal conversation with President Williams of the Federal Reserve Bank of Philadelphia, from which it appeared that it might be advisable for any briefing on the position of the Federal Reserve System to be given to Dr. Taylor by members of the Board's staff rather than to bring members of the staff of the Reserve Bank into such a discussion.

On the basis of his further thinking on the subject and his conversations with Messrs. Taylor and Williams, Governor Balderston was inclined to favor a procedure under which selected members of the Board's staff would go to Philadelphia for an informal conference with Dr. Taylor, after which Dr. Taylor would come to Washington for an informal expression of his views to the members of the Board and the staff members who had met with him in Philadelphia. As a result, these staff members would be better equipped to discuss with the legal and personnel officers of the Federal Reserve Banks such problems as the Banks might have from time to time, and the Board would be in a better position to consider policy questions.

One of the principal points mentioned by Dr. Taylor, Governor Balderston said, related to the legal status of the Federal Reserve Banks, which might raise some question as to the appropriateness of obtaining advice from a labor relations expert. However, Governor Balderston

was inclined to feel that such advice would be helpful as a safeguard against the possibility of dealing erroneously with any problems that might confront the System.

In response to a question by Chairman Martin, Governor Balderston said that his discussion with Dr. Taylor did not extend into the question of the fee for consulting services. Governor Balderston felt that this would depend somewhat on the extent to which the Board might want to avail itself of such services.

Discussion of the matter revealed agreement that advice of the kind that could be obtained from Dr. Taylor should prove helpful in formulating guidelines for a uniform System approach to legal and policy questions in the area of labor relations. At the same time, as pointed out by Governor Mills, there might be a question whether retention of an outside expert on any formal basis would give a status to labor problems at the Federal Reserve Banks that was not warranted by developments to date. For this reason, agreement was expressed with the original premise of Governor Balderston that the matter should be handled on as informal a basis as possible. In line with this thought, it was suggested that action by the Board at this time go only so far as to authorize selected members of the staff to meet with Dr. Taylor in Philadelphia, leaving for determination on the basis of that meeting the question whether it would be desirable to arrange for Dr. Taylor to come to Washington for discussion with the Board.

There was unanimous agreement with this suggestion and Messrs. Carpenter, Thurston, Hackley, and Johnson were designated as the members of the staff to go to Philadelphia to meet with Dr. Taylor.

Proposed program for the guarantee of residential mortgages (Item No. 14). There had been circulated to the members of the Board a draft of letter prepared in response to a request from the American Bankers Association for comment on a proposal of the United States Savings and Loan League for the establishment of a home loan guarantee corporation as a constituent agency of the Federal Home Loan Bank Board.

The letter, of which a copy is attached to these minutes as Item No. 14, was approved unanimously.

Messrs. Fauver, Johnson, and Sprecher then withdrew from the meeting.

Report on H.R. 26. Pursuant to the understanding at the meeting on April 17, 1957, there had been distributed to the members of the Board a revised draft of letter commenting on the subject bill. Subsequently, in view of comments by Governor Shepardson, an alternative revised draft also was distributed. Mr. Thurston indicated that he would like to submit a draft embodying somewhat different language, and accordingly it was agreed to defer further consideration of the matter pending the availability of Mr. Thurston's draft.

Mr. Thurston then withdrew from the meeting and Messrs. Solomon and Hexter, Assistant General Counsel, entered the room.

Comptroller of the Currency's investment securities regulation (Item No. 15). In a memorandum from Mr. Hexter dated April 11, 1957, which had been distributed to the members of the Board, it was stated that for several years the Comptroller of the Currency had been

considering a revision which would clarify and bring up-to-date the regulation issued pursuant to the Banking Act of 1933 relating to limitations and restrictions under which national banks may purchase investment securities. The Comptroller's regulation, last amended in 1938, is made applicable to State member banks by section 9 of the Federal Reserve Act. The Comptroller had submitted a draft of proposed revision to the Board with a request for views and recommendations, and a draft of proposed reply was submitted with Mr. Hexter's memorandum. The letter would comment on the substantive points of the proposed revision and would suggest that certain other matters of terminology and form be discussed by the Board and the Comptroller's Office at the staff level.

At the request of the Board, Mr. Hexter reviewed the positions proposed to be taken in the letter to the Comptroller of the Currency on questions of substance raised by the draft revision of the regulation.

Governor Robertson then made two suggestions. First, he would delete a paragraph qualifying the Board's position on provisions of the proposed section 2(d)(1), since he felt that the qualification would be misleading and was unnecessary. Second, he would eliminate a proposed alternative suggestion for the handling in the regulation of short-term repurchase agreements covering Government securities. It seemed to him appropriate to go no further than suggest omission of any reference to such transactions in the Regulation inasmuch as the Comptroller had ruled that they are actually loans within the meaning of Section 5200,

Revised Statutes, rather than purchases and sales of securities within the meaning of Section 5136.

Agreement being expressed with Governor Robertson's suggestions, unanimous approval was given to the letter to the Comptroller of the Currency of which a copy is attached to these minutes as Item No. 15.

Member banks' repurchase agreements covering Government securities. Governor Robertson said he understood that at the time the revision of the investment securities regulation was made effective, the Comptroller of the Currency also intended to take action to increase from 25 to 100 per cent of capital and surplus the limitation on loans made to any one borrower by a national bank under paragraph (8) of Section 5200 of the Revised Statutes. This paragraph, which is made applicable to State member banks by section 11(m) of the Federal Reserve Act, provides a limitation of 25 per cent of a bank's capital and surplus with respect to loans to any one borrower represented by obligations in the form of notes with Government securities as collateral, but it also provides for an exception pursuant to rules and regulations prescribed by the Comptroller of the Currency with the approval of the Secretary of the Treasury. It was under this exception that the Comptroller proposed to act to increase the limitation.

Governor Robertson expressed the opinion that the proposed increase in the limitation was essential to enable banks to finance dealer operations in Government securities, his only question being whether the revised limitation would be adequate. In the circumstances, he suggested that the Comptroller of the Currency be informed that the

Board favored the proposed action under paragraph (8) of Section 5200. He went on to say that he could not perceive any difficulties that would arise from such action on the borrowing side or on the lending side. The revised limitation would expand the number of banks that could provide funds to the Government securities market and it could well develop to be adequate. If it was not adequate to provide the necessary financing, a further review could be made of the situation to determine what additional action was necessary.

Governor Mills referred to the previous discussion of this subject at the meeting on March 20, 1957, and said there continued to be certain questions that had not been answered to his satisfaction. The essence of these questions was that the well-intentioned purpose of facilitating dealer transactions would at the same time permit a bank to lend up to 100 per cent of its capital and surplus not only to a dealer but to other banks on the collateral of Government securities. Such use of the authority might contravene the purposes of Regulation A since an aggressive bank could expand its resources through borrowing in the Federal funds market. In such circumstances, the borrowed funds would tend to pervade the entire market as additional injections of reserves, the only limitation being that the lending bank would have less Federal funds on which to operate and therefore would have to limit its own lending functions. Governor Mills expressed apprehension about the implications that could arise from this process and said he was also fearful that the process would complicate the Federal funds market in a way that would reduce the fluidity and flexibility of that market.

In response to a request for comment, Mr. Riefler said that personally he was not worried about a growth of the Federal funds market. He viewed the statutory loan limitations as intended to assure diversification of risk, and since the lending of Federal funds is virtually riskless he saw no purpose in placing limitations thereon in relation to the size of the lending bank. The apparent purpose of limiting the amount a bank can borrow is to prevent the subordination of assets that underlie deposits, and the points brought out by Governor Mills seemed to him to emphasize that the real danger is in the amount that a bank may borrow rather than the amount that a bank may lend. He did not see how the proposed increase in limitation under paragraph (8) of Section 5200 would affect the present situation very much, for a bank can now borrow up to 100 per cent of its capital and surplus. The proposed change in limitation therefore would simply permit a bank to borrow from one bank rather than from several. In the circumstances, he concluded that increasing the limit on the amount which a bank may loan on Government securities would not increase any risk that is not already present, whereas any undue risk on the borrowing side should be reviewed and corrected through changes in the appropriate statutory provisions.

Governor Mills commented that if a bank is permitted to borrow against Government securities in substantial amounts and uses that money to expand its risk assets, it is in effect pledging its riskless assets as collateral and diluting the protection afforded to its depositors in order to engage in transactions that involve greater risk. If a bank were now permitted to borrow from a single bank rather than having to go

to several banks, he felt that this would tend to remove a safety valve against overborrowing for the fact that a number of banks would have to be approached for credit seemed to him to constitute a built-in restriction. The time when this borrowing would become most important would be a time during which a restrictive credit policy was in effect, and at such a time a lending bank would have less incentive to make funds available, particularly to an institution which was not an established client. In substance, he feared that the contemplated action would have the effect of permitting banks to engage in practices contrary to the best interest of monetary policy and also would permit the borrowing bank to engage in practices which would be undesirable from a supervisory viewpoint.

Mr. Hexter pointed out that heretofore, since banks entered into arrangements of this kind as purchase and sale transactions, such transactions were not subject to any loan limitations, to which Governor Mills responded that these transactions seemed to have grown up rather recently and that the current statutory limitation, applicable because these transactions are now considered to be loans, was exercising a healthly restriction. If this limitation were changed in a manner such as to provide additional access to credit through the repurchase agreement device, he felt this would in effect restrict the power of the Manager of the System Open Market Account to extend and withdraw reserves to and from the market through the repurchase mechanism.

Following further discussion of the problem in the light of the questions raised by Governor Mills, Chairman Martin suggested that a

memorandum be prepared which would provide a more concrete basis for discussing the matter again before the Board advised the Comptroller of the Currency of its views.

It was agreed that the staff should prepare such a memorandum promptly for the Board's consideration.

Repurchase agreements between banks and nonbanking organizations. At the request of Governor Robertson, Mr. Sloan described a situation relating to the use of repurchase agreements which had been reported by the New York Reserve Bank at the recent conference of Reserve Bank officers in charge of bank examinations. It appeared that a practice had been initiated whereby private corporations having funds at their disposal for relatively short periods buy Government securities from certain commercial banks under agreement with the banks to repurchase the securities. This seemed to suggest that such transactions could be construed as involving the payment of interest on demand deposits in violation of the Board's Regulation Q.

Governor Robertson said it was his view that for the present, at least, the New York Reserve Bank should attempt to deal with the problem as a bank supervisory matter, in conjunction with the State banking authorities, by getting in touch with the banks concerned and pointing out that the possibility was involved of a violation of the statutory prohibition against the payment of interest on demand deposits.

The meeting then adjourned.

Secretary's Note: Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson

today approved on behalf of the Board the following actions regarding members of the Board's staff:

Appointment

Ruth Logue as Economist in the Division of International Finance, with basic annual salary at the rate of $7,570, effective the date she assumes her duties.

Salary increase

Gordon B. Grimwood, Economist, Division of International Finance, from $7,570 to $8,990 per annum, effective April 21, 1957.

Acceptance of resignation

William J. Smith, Cafeteria Laborer, Division of Administrative Services, effective April 16, 1957.

Secretary

Item No. 1
4/19/57

April 19, 1957

CONFIDENTIAL (FR)

Mr. H. J. Newman, Vice President,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Newman:

The Board of Governors approves the payment of salaries by the Federal Reserve Bank of Chicago to the incumbents of the positions shown below at the rates indicated, effective April 1, 1957, in accordance with the request contained in your letter of April 4, 1957.

Title	Annual Salary
Head Electrician	$7,529.60
Electrician	6,907.66

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

Item No. 2
4/19/57

April 19, 1957

Mr. A. Phelan, Vice President,
Federal Reserve Bank of New York,
New York 45, N. Y.

Dear Sir:

This refers to your letter of April 12, 1957, and its enclosures, concerning the proposed issue by the International Bank for Reconstruction and Development of its Twenty-one Year Bonds of 1957, due May 1, 1978. In that letter you state that it is proposed to amend Schedule A of the Fiscal Agency Agreement dated as of February 6, 1950, between the International Bank and your Bank to include the bonds in question.

The Board of Governors approves of your Bank acting as Fiscal Agent in respect of the proposed issue of the International Bank of Twenty-one Year Bonds of 1957, due May 1, 1978, and approves the execution and delivery by your Bank of an Agreement with the International Bank in the form or substantially in the form of Supplement No. 10 to the Fiscal Agency Agreement of February 6, 1950, between your Bank and the International Bank, enclosed with your letter.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary

Item No. 3
4/19/57

April 19, 1957

Mr. H. M. Boyd, Chief Examiner,
Federal Reserve Bank of Cleveland,
Cleveland 1, Ohio.

Dear Mr. Boyd:

In view of the circumstances outlined in your letter of April 8, 1957, the Board of Governors extends until September 20, 1957, the time within which The Community Bank, Napoleon, Ohio, may establish a branch at 409-413 South Perry Street, Napoleon, Ohio, under the authorization contained in its letter of April 30, 1956.

Very truly yours,

(Signed) Merritt Sherman,

Merritt Sherman,
Assistant Secretary.

Item No. 4
4/19/57

April 19, 1957

Board of Directors,
The Dollar Savings and Trust Company,
Youngstown, 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 2296 McCartney Road, Youngstown, Ohio, by The Dollar Savings and Trust Company, Youngstown, 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.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

Item No. 5
4/19/57

April 19, 1957

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

Dear Mr. Pondrom:

This refers to your letter to Mr. Hostrup of March 19, 1957, transmitting along with other enclosures a request, in effect, from Farmers & Mechanics Trust Company of Childress, Texas, for a ruling from the Board with respect to the bank holding company status of Farmers & Mechanics Trust Company under a plan as indicated hereafter.

On the basis of its registration statement, it is understood that Farmers & Mechanics Trust Company presently controls 25 per cent or more of the voting shares of two banks; namely, First State Bank, Childress, Texas, and First State Bank & Trust Co., Hollis, Oklahoma. It is further understood that Farmers & Mechanics Trust Company proposes to organize a new corporation with the same shareholders on a ratable basis as the shareholders of Farmers & Mechanics Trust Company, and that the stock of one of the two banks controlled by the Trust Company would be spun off to the new corporation. Thus the new corporation and the Trust Company will each own the stock of only one bank. Supplemental information obtained by you has indicated that officers and directors of the proposed corporation probably will be the same as those of Farmers & Mechanics Trust Company but that shares of the new corporation will be fully transferable, separately and apart from shares of Farmers & Mechanics Trust Company.

On the basis of the general proposal stated above it is the Board's view that upon the consummation of the proposed plan, neither Farmers & Mechanics Trust Company nor the new corporation would be a bank holding company, notwithstanding identical shareholders.

In advising the bank, it should be mentioned that while administration of the Bank Holding Company Act of 1956 is vested in the Board, its enforcement as a criminal statute falls within the

jurisdiction of the Department of Justice and conceivably the Board's interpretation might not be followed by that Department if it should have occasion to consider the matter.

Very truly yours,

(Signed) S. R. Carpenter,

S. R. Carpenter,
Secretary.

Item No. 6
4/19/57

April 19, 1957

Board of Directors,
American Trust Company,
San Francisco, 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 at the corner of Kearny and Sacramento Streets, San Francisco, California, by American Trust Company, San Francisco, California. This approval is for a temporary period approximately from July 1957, through February 1959, or until such time as the bank building to be erected on the site now occupied by the Rolkin Building and the Real Estate Annex is completed.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

Item No. 7
4/19/57

April 19, 1957

Board of Directors,
Pacific State Bank,
Hawthorne, 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 by Pacific State Bank, Hawthorne, California, in the vicinity of the intersection of Inglewood Avenue and Imperial Highway, Los Angeles, California, instead of in the vicinity of the intersection of Anza Boulevard and Imperial Highway, Los Angeles, California, provided the branch is established within one year 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.

It is assumed that Pacific State Bank still plans to increase capital and surplus by not less than $180,000 through sale of additional stock and that the aggregate investment in bank premises, furniture, fixtures, and equipment will not exceed fifty per cent of the combined capital and surplus, as required by the State Banking Department.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

Item No. 8
4/19/57

April 19, 1957

Mr. E. R. Millard, Vice President,
Federal Reserve Bank of San Francisco,
San Francisco 20, California.

Dear Mr. Millard:

Reference is made to your letter of April 4, 1957, submitting the request of the Pacific State Bank, Hawthorne, California, for permission to establish a branch in the vicinity of the intersection of Inglewood Avenue and Imperial Highway, Los Angeles, California, instead of in the vicinity of the intersection of Anza Boulevard and Imperial Highway, Los Angeles, California, as previously approved by the Board on February 26, 1957.

After consideration of the information submitted, the Board of Governors approves the change in location of the proposed branch in Los Angeles, as indicated in the attached letter to be forwarded to the board of directors of the Pacific State Bank. A copy of the letter is enclosed for your files.

In connection with the previous plan to establish a branch in the vicinity of the intersection of Anza Boulevard and Imperial Highway in the city of Los Angeles, the Board on April 1, 1957, granted permission to Pacific State Bank to continue to maintain the same reserves against deposits as are required to be maintained by banks located outside central reserve and reserve cities. Since the new location of that branch in the vicinity of the intersection of Inglewood Avenue and Imperial Highway is in the same general neighborhood of the city of Los Angeles, the Board confirms its previous action with respect to the maintenance of reserves by Pacific State Bank as provided in the letter of April 1, 1957.

It is understood that Counsel for the Reserve Bank will review and satisfy himself as to the legality of all steps taken to establish the branch.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

Enclosures 2

Item No. 9
4/19/57

April 19, 1957

Comptroller of the Currency,
Treasury Department,
Washington 25, D. C.

Attention: Mr. G. W. Garwood,
Deputy Comptroller of the Currency.

Dear Mr. Comptroller:

Reference is made to a letter from your office dated January 31, 1957, enclosing photostatic copies of an application to organize a national bank at Hampton, New Hampshire, and requesting a recommendation as to whether or not the application should be approved.

A report of investigation of the application made by an examiner for the Federal Reserve Bank of Boston indicates that a capital structure of $130,000 would be provided for the bank instead of $65,000 shown in the application. This report discloses fairly satisfactory findings with respect to all of the factors usually considered in connection with such proposals, except that the identity and qualifications of the proposed executive officer were not available. The Board of Governors recommends approval of the application provided arrangements are made for executive management satisfactory to your office.

The Board's Division of Examinations will be glad to discuss any aspects of this case with representatives of your office if you so desire.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

Item No. 10
4/19/57

April 19, 1957

Mr. Neil B. Dawes,
Vice President and Secretary,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Dawes:

This is with further reference to your letter of February 11, 1957, with which you forwarded a letter of February 8, 1957, from Arthur M. Krensky & Co., Inc., presenting a question concerning purchases of securities which the company would execute for one of its customers in a special cash account under section 4(c) of Regulation T. The company's customer is a national bank and the transactions in question would be purchases which the bank would be handling for its own customers.

The letter from Arthur M. Krensky & Co., Inc., states that the bank which is the customer of the company "proposes that its business with us shall be conducted on a new basis differing from the standard and accepted practice of payment first and transfer of the security subsequently." Under the proposal the bank would instruct the company to have the security transferred to the name of the bank's customer and, after completion of the transfer, to ship the security with draft attached for payment at the bank. The bank would pay the company interest from the settlement date to date of delivery.

Section 4(c) of Regulation T provides that:

> ". . . in a special cash account, a /broker/ may . . . effect for or with any customer bona fide cash transactions in securities in which the /broker/ may . . . purchase any security for, or sell any security to, any customer, provided funds sufficient for the purpose are already held in the account or the purchase or sale is in reliance upon an agreement accepted by the /broker/ in good faith that the customer will promptly make full cash payment for the security . . . ."

Section 4(a) of the regulation provides that:

> "A special account established pursuant to this section shall not be used in any way for the purpose of evading or circumventing any of the provisions of this regulation."

Section 4(c) of the regulation also provides that a purchase in a special cash account shall be cancelled or liquidated if the customer does not make full cash payment within seven days, or within a longer period in some cases. However, payment within seven days, or such other period as may be applicable under the section, is not enough to qualify a transaction for inclusion in the account. The other requirements, as quoted above, must first be met, and the maximum periods specified for settling the transaction are merely outside limits which do not lessen the need for compliance with the general requirements that apply to transactions in the account.

It can be seen that the special cash account should be confined to bona fide cash transactions, and that it should not be used as a means of extending credit beyond that reasonably incident to the orderly execution and completion of such transactions.

On the other hand, although not entirely clear from the information presented, it appears that the transactions for which the bank proposes that payment be deferred would include purchases for which the bank had already received payment from its customers, and the purpose of the proposed practice would seem to be chiefly to increase the availability of funds to the bank. If the circumstances should be different, it might make a difference in the application of the regulation; but this appears to be the situation contemplated in the letter from the company.

Accordingly, on the basis of the information presented and in the absence of some justification not apparent from the inquiry, it would be inconsistent with sections 4(a) and 4(c) of the regulation for the brokerage firm to follow with the bank the general practice which the bank has proposed.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.

Item No. 11
4/19/57

April 19, 1957

Mr. Paul F. Krueger,
Clearance Officer,
Office of Statistical Standards,
Bureau of the Budget,
Washington 25, D. C.

Dear Mr. Krueger:

This refers to your letter of October 25, amending your October 17 approval of the form "Credit extended to real estate mortgage lenders" to cover the additional survey in November as well as the scheduled February and August 1957 surveys, and stating, in part:

> "...if there is sufficient need for continuation of the quarterly survey beyond the time now contemplated further consideration may be given to it after the results of the February survey are available and an analysis can be made of the significance of the quarterly data."

An analysis of the February survey shows that it was very significant in that it reported a decrease in credit extended to real estate mortgage lenders, roughly equivalent to FNMA purchases during the report period. It also showed that the decrease in warehouse mortgaging was greater than the increase in other types of real estate loans at the reporting banks during the same period, that the FNMA purchases may have liquidated a substantial amount of real estate credit, and that the banks used the funds, in part, not to acquire new real estate loans, but to make other types of loans and investments.

These matters have been presented to the Congress and they have a primary bearing on public policies now under consideration and have a direct influence on the financing program of the Treasury.

For these reasons, it appears that a spring survey of credit extended to real estate mortgage lenders should be made, and it is requested that your October 17, 1956, authorization of special reports of credit extended to real estate mortgage lenders for February and August 1957 be further amended to cover a survey tentatively scheduled for May 15, 1957.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary

Item No. 12
4/19/57

Dear Sir:

The Board's letter of January 30, requesting reports on credit extended to real estate mortgage lenders as of February 13, stated that another such survey was scheduled for August 14, 1957, but that it might be necessary to have an additional survey in May.

An analysis of the February survey indicates that its results were of even greater significance than previous surveys. The February survey showed a decrease in credit extended to real estate mortgage lenders roughly equivalent to FNMA purchases during the interval since the November survey; that the decrease in warehouse mortgaging was greater than the increase in other types of real estate loans at the reporting banks during the report period; that the FNMA purchases may have liquidated a substantial amount of real estate credit; and that the banks used the funds, in part, not to acquire new real estate loans, but to make other types of loans and investments.

Some of these matters were useful in preparing testimony before Congress and they have a direct bearing on the Treasury financing program.

In the circumstances, it appears that a spring survey of credit extended to real estate mortgage lenders should be made as of May 15, 1957. Please obtain reports at that date from each of the weekly reporting member banks in your District from which such reports were obtained on November 14, 1956, and February 13, 1957. Banks that reported less than $1 million in loans and commitments at the August 8, 1956, survey should be omitted, but their August figures should be added to tabulated figures as of May 15. The form, including the Budget Bureau number, is the same as that enclosed with the Board's letter of January 30.

Please mail or telegraph district summary figures for all items and sub-items in the report for 1.a through 4.e, inclusive,

to reach the Board's offices by Monday, May 27, 1957. Reports of individual banks need not be forwarded.

Very truly yours,

(Signed) S. R. Carpenter,

S. R. Carpenter,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Secretary's Note: The approval of the Bureau of the Budget having been obtained, this letter was sent under date of April 24, 1957.

Item No. 13
4/19/57

April 19, 1957

The Honorable Thomas C. Hennings, Jr.,
Chairman, Subcommittee on Constitutional Rights,
Committee on the Judiciary,
United States Senate,
Washington 25, D. C.

Dear Senator Hennings:

This is in reply to your letter of April 2 inquiring whether there had been any instances since May 17, 1954, when the Board of Governors of the Federal Reserve System has refused information to Congressmen or to Congressional committees.

The Board is not aware of any occasions during the period indicated by your letter where requested information has not been made available to Congressmen or Congressional committees. In the interest of completeness, however, reference is made to the following instances which are borderline cases but which the Board regards as falling outside the scope of your inquiry.

In June 1955 the Board advised the Comptroller General that in the light of the provisions of section 10 of the Federal Reserve Act, the Budget and Accounting Act of 1921, and the legislative history of these and related statutes, the Board could not in the absence of an express directive from Congress lawfully acquiesce in a separate audit to be made by the Comptroller General pursuant to a request made to him by the House Committee on Government Operations. The Board stated, however, that it stands ready at all times to make reports of audits of its operations, as well as the reports of examinations of the Federal Reserve Banks and audits of the Federal Open Market account, available to appropriate committees of the Congress.

Also, in June 1954 the Board had certain discussions and correspondence with Members of Congress with regard to the furnishing of reports of examination of the Federal Reserve Banks and the report of audit of the Board's accounts. On June 14, 1954, the reports of examination of the twelve Federal Reserve Banks for each of the years 1949 through 1953 were furnished to the House Committee on Banking and Currency, where they were available in confidence to Members of the Congress and the staff of that Committee. The report of audit of the Board's accounts for 1953 had been previously furnished to that Committee.

Finally, in August 1956 a staff member of the House Committee on Government Operations' Legal and Monetary Affairs Subcommittee requested information on gold held under earmark for foreign and international accounts at the Federal Reserve Banks. Information requested

was provided in totals, but the names of individual holders of earmarked gold and the amount held on individual accounts were not provided on the grounds that the System was not at liberty to reveal figures relating to individual accounts at Federal Reserve Banks. The Subcommittee appeared satisfied with this reply, and the Chairman of the Subcommittee, in a subsequent letter, expressed appreciation for the "responsive letter" and requested further information on other subjects without pressing the request for information on individual accounts.

It is the policy and practice of the Board of Governors to make available as far as possible information regarding the Board's activities requested by individual Congressmen and Congressional committees.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.
Wm. McC. Martin, Jr.

Item No. 14
4/19/57

April 19, 1957

Mr. J. R. Dunkerley,
Senior Deputy Manager in Charge,
The American Bankers Association,
12 East 36 Street,
New York 16, New York.

Dear Ray:

This letter is in response to yours of April 3, 1957 with respect to the proposal for the establishment of a home loan guarantee corporation as a constituent agency of the Federal Home Loan Bank Board.

While it is not possible to express a final judgment on such a proposal on the basis of the limited information available, it does seem that action along these lines would create unnecessary duplication of the existing programs of Government support of privately financed residential mortgages. These programs, which are available to all financing institutions which comply with their requirements, together with the facilities available in the private mortgage market for financing conventional residential mortgages, are in a position to finance all of the mortgage credit that is needed to keep the housing industry in a sound condition. Furthermore, to provide for additional home loan guarantee facilities by a Government agency, particularly when its facilities would be available to only one type or group of financing agencies such as savings and loan associations, would appear to discriminate against other types of financing institutions.

The existing barriers to the flow of funds into mortgages are (a) the heavy competing demands for funds for other purposes, and (b) the fact that the rates on these mortgages have been out of touch with the market. On the first point, it must be borne in mind

that in times like the present when there are strong demands for long term credit and close to full utilization of resources, all of these demands cannot be supplied without creating inflation and higher housing costs. On the second point, it is important to note that, notwithstanding other strong demands for long term funds, the volume of such funds invested in conventional mortgages at competitive rates was as large in 1956 as in 1955. The Board has said repeatedly that the real solution of the existing problem of the Government supported mortgage programs would be to keep the rates at which these mortgages can be financed competitive in the market. If that were done it is not believed there would be any need or justification for a further program for the guarantee of residential mortgages through the medium of another Government agency.

In this connection, you may be interested in the attached statements submitted by Chairman Martin and Mr. Riefler at recent hearings before the Senate and House Banking and Currency Committees.

Sincerely yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.

Enclosures 2

Item No. 15
4/19/57

April 19, 1957

The Honorable
The Comptroller of the Currency,
Washington 25, D. C.

My dear Mr. Comptroller:

This is in response to your Office's request for the views and recommendations of the Board of Governors with respect to a proposed revision of the Investment Securities Regulation of the Comptroller of the Currency, which was enclosed with Mr. Jennings' letter of April 24, 1956.

1. The proposed revision would delete Section 1(1)(c) of the Regulation, because that provision has not proved useful in practice and is of questionable validity, in your opinion. The Board favors deletion of this provision.

2. The proposed revision would include a new Section 1(b), authorizing the purchase of

> "Special revenue obligations of duly constituted Authorities or of State or local governments located in the same state as the purchasing bank, or within the trade area it serves",

even when such securities do not meet the usual "public distribution" standards, provided that they "are of such credit soundness as to assure sale under ordinary circumstances with reasonable promptness at a fair value".

The Board is aware that, under the existing Regulation, revenue securities that are suitable for bank investment are sometimes ineligible because they do not meet the requirements of (a), (b), or (c) of Section I(1). The proposed Section 1(b) would make such obligations eligible for bank investment if their "credit soundness" meets the standard quoted above.

Without opposing this proposal, the Board raises the question whether it might result in undue difficulty and controversy in the supervision of national banks and member State banks. The securities covered by this provision would have a narrow distribution and in many cases would have no market history, or a very limited one. Consequently, there might be more than the usual likelihood of disagreement as to whether a particular local security qualified under this provision, because the question would be almost solely a matter of judgment, in the absence of broad distribution, market history, and ratings by the recognized manuals. The problem is further complicated by the fact that

in many cases banks in small communities might be under considerable pressure to purchase local revenue securities up to their legal limit, and for a variety of reasons might be inclined--or feel compelled--to do so even where disinterested evaluation might reach the conclusion that the securities did not meet the standards of the proposed Section 1(b).

For these reasons, the Board recommends further study of the conflicting considerations in this matter, in order to determine whether the possible disadvantages might outweigh the advantage of conferring eligibility on a group of "investment-worthy" securities that are now ineligible.

3. The proposed Section 2(d)(1) would amend the existing provision regarding amortization of premium paid for securities. The present regulation provides that a security purchased above face value shall at no time "be carried at an amount in excess of that at which the obligor may legally redeem such security". It is proposed to eliminate this provision in cases where the amortization required thereby "would not be allowable as a deduction from gross income" for Federal income tax purposes.

Although this proposed change seems relatively unimportant, it is not clear to the Board why amortization at a given rate, if desirable from a supervisory viewpoint, should be waived merely because a lower rate of amortization is prescribed for tax purposes. In comparable situations--for example, depreciation of bank premises--it is not unusual for bank supervisors to require property to be depreciated at a rate in excess of that allowable for tax purposes, and it is understood that this practice has not prejudiced banks from the tax standpoint.

4. With respect to purchase of convertible securities, the proposed Section 2(f) would include this sentence:

> "If the price paid for a convertible issue provides a yield reasonably similar to that of non-convertible issues of similar quality and maturity, a speculative value will not be deemed to exist."

This new provision is designed to furnish a concrete test for the eligibility of convertible securities, and the Board is of the opinion that it will be helpful. Further benefit might result from the addition of another sentence, along these lines:

"On the other hand, a convertible security is never an eligible investment if it is convertible into stock at a price that is below the present market value of the stock."

5. The present Regulation provides (1) that where a bank purchases securities and has an absolute option to require the seller to repurchase them, the repurchase price must be "in no case less than the value at the time of repurchase", and (2) that where a bank sells securities and retains an absolute option to repurchase them, the repurchase price must be "in no case in excess of the market value at the time of repurchase" (Sections II(7)(a) and II(8)(a), respectively).

The proposed revision would delete the quoted requirements. In the Board's opinion these provisions are unnecessary and possibly confusing, and their deletion would be beneficial.

6. The proposed provisions of Section 3(a)(3) and Section 3(b)(2) relate to purchases and sales of investment securities by banks under arrangements whereby both the bank and the other party to the transaction have "the right or the option to repurchase said securities . . . or to compel the seller to repurchase the securities", as the case may be. The Board has several questions regarding these provisions.

The present Regulation forbids national banks and member State banks either to purchase or to sell investment securities under any arrangement whereby the other party to the transaction can require the bank to resell or to repurchase those securities, as the case may be. Presumably the purpose was to prevent banks from buying or selling securities in circumstances in which the bank would not be in a position to exercise its free discretion as to whether or not such securities should be retained or reacquired.

The proposed new Section 3(a)(3) would change the Regulation so as to permit banks to purchase securities, in specified circumstances, where the bank and the seller would have the right to require each other to repurchase and resell the securities, respectively. It is assumed that the purpose of this change is to enable banks to extend credit against eligible securities via repurchase agreements in lieu of loans, where the former procedure is preferable. On the other hand, Section 3(b)(2) would continue to forbid banks to sell securities under such reciprocal arrangements.

The effect of these provisions would be to permit a bank to use the repurchase-agreement device in its lending activities, but to prohibit its use in connection with borrowing by a bank. At the present time, of course, banks both lend and borrow by means of such repurchase agreements covering Federal Government obligations. Since the securities in those transactions are "exempt" securities, the provisions of the

Investment Securities Regulation are not applicable. It is not clear to the Board that there is a need to provide for similar transactions with respect to corporate securities and public revenue obligations; but if there is a sound reason for relaxing the Regulation with respect to banks' purchases under such arrangements, it might seem appropriate to make a similar relaxation with respect to banks' sales of this nature.

Your Office has taken the position that typical short-term repurchase agreements covering Government securities are actually loans within the meaning of R.S. 5200 rather than purchases of securities within the meaning of R.S. 5136. The reasoning on which that position is based seems equally applicable to transactions involving other kinds of securities. Consequently, it is questionable whether any such transactions actually are subject to the Investment Securities Regulation. In other words, since your Office considers such arrangements to be loans, a national bank might have a sound basis for contending that they may not validly be prohibited by the Regulation, since they are not purchases of investment securities subject to regulation by the Comptroller under R.S. 5136 but are in the category of loans, as to which the Comptroller has no statutory authority to prescribe restrictive regulations.

If the reasoning of the preceding paragraph is valid, and the provisions under discussion are aimed principally at short-term repurchase agreements that are actually loans, it might be advisable to amend the Regulation to omit any reference to such transactions.

The foregoing comments relate to what appear to be the major changes that would be made by the proposed revision. The Board would also like to make some suggestions regarding terminology and form, which it is believed can be most conveniently presented at a staff discussion.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.