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.

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Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, July 18, 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. Shepardson

Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Masters, Director, Division of Examinations
Mr. Williams, Assistant Director, Division of Research and Statistics
Mr. Hexter, Assistant General Counsel
Mr. Dembitz, Assistant Director, Division of Research and Statistics
Mr. Hostrup, Assistant Director, Division of Examinations
Mr. Allen, Economist, Division of Research and Statistics

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

Letter to Manufacturers Trust Company, New York, New York, approving the establishment of a branch at 1261-79 Avenue of the Americas. (For transmittal through the Federal Reserve Bank of New York)  

Letter to the Federal Reserve Bank of Philadelphia extending the time within which The First Pennsylvania Banking and Trust Company, Philadelphia, Pennsylvania, may establish a branch at City Line Avenue and Presidential Boulevard.  

Item No.
Letter to the Federal Reserve Bank of Richmond advising that the proposal of American Trust Company, Charlotte, North Carolina, to establish a branch at Douglas Municipal Airport in temporary quarters would not require action on the part of the Board in view of the Board’s previous approval of a branch in permanent quarters at the Airport.

Letter to the Presidents of all Federal Reserve Banks requesting comments regarding the use of the June 6, 1957, call date.

Inquiry of First Bank Stock Corporation regarding provisions of the Bank Holding Company Act (Item No. 5). In a letter dated April 9, 1957, transmitted through the Federal Reserve Bank of Minneapolis, First Bank Stock Corporation of Minneapolis, Minnesota, outlined its interests in the earnings of certain partnerships engaged in the sale of insurance and described the insurance activities of a subsidiary company, First Service Corporation. It then inquired whether the Board, in view of the provisions of the Bank Holding Company Act, would entertain an application for authority to acquire the shares of a new corporation which might be formed for the purpose of taking over such insurance activities. In a memorandum dated June 26, 1957, which had been circulated to the members of the Board, Mr. Hexter discussed the inquiry and expressed concurrence in the opinion of Counsel for the Federal Reserve Bank of Minneapolis that section 4(c)(6) can be applicable to shares of a corporation organized after the passage of the Act. With the memorandum was submitted a draft of letter to the Minneapolis Reserve Bank which would express such an
opinion. The letter would also indicate that the Board was not passing at this time on the question whether the proposed new corporation, and its activities, would be of such a character that section 4(c)(6) would be applicable.

When the file was in circulation to the members of the Board, Governor Shepardson suggested certain substitute language which would make it more explicit that the letter should not be construed as indicating that the Board would, if requested, make a determination under section 4(c)(6) that the new corporation would be "closely related" in the manner contemplated by the Bank Holding Company Act.

Agreement having been expressed with the substitute language suggested by Governor Shepardson, unanimous approval was given to a letter to the Federal Reserve Bank of Minneapolis in the form attached to these minutes as Item No. 5.

Mr. Hostrup then withdrew from the meeting.

Legislation proposed by the Department of Agriculture. The Bureau of the Budget had requested the views of the Board with respect to legislation proposed by the Department of Agriculture which would amend the Bankhead-Jones Farm Tenant Act and the Act of August 28, 1937, relating to farm ownership loans and to soil and water conservation loans, respectively. In general, the proposed legislation apparently was intended to provide greater flexibility in the administration of the loan program and to encourage extension of credit by private lenders. One provision would amend section 5200 of the Revised Statutes so as to
authorize national banks to make loans to an individual borrower in
an amount up to 25 per cent of the bank's capital and surplus if the
loan was insured as a farm ownership loan or a water conservation loan.

The communication from the Budget Bureau, dated June 27, 1957,
requested the Board's views within 30 days. However, a subsequent
telephone call from the Bureau indicated that the Bureau would appreci-
ate having such comments by the end of this week.

There had been distributed to the members of the Board copies
of a memorandum from Mr. Young, Assistant Counsel, summarizing the
proposed legislation and submitting a draft of possible letter to the
Budget Bureau. This letter would take the position that, with the
exception of the proposed amendment to section 5200 of the Revised Stat-
utes, the legislation would not affect directly the Board's credit and
monetary responsibilities. It would state, however, that the Board
would have some reservations concerning the desirability of the
amendment to section 5200.

Governor Shepardson stated that he had tried unsuccessfully
this morning to reach appropriate persons at the Department of Agri-
culture in an effort to clarify the objectives of the legislative pro-
posal and the reasons underlying the proposed amendment to section 5200.
However, from preliminary review of the matter it appeared to him that
the provisions of the draft bill, except possibly the section 5200
amendment, were justifiable.
After discussion had brought out the nature and extent of current exceptions to the general 10 per cent loan limitation contained in section 5200, Governor Shepardson observed that it would appear to preclude small country banks from meeting some of the credit needs of their communities. In view of the insurance and other provisions of the proposed legislation, it seemed doubtful to him whether lending operations under such provisions would be particularly hazardous to the banks concerned.

Governor Vardaman said that he saw no objection to the proposed increase in the lending limitation, that the principal question seemed to be one of the effect on the liquidity position of the lending bank, and that he felt judgments as to liquidity were primarily within the discretion of bank management. He further suggested that Governmental protective devices such as insurance of deposits and loans served to enable banks to operate more flexibly and that somewhat more liberal liquidity standards would appear to be appropriate under such conditions.

Governor Balderston said that to him the nature of the insurance program contemplated by the proposed legislation was not entirely clear and that it might be well to seek further clarification of the pertinent provisions. He referred, for example, to the provisions that would govern repurchase of the insured loans by the Government.
Governor Mills stated that although he had not had an opportunity to study the legislative proposal carefully, it appeared to give rise to certain rather difficult questions. The first of these questions related to the problems which might be created if any substantial volume of these loans should be sold to the Government at a time inconvenient to the Treasury. Also, questions had arisen from time to time in various connections as to whether the handling of guaranteed transactions by the Treasury directly was to the best advantage to the country from a fiscal standpoint. A further question related to the advantages held out to the small bank from handling this type of loan, since the proposed legislation would seem to encourage the small banking institution to engage in making loans of essentially an inferior quality, with authority to exceed the normal loan limitation on the basis that the loans were guaranteed by the Federal Government. In raising these questions, Governor Mills said, he merely wanted to bring out that there might be a number of problems involved which merited consideration.

At the conclusion of the discussion, Chairman Martin noted that the Board's reply to the Budget Bureau would not have to be sent until tomorrow. He therefore suggested that Governor Shepardson be asked to study the proposed legislation in greater detail and make recommendations to the Board at tomorrow's meeting.

There was unanimous agreement with this suggestion.
Chicago building program (Item No. 6). On January 29, 1957, the Board authorized preparation of detailed plans and specifications for an over-all program of additions to and alterations of the head office building of the Federal Reserve Bank of Chicago, in accordance with a program approved by the Bank's Board of Directors. Such plans and specifications had now been submitted, along with advice of their approval by the directors, and the Bank had requested permission to call for bids.

In a memorandum dated July 12, 1957, which had been circulated to the members of the Board, the Division of Bank Operations discussed the proposed construction and modernization program, the current cost estimates, and the proposal of the Bank to call for eight separate contracts in addition to the general contract, with the general contractor's bid to include a price for supervision and coordination of the other contracts. With the memorandum there was submitted a draft of telegram to the Chicago Reserve Bank which would state that the Board interposed no objection to the Bank's calling for bids on the basis of the plans and specifications, and in accordance with the procedure recommended by the directors. The telegram would also state that a summary report of the bids should be submitted to the Board in accordance with the usual practice, along with the recommendations of the Bank as to acceptance.

During discussion of the matter Governor Vardaman stated that although he had no objection to the building program per se, he wished to repeat his previously expressed position that the Board was in error
in permitting the Reserve Bank to go forward with the building program in the absence of an understanding with regard to the establishment of additional branches in the Seventh Federal Reserve District.

In this connection Governor Shepardson recalled his conversations earlier this year with President Allen, entered into at the Board's request, from which it seemed clear that increased operating volume had created a current and prospective need for additional space in Chicago regardless of what decision might be reached with respect to the establishment of additional branches. Regarding the branch question, he pointed out that Mr. Allen was now engaged in an objective reappraisal of the situation and was expected to make a report to the Board later this year.

After further discussion, which related principally to the scope, phases, and cost of the head office building program, approval was given to the telegram to the Federal Reserve Bank of Chicago of which a copy is attached hereto as Item No. 6.

Testimony before the Senate Finance Committee. Following a reference by Governor Vardaman to the tentative views expressed at the meeting on July 16, 1957, concerning proposed testimony by Chairman Martin before the Senate Finance Committee in connection with that Committee's hearings on Governmental financial and monetary policies, the Chairman suggested that it would seem advisable to defer further consideration of the testimony until such time as it became known more definitely when he would be requested to appear before the Committee.
Testimony before the House Banking and Currency Committee.

Chairman Martin reported briefly on testimony which he and Governor Robertson gave on Monday of this week concerning the proposed Financial Institutions Act, and on the questions raised with him by members of the Committee during the past three days concerning various matters more or less unrelated to the pending legislation. He said that according to current plans he would return to testify further before the Committee beginning next Thursday, July 25.

The meeting then adjourned.

Secretary's Note: Following discussion at the meeting on July 16, 1957, concerning the proposed basis of settlement with the National Bureau of Economic Research for excess costs incurred by the Bureau in connection with its contribution to the consumer instalment credit study, the Board referred the matter to Governor Shepardson with power to act after giving consideration to the views expressed by the Board. Governor Shepardson subsequently received from the Legal Division a memorandum dated July 17, 1957, which took the position that payment of an amount determined to represent the reasonable value of the benefits which the Board had received would be legally justified. Accordingly, with the approval of Governor Shepardson, the letter to the National Bureau of Economic Research of which a copy is attached hereto as Item No. 7 was sent on July 17, 1957.
Governor Shepardson approved today on behalf of the Board the following letters, copies of which are attached hereto under the respective item numbers indicated:

Letter to the Federal Reserve Bank of New York approving the appointment of four specified individuals as examiners and the appointment of five persons as assistant examiners.

Letter to the Federal Reserve Bank of Richmond approving the designation of Freeman Lee Moore, Jr., as special assistant examiner.

Item No. 8

Assistant Secretary
Board of Directors,
Manufacturers Trust Company,
Fifty Five Broad Street,

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors of the Federal Reserve System approves the establishment of a branch by the Manufacturers Trust Company, New York, New York, at 1261-79 Avenue of the Americas, New York, New York, provided the branch is established within two years from the date of this letter and the approval of State authorities is in effect at the time it is established.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.
July 18, 1957

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

Dear Mr. Hill:

In view of the circumstances outlined in your letter of July 9, 1957, the Board of Governors extends until April 3, 1958, the time within which The First Pennsylvania Banking and Trust Company, Philadelphia, Pennsylvania, may establish an in-town branch in the Madison House, Presidential Apartments, at the southeast corner of City Line Avenue and Presidential Boulevard, under the authorization contained in its letter of April 3, 1957.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.
Mr. N. L. Armistead, Vice President, Federal Reserve Bank of Richmond, Richmond 13, Virginia.

Dear Mr. Armistead:

Reference is made to your letter of July 2, 1957, recommending approval of the request of American Trust Company, Charlotte, North Carolina, for permission to establish its branch at Douglas Municipal Airport in temporary quarters in the Airport Auto Service building until permanent quarters are constructed. It is understood that the temporary quarters in the Airport Auto Service building are located at the Douglas Municipal Airport approximately 400 feet from the proposed permanent location.

The Board's letter of April 3, 1957, approved the establishment of a branch by American Trust Company at Douglas Municipal Airport and since both the temporary and permanent quarters to be occupied by the branch are situated on airport property, no further action on the part of the Board appears to be required.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.
Dear Sir:

The use of the June 6 call date has received fairly widespread publicity in the press. The Board would appreciate comments from the Reserve Banks regarding its reception and effect in the various districts and States.

Particularly, it would be appreciated if comments were offered as to the extent of window dressing of deposits (particularly interbank deposits) and borrowings at this call as compared with other recent calls, both of surprise date and regular date. These comments should include figures for individual banks or summary statistics, if they would help illustrate what took place.

It would be helpful if your comments include views of users of the statistics; for example, whether surprise call dates for all insured commercial banks result in truer comparisons or whether the use of irregular dates creates serious problems. The reply might also include comments as to the accuracy of reports of condition when the call is announced considerably after the call date.

Although specific inquiries of member banks or State banking departments are not suggested, any comments that are received from them with respect to the surprise element, statistical value, back dating, or other relevant points would be helpful.

A response to this letter is not requested until late August or early September, but it was thought desirable to make the inquiry at this time so that the various interested persons and departments in the Reserve Banks would have the matter in mind, particularly in their contacts with outsiders.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS
Mr. H. G. McConnell, Vice President,  
Federal Reserve Bank of Minneapolis,  
Minneapolis 2, Minnesota.  

Dear Mr. McConnell:  

This is in reply to your letter of April 11, with which you enclosed a letter from First Bank Stock Corporation dated April 9 and a copy of an opinion of your Bank's Counsel dated April 10.  

First Bank Stock proposes to organize a new Minnesota corporation and to acquire stock therein. The new corporation will not be a bank, and consequently First Bank Stock is concerned with the provision of section 4(a)(1) of the Bank Holding Company Act that prohibits a bank holding company from acquiring ownership "of any voting shares of any company which is not a bank". However, First Bank Stock contends that the proposed acquisition will not be subject to the quoted prohibition because it will come within the exemption provided by section 4(c)(6) with respect to shares of corporations "all the activities of which are of a financial, fiduciary, or insurance nature" and which are determined to be related to banking to the degree prescribed therein.  

The question whether the proposed new corporation, and its activities, will be of such character that section 4(c)(6) will be applicable is not presented to the Board by First Bank Stock's inquiry. The sole question presented at this time is whether, in any circumstances, section 4(c)(6) can be applicable to shares of a corporation that is organized after the passage of the Bank Holding Company Act and may not be in actual operation at the time of the hearing and the determination prescribed by that subsection.  

The Board of Governors concurs in the opinion of your Bank's Counsel that section 4(c)(6) is applicable to newly-organized corporations that will conform to the requirements of that exemption, as well as to corporations that are already in operation. In other words, the Board considers that for this purpose the first portion of section 4(c)(6) may be interpreted (as suggested by First Bank Stock) as if it read:  

"to shares of any company all the activities of which are [or are to be] of a financial, fiduciary, or insurance nature. . . ."
Likewise, the remaining portion of section 4(c)(6) may be interpreted as applying prospectively as well as to existing corporations.

First Bank Stock understands, of course, that it could not lawfully acquire stock of the new corporation unless and until the Board shall have determined, after hearing, that the new corporation would be "closely related" in the manner contemplated by the statute. Until such a determination was made, the new corporation would not meet the standards prescribed by section 4(c)(6), and any acquisition of its shares by a bank holding company would violate section 4(a)(1).

It will be appreciated if your Bank will transmit to First Bank Stock Corporation the substance of this letter. It should be made clear that the Board's position relates only to the question presented with respect to interpretation of section 4(c)(6); it does not relate to the legality or propriety of other features of the plan and should in no way be construed as indicating that the Board would, if requested, make a determination that the new corporation would be "closely related" in the manner contemplated by that section. It should also be mentioned that, while general administration of the Act is vested in the Board, its enforcement as a penal 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) Merritt Sherman

Merritt Sherman,
Assistant Secretary.
July 18, 1957

Allen - Chicago

Board will interpose no objection to your Bank's calling for bids for addition to, and alterations of, the Reserve Bank building on the basis of final plans and specifications referred to in your Bank's letter of May 29, 1957, and in accordance with the procedure recommended by the directors of your Bank as reported in your Bank's letters of June 26 and July 10, 1957.

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

(Signed) Merritt Sherman

Sherman.
July 17, 1957

Mr. William J. Carson,
National Bureau of Economic Research, Inc.,
261 Madison Avenue,

Dear Mr. Carson:

The Board has considered your letter of April 17 to Mr. Young which requests that it reimburse the National Bureau for all or part of the deficit which the Bureau incurred in connection with its contribution to the Consumer Credit Study.

It is the Board’s view that it would be appropriate for us to reimburse you in the amount of $3,272.49. This represents the full amount of the excess over your allowance for supervision and other indirect costs, plus one-half of that allowance. It is the Board’s feeling that this equal sharing of the overhead represents an equitable disposition of the matter in the circumstances.

You will find enclosed a voucher which authorizes payment of the amount specified.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

Enclosure
CONFIDENTIAL (FR)

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

Dear Mr. Phelan:


It is noted that Mr. Seguin and Mr. Skinner are indebted to Industrial Bank of Commerce, New York, New York, a nonmember bank, in the amounts of $400 and $324, respectively. Accordingly the Board's approval of their appointments as examiners is given with the understanding that they will not be permitted to participate in any examinations of Industrial Bank of Commerce until their loans have been liquidated or otherwise eliminated.

Please advise the Board as to the dates on which the appointments are made effective.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.
Mr. N. L. Armistead, Vice President,
Federal Reserve Bank of Richmond,
Richmond 13, Virginia.

Dear Mr. Armistead:

In accordance with the request contained in your letter of July 12, 1957, the Board approves the designation of Freeman Lee Moore, Jr. as a special assistant examiner for the Federal Reserve Bank of Richmond for the purpose of participating in the examinations of State member banks only.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.