

Minutes for May 9, 1957

To: Members of the Board
From: Office of the Secretary

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

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

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

	A	B
Chm. Martin	X <u>M</u>	_____
Gov. Szymczak	X <u>[Signature]</u>	_____
Gov. Vardaman	X <u>[Signature]</u>	_____
Gov. Mills	X <u>[Signature]</u>	_____
Gov. Robertson	X <u>R</u>	_____
Gov. Balderston	X <u>CB</u>	_____
Gov. Shepardson	X <u>[Signature]</u>	_____

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, May 9, 1957. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Riefler, Assistant to the Chairman
 Mr. Leonard, Director, Division of Bank Operations
 Mr. Young, Director, Division of Research and Statistics
 Mr. Sloan, Director, Division of Examinations
 Mr. Molony, Special Assistant to the Board
 Mr. Conkling, Assistant Director, Division of Bank Operations
 Mr. Noyes, Adviser, Division of Research and Statistics
 Mr. Koch, Assistant Director, Division of Research and Statistics
 Mr. Masters, Associate Director, Division of Examinations
 Mr. Thompson, Supervisory Review Examiner, Division of Examinations

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:

	<u>Item No.</u>
Letter to the Federal Reserve Bank of Philadelphia approving an additional investment in bank premises by Fidelity-Philadelphia Trust Company, Philadelphia, Pennsylvania.	1

5/9/57

-2-

Letter to the Federal Reserve Bank of San Francisco extending the time within which Security Trust & Savings Bank of San Diego, San Diego, California, may establish a branch in the vicinity of College Avenue and Federal Boulevard.

2

Application under the Bank Holding Company Act (Item No. 3).

Northwest Bancorporation, Minneapolis, Minnesota, had filed, pursuant to section 3(a) of the Bank Holding Company Act of 1956, an application for the Board's prior approval of the acquisition of 1,200 of the 1,250 shares of capital stock of First National Bank of Hoyt Lakes, Hoyt Lakes, Minnesota, a new bank proposed to be formed in the newly created town of Hoyt Lakes. Both the Federal Reserve Bank of Minneapolis and the Comptroller of the Currency had recommended that the Board grant the application. In a memorandum dated May 3, 1957, copies of which had been distributed to the members of the Board, the Division of Examinations analyzed the application in the light of the factors required to be considered by the Board pursuant to section 3(c) of the Bank Holding Company Act and recommended that the Board issue an order granting the application, notwithstanding the fact that certain objections had been made concerning the proposed acquisition of shares by the applicant. The Legal Division, in a memorandum dated May 7, 1957, copies of which also had been sent to the members of the Board, concurred in the recommendation of the Division of Examinations and submitted a draft of order granting the application. The memorandum noted that if the order was issued, it would be published in the Federal Register in accordance with the policy on such matters which had been adopted by the Board.

5/9/57

-3-

At the request of the Board, Mr. Sloan summarized the factual situation, including the position of Northwest Bancorporation, the nature of the community in which the national bank would be established, and the need of the community for banking facilities. He also discussed the objections to the application which had been filed by a representative of the existing bank nearest to Hoyt Lakes and by a representative of the Independent Bankers Association. All of the evidence, he said, seemed to be favorable to granting the application, except for such weight as might be given to the over-all size and extent of the bank holding company involved. In the opinion of the Division of Examinations, factors in this case such as the convenience, needs, and welfare of the community outweighed such consideration as might be given to the expansion of the bank holding company system. In this connection, he mentioned that there was no evidence of a desire on the part of any other party to establish a bank in Hoyt Lakes.

Mr. Hackley said that this was one of the few cases to date under the Bank Holding Company Act which seemed to raise no serious question. While the applicant bank holding company is one of the largest in the country, it does not have any substantial concentration in the county concerned and, as Mr. Sloan had indicated, the needs of the community would seem to outweigh considerations relating to the size and extent of the holding company. Therefore, the Legal Division concurred in the favorable recommendation of the Division of Examinations.

5/9/57

-4-

Governor Robertson commented that favorable action on the application was likely to be criticized by the Independent Bankers Association, particularly since that Association has great strength in the Minnesota area. However, he felt that in the circumstances of the case the favorable recommendations were entirely justified and that there was no practicable alternative to granting the application.

Governor Mills referred to a statement in the memorandum from the Division of Examinations that the Bank Holding Company Act does not prohibit expansion in a non-branch State which has no affirmative bank holding company statute, if the principal office and place of business of the bank holding company is in such State, or if the principal operations are conducted in such State, unless the State has specific laws prohibiting such expansion. It might be inferred from this language, he said, that the Board had reached a conclusion that State legislation, such as the statute in New York State "freezing" the expansion of bank holding companies, would constitute a legal prohibition against action under the Federal statute rather than an element for consideration by the Board in reviewing the entire record in connection with an application under the Act.

In view of Governor Mills' comments, it was agreed that the memorandum would be modified in such a way as to eliminate the possible inference that the effect of such State statutes in relation to the Bank Holding Company Act was a matter which had already been determined.

5/9/57

-5-

Thereupon, the issuance of an order granting the application of Northwest Bancorporation was approved unanimously, with the understanding that the order would be published in the Federal Register, that the original would be sent to the applicant, and that copies would be sent to other appropriate parties. A copy of the order is attached to these minutes as Item No. 3.

Mr. Thompson then withdrew from the meeting and Mr. Cherry, Legislative Counsel, entered the room.

Availability of credit to small business. In a letter to Chairman Martin dated April 30, 1957, Representative Patman, Chairman of the Congressional Joint Economic Committee, referred to the hearings before the Subcommittee on Economic Stabilization on December 11, 1956, stated that he had requested a survey which would throw light upon contradictory private surveys respecting the "effect of tight money upon small business", and inquired when he might expect the results of such a survey. In this connection, he recalled the suggestion having been made that the Federal Reserve make a survey similar to the business loan survey made in October 1955.

A proposed reply, distributed to the members of the Board with a memorandum from Mr. Young dated May 7, 1957, would point out that certain data on the subject taken from the quarterly survey on interest rates charged by banks on business loans had been furnished to the staff of the Committee and that a survey of the type made in October 1955 would be extremely complicated and involve a heavy burden on respondent banks

5/9/57

-6-

as well as the System. It would state, however, that the Board was aware of the need for additional information on the impacts of monetary policy and that the Board was continuing to seek avenues by which better information on trends in credit availability to small business could be compiled without undue burden on respondents or on the Federal Reserve System.

A letter also had been received by Mr. Young from Mr. Carl M. Flora, Chairman of the Small Business Credit Commission of the American Bankers Association, transmitting a copy of his recent report as Chairman of the Commission. The letter requested Mr. Young's reaction to a suggestion by the Commission that a survey be made and additional information developed on the amount of credit available to small business. A proposed reply, also circulated with Mr. Young's memorandum of May 7, would be phrased along the same lines as the reply to Mr. Patman.

In commenting on the matter, Mr. Young referred to the considerable amount of continuing Congressional interest in the availability of financing to small business and expressed the view that this was an area where something should be done to improve the available data. At the same time, he doubted whether a loan survey was the most appropriate device for getting this information. A more constructive approach, he said, would be for the Board to sponsor a survey through some outside organization having the facilities to interview a large number of businessmen and obtain information on matters such as the different patterns of financing problems with which they are confronted, their ideas on how such problems might be met, the financing facilities used by small

5/9/57

-7-

businesses, the various sources of funds for small businesses, and the ways in which small businesses intended to meet the problems immediately ahead. He went on to say that the planning of such a survey would be a complicated matter and that the whole operation would involve considerable expense. Among other things, consideration might be given to setting up the initial survey with a view to repeating it at intervals if that proved to be desirable. In further comments, Mr. Young indicated that it would be some time, certainly at least a year, before such a survey could be planned and conducted, and the results made available.

Governor Vardaman suggested that in considering any such survey, it might be well to ascertain what information would be requested in connection with the announced monetary study of the Senate Finance Committee, in order to avoid duplication of effort. In all the circumstances, he felt that it might be desirable for the Board to have Mr. Young visit Representative Patman to discuss with him personally the problems involved in obtaining adequate data on the availability of credit to small business.

After further discussion of the matter, Governor Shepardson made a statement in which he said that this was an area of widespread interest, as Mr. Young had indicated, and one in which the Federal Reserve System lacked adequate factual information with which to respond to inquiries and criticisms. Therefore, although a comprehensive survey would take some time, he felt that it would be appropriate for the Board to give consideration to the undertaking of a study which would furnish

5/9/57

-8-

information not obtainable through a survey of bank loans. Along these lines, he suggested that the Board consider authorizing a staff task group to begin formulating plans for a survey of the type outlined by Mr. Young. This would make it possible to indicate to Representative Patman, either personally or by letter, that a comprehensive survey was in the planning stage.

Governor Mills expressed the view that one of the first jobs of such a task group should be to study the cost of the survey, both in terms of outside services and the time of System personnel that would be required. He also suggested that the task group should study whether a survey on this subject was properly within the purview of the System. The fact that monetary policy leaves the allocation of the total amount of credit to those with supplies of credit at their disposal led him to question whether a study of the kind suggested should be undertaken by the Federal Reserve or by other parties, such as the interested committees of the Congress.

Governor Shepardson agreed that the task group should give serious consideration to the cost of such a survey, but said that in his judgment the group must develop the approach that appeared most feasible before it would have a basis on which to make cost estimates. With regard to the second point mentioned by Governor Mills, it seemed to him that, admitting the System's primary concern with the over-all volume of credit, the questions that had been raised about the impact of general credit policy on the availability of financing to a significant

5/9/57

-9-

group of credit users were of sufficient importance in relation to the formulation of monetary and credit policy that the System should be fortified as well as possible with information bearing on the subject.

Governor Robertson agreed with this point of view and suggested certain changes in the letter to Representative Patman which might be appropriate if the Board was disposed to consider a survey of the credit needs of small business.

Governor Vardaman also expressed agreement concerning the desirability of studying the feasibility of such a survey and said that his only concern centered around the matter of the time that would be required. He asked whether there was anything else that could be done to produce relevant information in a shorter period.

On this point Governor Robertson suggested that in discussion with Mr. Patman, Mr. Young could outline the problem in terms of cost and time and could ask Mr. Patman if he had any thoughts on how appropriate information could be obtained more expeditiously.

Chairman Martin then suggested that the Board authorize Mr. Young to initiate a System staff study concerning a survey of small business financing, with the understanding that the staff recommendations would be brought back to the Board as promptly as possible and that, as proposed by Governor Vardaman, Mr. Young would call upon Representative Patman for a discussion of the problems involved in obtaining information of this character. In the light of comments by Mr. Molony, it was also suggested that revised drafts of letters to Messrs. Patman and Flora be prepared by the staff as promptly as possible for the Board's consideration.

5/9/57

-10-

There was unanimous agreement with these suggestions.

Financing of business expansion (Item No. 4). With a memorandum dated May 7, 1957, copies of which had been distributed to the members of the Board, Mr. Young submitted a draft of suggested reply to a letter from Representative Patman dated April 30, 1957, raising certain questions with regard to the use of retained earnings by businesses to finance investment outlays.

Following a discussion, during which agreement was expressed with an editorial change in the draft of reply suggested by Governor Robertson, unanimous approval was given to the letter to Representative Patman of which a copy is attached hereto as Item No. 4.

Mr. Cherry then withdrew from the meeting and Messrs. Sherman, Assistant Secretary, and Hexter, Assistant General Counsel, entered the room.

Repurchase agreements covering Government securities. At the meetings of the Board on March 20 and April 19, 1957, consideration was given to various aspects of repurchase agreements covering Government securities, including interbank transactions and transactions between banks and Government securities dealers. The principal question before the Board arose because of the proposal of the Comptroller of the Currency to issue, with the approval of the Secretary of the Treasury, a regulation under the provisions of paragraph 8 of Section 5200 of the Revised Statutes raising from 25 per cent to 100 per cent of capital and surplus the limitation on loans by national banks secured by Government securities

5/9/57

-11-

having maturities not exceeding 18 months. In a letter to Governor Robertson dated April 4, 1957, Deputy Comptroller of the Currency Jennings had expressed the view that application of the increased limitation should be uniform as between interbank and bank-dealer transactions. This expression brought the matter to the stage of agreement at the Board and the Comptroller's Office (1) that repurchase agreements covering Government securities should be regarded as loans, rather than securities transactions, that they should therefore not be subject to the provisions of Section 5136, Revised Statutes, but rather to the provisions of Section 5200, which are made applicable to State member banks by section 11(m) of the Federal Reserve Act, and (2) that, as loans, uniform treatment should be accorded to interbank and bank-dealer transactions. The remaining question, therefore, was whether the Board wished to make any comments to the Comptroller regarding the proposed increase in the limitation established under paragraph 8 of Section 5200.

At the meeting on April 19, it was understood that staff would prepare material which would afford a more concrete basis for further consideration of the matter. Accordingly, there had been circulated to the members of the Board prior to this meeting a file which included a memorandum from the Division of Examinations dated April 25, 1957, explaining the background of the problem, along with earlier memoranda from Mr. Riefler and the Legal and Examining Divisions, and the April 4 letter from Mr. Jennings.

5/9/57

-12-

At the beginning of the discussion, Governor Mills, who had raised certain questions during previous discussions of the subject, stated that while he would not go over the comments he had made previously, he would like to make certain additional observations. As he saw it, the effect of the proposed action on the part of the Comptroller of the Currency would be essentially to accommodate a relatively small number of nonbank dealers in Government securities by assisting them to obtain temporary funds with which to carry their portfolios. In so doing, the supervisory authorities would be permitting member banks to substantially expand their lending authority. He then raised a question whether the Board and the Comptroller had sufficient information to reach a judgment in the matter and suggested that more investigation might be needed to determine the present use by banks of the repurchase facility. If it should be found that banks do not rely on this facility extensively, attention would be focused on the problem of the Government securities dealers and the question whether the authority covering the bank-dealer arrangement should be expanded.

In response to an inquiry from Governor Balderston concerning the possible harmful effects foreseen by reason of increasing the limitation, Governor Mills said that his principal criticism concerned the fact that if member banks should be permitted to lend up to 100 per cent of their capital and surplus against short-term Government securities, an aggressive and active bank that was expanding its resources on borrowed money could do so without recourse to the Federal Reserve Bank, where borrowings would be scrutinized under the standards of Regulation A. If, under the revised limitation, Government securities with maturities

5/9/57

-13-

as long as 18 months could be used as collateral, theoretically it would be possible to make interbank loans up to 18 months and thus inject Federal funds into the commercial banking system for that length of time.

Governor Mills then said that as a matter of general reasoning he had always been dubious about expanding the lending authority of member banks against security even of the first order. The principle of allowing an enlarged lending authority in certain areas seemed to him to be questionable, and in the second place the very act of permitting loans of a size out of proportion to the general character of a loan that it is prudent for a bank to make appeared to him to be open to criticism. Furthermore, operations of this type would tend to dilute a bank's capital cushion, since assets inferior to the pledged Government securities would be brought into the bank's portfolio.

Mr. Riefler, who was asked to comment at this point, said he regarded it as fundamental to the discussion to remember that the repurchase agreement device had grown up outside of lending limitations. To get out of that situation and achieve some control by defining these transactions as loans raised other questions, but to revert to the earlier position would be a less satisfactory solution. The problems mentioned by Governor Mills, as he understood them, dealt mainly with the amount that a bank may borrow, not what it may lend. As Mr. Riefler saw it, all that the proposed action of the Comptroller would do on the

5/9/57

-14-

borrowing side would be to make it possible for a bank to borrow from one bank what it may now borrow from four or more banks. In substance, it seemed to him necessary that repurchase agreements be treated as loans, and he was not apprehensive about permitting loans on this type of collateral up to 100 per cent of a bank's capital and surplus.

In further discussion, Governor Robertson summarized the problem that had arisen from regarding repurchase agreements as securities transactions rather than loans, the problem created by shifting to the position of treating such transactions as loans, and the apparent need for remedial action to assure proper Government securities financing. After dealing with the nature and effect of the action proposed by the Comptroller, he said his principal concern was that this action might not prove sufficient to afford adequate financing to dealers and that, if this proved to be the case after a period of three or four months, it might be necessary to consider additional action. However, from studies made to date, he believed that the action might well suffice to take care of the situation. Accordingly, he supported the Comptroller's contemplated revision of the Investment Securities Regulation, and he recommended that the Board go along with the Comptroller's proposed action under paragraph 8 of Section 5200.

Governor Mills added to his previous comments by saying that it should be borne in mind that the greater the availability of credit to Government securities dealers, the less occasion will they have to enter into repurchase agreements at the Federal Reserve Bank of New York. Consequently, this would diminish the extent of the Federal Reserve's control

5/9/57

-15-

over the tone and condition of the market that may be exerted through the approval or disapproval of repurchase agreements. He also said that through the proposed increase in the lending limitation, banks would become armed with a new authority which some aggressive institutions might wish to exploit by requiring additional balances to be kept with them by dealers and correspondent banks in return for the service that could be rendered in the form of loans. Therefore, both the aggressive lender and borrower would, through a mechanism of this kind, be able to make greater use of lending and borrowing provisions of the law in a way that might prove detrimental to the best interests of the financial system. While he approved the decision to treat repurchase agreements as loans and realized that this action contracted the availability of a source of credit used by nonbank dealers in Government securities, he did not believe that the full effect of the decision was known. Therefore, he felt there was a question whether the further action now contemplated would injure the Government securities market, the general flow of funds through the Federal funds market, or, in a broader sense, the operations of member banks themselves.

On the first two points raised by Governor Mills, Governor Robertson said it must be remembered that the Federal Reserve Bank is a lender of last resort, so that banks go to the Federal Reserve only in the event they cannot get money elsewhere. The same, he said, is true in the case of Government securities dealers. So if the use of the Federal Reserve window should be minimized by the use of other credit,

5/9/57

-16-

he would consider the development beneficial and constructive. Regarding the other point made by Governor Mills, he said that the dealers had been asked about their ability to finance themselves under a situation where repurchase agreements were regarded as loans subject to the current limitation, and that it was the reaction of the dealers that it would be almost impossible for them to finance themselves.

Chairman Martin then said that he did not know how one could get answers to the questions that Governor Mills had raised without some experimentation, that there might be some risk attached to the step now contemplated, but that the Board was in a position where it could do no more than advise the Comptroller of the Currency and that he could not conceive of enough damage being done to warrant attempting to dissuade the Comptroller from taking action at this time. In other words, while it might be that the apprehensions of Governor Mills would be vindicated, he did not know how that could be ascertained except through experience.

Governor Mills commented that the difficulties he foresaw would, if they developed, be cumulative over a period of perhaps several years and that the more the problem developed, the greater would be the difficulty in bringing about correction.

Governor Vardaman stated that he would not like to see the Board do anything which would constitute seeming to make a protective record if difficulties should develop as the result of action taken by the Comptroller. In the circumstances, he felt that the Board must take an

5/9/57

-17-

affirmative position, watch the situation over a period of months or years, and then consider the matter further if developments should warrant.

Along these lines, it was suggested that the Board might ask the Federal Advisory Council for comment from time to time and also ask the Federal Reserve Bank of New York to keep the Board informed with regard to dealer transactions.

On the matter of procedure, Mr. Hexter pointed out that there had been no specific request from the Comptroller for the Board's views on this matter. It was understood that the Comptroller's Office would send to the Board shortly for comment a revision of the proposed Investment Securities Regulation. If the Board should respond favorably, the Comptroller presumably would issue the revised Regulation and at the same time, with the approval of the Secretary of the Treasury, would act under paragraph 8 of Section 5200 in the manner contemplated.

Thereupon, Governor Mills' reservations having been noted, it was agreed not to make any comment to the Comptroller of the Currency at this time concerning the proposed action.

At this point Messrs. Sloan, Masters, and Hexter withdrew from the meeting and Mr. Horbett, Associate Director, Division of Bank Operations entered the room.

Member bank reserve requirements. With reference to the general subject of member bank reserve requirements and more particularly to the

5/9/57

-18-

proposal developed by the Economic Policy Commission of the American Bankers Association for a change in the system of such requirements, there had been distributed to the members of the Board copies of (1) a letter dated April 22, 1957, from Mr. Jesse W. Tapp, Chairman of the Economic Policy Commission, expressing the hope that the Board might crystallize its thinking on the subject so that advantage might be taken of any opportunity to offer legislative proposals to the Congress, and (2) a letter dated May 6, 1957, from the Secretary of the Federal Advisory Council stating that at the joint meeting of the Board and the Council on May 14, 1957, the Council would be interested in knowing what progress the Board had made in its study of reserve requirements and, in particular, whether the Board had come to any conclusion regarding the proposal of the Economic Policy Commission.

Chairman Martin stated that on recent occasions when the subject of reserve requirements had come up for discussion, he had taken the position that, as far as his own thinking was concerned, it would be inappropriate to propose a change in the system of reserve requirements at a time when the economic situation continued to be one having inflationary characteristics. He then suggested that at the meeting with the Federal Advisory Council, the Board merely comment that it was studying the matter and that under present economic conditions it would not seem appropriate for the Board to make any legislative proposal.

While it was agreed unanimously that comments of the nature suggested by the Chairman would be proper at the meeting of the Board and

5/9/57

-19-

the Federal Advisory Council, Governor Shepardson remarked that in studying any plan for a change in the basis of reserve requirements, it would appear necessary to give careful consideration to the effect of the proposal on individual banks and on groups of banks. Therefore, while agreeing with Chairman Martin's position that present conditions were not conducive to submitting any legislative proposal, he suggested that it might be advisable to have members of the System staff go forward with tests of the various plans that had been offered so that at the proper time the Board would have this information at its disposal and would be in a position to move promptly.

In response to a question relating to the suggestion made by Governor Shepardson, Mr. Horbett said that at present the Board's staff was not engaged in testing any specific plan, but that call report information was available in punch card form to serve as the basis for any such tests. In addition, it was possible that certain data had been compiled at the Federal Reserve Banks which would be helpful.

Mr. Young added to Mr. Horbett's comments by saying that the staff was sufficiently familiar with the range and variety of plans that might be offered to make it possible to sift out the most feasible alternatives and conduct tests. He agreed with Governor Shepardson's thought that something would be gained by running tests of the leading plans on the basis of a uniform sample in order to have comparative data available at the proper time.

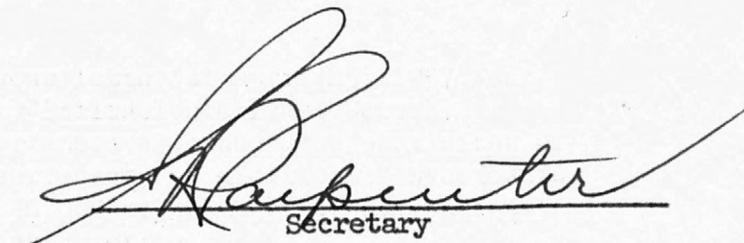
5/9/57

-20-

Other members of the Board having expressed agreement with the position that tests of this kind should be carried out, Chairman Martin suggested that Governor Mills be requested to act on behalf of the Board in its relations with the staff, including Mr. Thomas, Economic Adviser to the Board, looking toward the development of appropriate data.

There was unanimous agreement with this suggestion.

The meeting then adjourned.



A. R. Carpenter
Secretary

Item No. 1
5/9/57

May 9, 1957

Mr. E. C. Hill, Vice President,
Federal Reserve Bank of Philadelphia,
Philadelphia 1, Pennsylvania.

Dear Mr. Hill:

Reference is made to your letter of April 25, 1957, submitting the request of Fidelity-Philadelphia Trust Company, Philadelphia, Pennsylvania, for approval, under the provisions of Section 24A of the Federal Reserve Act, of additional investments in bank premises aggregating \$50,000 to be made for alterations or improvements to existing banking offices.

After consideration of the information submitted, the Board of Governors approves the additional investment of \$50,000 in banking premises of the Fidelity-Philadelphia Trust Company.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

Item No. 2
5/9/57

May 9, 1957

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

Dear Mr. Millard:

As recommended in your letter of April 22, 1957, the Board of Governors extends to December 21, 1957, the time within which the Security Trust & Savings Bank of San Diego, San Diego, California, may establish a branch in the vicinity of the intersection of College Avenue and Federal Boulevard, San Diego, California.

In view of the delay in establishing this branch the Board will not look with favor upon a further extension of time unless satisfactory progress is made in construction of the quarters to be leased and arrangements are made to commence operations within a reasonable time.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

Item No. 3
5/9/57

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

In the Matter of the Application of
Northwest Bancorporation for Approval
of Acquisition of Voting Shares of
First National Bank of Hoyt Lakes,
Hoyt Lakes, Minnesota

ORDER

The above matter having come before the Board on the application of Northwest Bancorporation, Minneapolis, Minnesota, dated February 11, 1957, filed pursuant to the provisions of section 3(a)(2) of the Bank Holding Company Act of 1956, for prior approval of acquisition by Northwest Bancorporation of direct ownership of 1,200 shares of a total of 1,250 voting shares of the proposed First National Bank of Hoyt Lakes, Hoyt Lakes, Minnesota, and it appearing after due consideration thereof in the light of the factors enumerated in section 3(c) of the Bank Holding Company Act of 1956 that such application should be granted,

IT IS HEREBY ORDERED that the said application be and hereby is granted and the acquisition by Northwest Bancorporation of 1,200 voting shares of First National Bank of Hoyt Lakes, Hoyt Lakes, Minnesota, is hereby approved, provided that such acquisition is completed within three months from the date hereof.

By order of the Board of Governors.

(SEAL)

(Signed) S. R. Carpenter
Secretary

Dated: May 9, 1957

Item No. 4
5/9/57

May 9, 1957

The Honorable Wright Patman,
House of Representatives,
Washington 25, D. C.

Dear Mr. Patman:

This is in reply to your letter of April 30, requesting information on retained earnings and bond prices.

According to figures compiled by the Securities and Exchange Commission and the Department of Commerce, corporate expansion since 1950 has been financed more heavily with external funds than earlier in the postwar period. In 1955 and 1956, in particular, there was a sharp increase in business dependence on borrowing from banks and from capital markets in order to finance rising outlays for plant and equipment and additions to working capital. To the extent that business expansion can be financed out of business saving, i.e., retained earnings, or through borrowing the savings of other sectors of the economy, there is likely to be less impact on prices than if the expansion is financed through the creation of additional money. In this period of intensive use of physical resources, Federal Reserve policy has had the effect of encouraging savings, and this in turn has worked to reduce pressures on the price structure.

Pressures of credit and capital demand last year exceeded the available supply of savings, however, and the natural result in a free market was a rise in the cost of funds. The inverse of this is a decline in the price of existing securities, most marked for long-term securities. There are no figures on the amount of the decline in book values of outstanding securities, but the rise in yields implies a decline of about 10 per cent in market prices of long-term private and Governmental bonds since January 1955.

The Honorable Wright Patman

Page 2

This, however, is not a measure of loss through price decline to the average individual investor, since the securities owned by individuals would have been bought at varying prices and at different times. Moreover, we are talking about marketable securities only; nearly half of the corporate bonds issued in the postwar period have been privately placed with savings institutions, and three-fourths of the U. S. Government securities held by individuals are savings bonds. Prices of these non-marketable securities do not fluctuate in the market, but an investor may suffer a loss from holding them if inflation robs him of purchasing power between the time he bought his bonds and the time they are redeemed. Since the average small investor channels much more of his savings into time deposits, life insurance, and U. S. Savings bonds than into marketable bonds, the real safeguard to his savings is a policy which prevents declines in the value of the dollar. He will suffer much more from an inflationary rise in the price of all the things he buys than from a temporary decline in the price of any marketable bonds he may hold.

It is well recognized that a decline in the prices of marketable bonds does, as you suggest, increase the reluctance of individuals to dispose of their holdings. Available data, however, do not suggest a withdrawal of individual investors from the bond market since early 1955. On the contrary, SEC figures on individual savings for the first three quarters of 1956 (the latest now available) show a substantial increase in individual holdings of municipal and corporate securities over the same period of 1955.

Figures are not available to indicate precisely the extent to which individuals also increased their investment in smaller businesses last year. It may be noted, however, that historically the principal source of expansion funds for smaller businesses is their own retained earnings, and these appear to have held up very well last year, at least in manufacturing industries. According to Federal Trade Commission and Securities Exchange Commission data, profits and profit margins for small manufacturing companies increased sharply in 1956, in contrast to smaller increases in profits and declines in profit margins for large companies.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.