

Minutes for July 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	<u>WM</u>	_____
Gov. Szymczak	<u>MS</u>	_____
<u>1</u> / Gov. Vardaman	_____	<u>x</u> _____
Gov. Mills	<u>x</u> _____	_____
Gov. Robertson	<u>x</u> <u>R</u>	_____
Gov. Balderston	<u>x</u> <u>CCB</u>	_____
Gov. Shepardson	<u>x</u> <u>SPS</u>	_____

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

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, July 19, 1957. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman 1/
 Mr. Balderston, Vice Chairman
 Mr. Szymczak
 Mr. Mills
 Mr. Robertson 1/
 Mr. Shepardson

Mr. Sherman, Assistant Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Thomas, Economic Adviser to the Board
 Mr. Masters, Director, Division of Examinations
 Mr. Williams, Assistant Director, Division of Research and Statistics
 Mr. Hexter, Assistant General Counsel

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 American Overseas Finance Corporation, New York, New York, regarding the liquidation of that corporation. (With a copy to the Federal Reserve Bank of New York)	1
Letter to the Comptroller of the Currency submitting a favorable recommendation regarding an application to organize a national bank at Melbourne, Florida. (With a copy to the Federal Reserve Bank of Atlanta)	2

Discount rates. There were presented telegrams proposed to be sent to the following Federal Reserve Banks approving the establishment

1/ Entered meeting at point indicated in minutes.

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without change by those Banks on the dates indicated of the rates of discount and purchase in their existing schedules:

Kansas City	July 12
Boston	July 15
Minneapolis	July 16
New York	July 18
Philadelphia	July 18

The telegrams were approved unanimously.

At this point Chairman Martin and Governor Robertson joined the meeting. Mr. Young, Assistant Counsel, also entered the room at this point.

Legislation proposed by the Department of Agriculture (Item No. 3). At the meeting of the Board yesterday, preliminary consideration was given to a draft bill proposed by the Department of Agriculture, on which the Board's views had been requested by the Bureau of the Budget, which would amend the Bankhead-Jones Farm Tenant Act and the Act of August 28, 1937, relating respectively to farm ownership loans and to soil and water conservation loans. It was understood at that time that Governor Shepardson would give further consideration to the draft bill and present his views to the Board.

At this meeting there were distributed copies of a revised draft of letter to the Budget Bureau which, after summarizing the nature of the proposed amendments, would state that most of the amendments did not directly affect the Board's credit and supervisory

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responsibilities and that the Board had no comments to make with respect to them. The letter would also state, with respect to those amendments bearing more closely on the Board's area of responsibility, that the Board offered no objection to the proposals made by the Department of Agriculture. The final paragraph, however, would reiterate the Board's belief that monetary and credit policy can be most effective when interest rates on direct and insured loans made by Government agencies are set to reflect primarily market conditions and are adjusted flexibly as market conditions change. The letter would conclude with the statement that the Board would be favorably disposed should an additional amendment be offered looking toward providing the Secretary of Agriculture greater administrative discretion in determining maximum rates on the loans covered by this legislation. These statements in the final paragraph were suggested in the light of the fact that the proposed amendments would make no change in the five per cent maximum rate that may be charged to borrowers on loans of this kind, although they would reduce from one per cent to one-half of one per cent the minimum portion of the interest that would be retained by the Government for administrative costs and insurance.

Governor Shepardson stated that after discussion with members of the Board's staff and clarification of certain points with the

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Department of Agriculture, it was his opinion, and that of the staff, that the Board could appropriately refrain from interposing objection to the proposed amendments submitted by the Department of Agriculture. Among other things, he noted that the programs covered by the proposed legislation were of relatively modest proportions. With respect to the final paragraph of the suggested letter, he said that it was included so that the Board might give consideration to whether it desired to use language of this kind. In explanation of the situation, he said that the Agriculture Department was experiencing difficulty in making these particular lending programs attractive to private lenders because of the statutory interest rate ceiling, that the Department was proposing to improve the situation by reducing the portion of interest retained for insurance and administrative expenses, but that the Department would welcome a suggestion by the Board for greater administrative discretion in determining maximum rates on these loans. In fact, he said, the Department took steps to raise the rate about two years ago, but opposition on the part of the Congress resulted in the fixing of the present statutory maximum rate. He went on to point out that at times in the past, particularly in connection with housing legislation, the Board had expressed itself to the Congress in favor of flexible ceiling rates on loans insured and guaranteed by the Government. In the circumstances, it was felt that the Board might wish to take substantially the same position on this occasion.

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In further comments Governor Shepardson said that the portion of interest proposed to be retained by the Department of Agriculture would not begin to cover administrative expenses of the Department attributable to servicing the loans in question. With respect to the proposed amendment to section 5200 of the Revised Statutes which would increase from 10 to 25 per cent of capital and surplus the limitation for national banks on loans of this kind, he explained that the 10 per cent limitation was preventing smaller national banks from making insured loans under these programs. He also said that due to various conditions imposed under the programs, a small national bank would have only a limited number of the insured loans in its portfolio.

Mr. Hexter supplemented the last comment by Governor Shepardson by pointing out that national banks are limited by law in the volume of real estate loans they may make. To the extent that the banks entered into the insured loan programs now under consideration, he said, they would be in effect reducing the permissible amount of other types of real estate loans. Mr. Hexter also stated that it had been ascertained that the Comptroller of the Currency's advice to the Budget Bureau concerning the current legislative proposals indicated that he did not object to them.

Governor Mills expressed the view that to make the statement suggested in the final paragraph of the draft letter would be like

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"whistling in the wind", for it was his opinion that the Congress almost certainly would take the position that where the Federal Government insures or guarantees certain loans, discretion as to the rate of interest to be charged should be restricted. With respect to the previous statements of the Board mentioned by Governor Shepardson, it was his recollection that they had been phrased in terms milder than those proposed to be used in the letter to the Budget Bureau. In all the circumstances, he would be inclined to omit the paragraph in question.

Governor Mills went on to say, however, that on some appropriate occasion the Board might wish to raise a question about the extent to which lending outside the budget under Federal guarantees should be encouraged. He suggested that consideration might well be given to returning to a system whereunder insured and guaranteed loan programs would be carried on with appropriated funds by the particular Government agencies concerned, so that it might be possible to make a better distinction between budgeted and non-budgeted expenditures, contingent liabilities, and commitments. In the programs under consideration, he said, difficulties might be created for the Treasury if a large volume of the insured loans had to be purchased by the Government at certain times.

After the question of including the final paragraph had been debated at some length in the light of the points raised by Governor

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Shepardson and by Governor Mills, it developed to be the view of the majority of the Board that an important enough principle was involved to justify calling attention again to the position that had been taken by the Board on other occasions. Accordingly, the proposed letter to the Budget Bureau was approved in the form submitted, it being understood that Governor Mills would have preferred omission of the final paragraph. A copy of the approved letter is attached to these minutes as Item No. 3.

Mr. Young then withdrew from the meeting.

Proposal of Hadley Falls Trust Company for revision of its capital structure (Item No. 4). On June 4, 1957, the Board advised the Federal Reserve Bank of Boston of its denial of the request of Hadley Falls Trust Company, Holyoke, Massachusetts, to retire outstanding preferred stock under a program for revision of the bank's capital structure which would result in a net reduction of capital funds in the amount of \$375,000. Subsequently, a representative of the trust company discussed the matter with the Board's Division of Examinations and an alternative proposal was submitted through the Boston Reserve Bank which would result in a reduction of capital funds in the amount of \$275,000 at the present time. This proposal was supported by the Commissioner of Banks for the Commonwealth of Massachusetts, who indicated that he would like to meet with the

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Board of Governors if the program was not approved. In the course of discussion with the trust company, the Reserve Bank had suggested another possible program which contemplated a more modest reduction of capital at the present time and a more even spacing of the capital stock transactions. While this suggestion was acceptable to the trust company, it was opposed by the Banking Commissioner. Upon further consideration, the Reserve Bank then made a favorable recommendation with respect to the alternative proposal that had been submitted by the trust company.

In a memorandum which had been circulated to the members of the Board, the Division of Examinations reviewed the matter and recommended, for reasons stated, that action on the alternative plan be deferred pending an examination of the trust company, with the suggestion that the Reserve Bank be asked to arrange for such an examination at an early date. This, it was felt, would enable the Board to act on the request in a more informed way, since the latest examination of the trust company dated back to September 1956.

At the request of the Board, Mr. Masters reviewed the original and alternative plans submitted by the trust company, the plan suggested to the trust company by the Federal Reserve Bank of Boston, the history of the trust company, and information now available concerning its current condition and prospects. He noted, among other things, that

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in submitting the more recent proposal the trust company had sought a commitment from the Board that, if the plan were approved, applications for certain additional branches which the trust company had under consideration would not be regarded adversely on the basis of capital inadequacy. It was Mr. Masters' view that no such commitment should be made and that any branch applications by the trust company should be reviewed by the Board, like any other branch applications, in the light of all the pertinent considerations.

Governor Mills, who had indicated when the file was in circulation to the Board that he would favor the recommendation of the Boston Reserve Bank that the alternative plan submitted by Hadley Falls Trust Company be approved, made a statement in support of his position in which he said that, although the trust company might not be as amply capitalized as could be desired, its capital structure apparently could be regarded as reasonably adequate. The management was acceptable and the bank, which had experienced severe difficulties in the past, was reported to be making good progress. He suggested that delay in acting on the alternative proposal might be taken to indicate that the Board entertained reservations about the bank's condition, and the bank's capital did not appear to him to be enough out of line to warrant further delay. After noting that application by the Division of Examinations of the formula currently used for tentative appraisal of bank capital showed in this case a capital

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deficiency of approximately \$400,000, Governor Mills said that although he recognized the value of such a formula, the Board and its staff should guard against being too strongly influenced by any mechanical guide and should give due consideration to factors such as the character of the bank's management and the quality of its assets.

In further comments Governor Mills stated that in a sense the problem had now been before the Board for some time. If, in such circumstances, the Board were to deny approval of the current proposal, there would be the risk of creating concern about the supervisory attitude toward the bank's position, for the trust company's management and shareholders apparently considered the plan reasonable and it had received the favorable consideration of the Federal Reserve Bank of Boston.

Governor Robertson supported the position of the Division of Examinations, saying that in a borderline case he deemed it better for the Board not to act until it had full information on which to reach a decision. If this involved awaiting the results of another examination of the applicant bank in such a situation, he would favor deferring action to the extent necessary. In this case, an examination had not been made since September 1956 and another examination would provide clarification as to interim developments. Therefore, it would seem unnecessary to deny the

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request or to overrule the recommendation of the Reserve Bank. The Board could merely delay taking action and request the Reserve Bank to arrange another examination of the trust company as soon as possible.

Following a general discussion of the matter based on the available factual information and the points of view expressed by Governor Mills and by Governor Robertson, during which Mr. Masters confirmed that all available evidence indicated a continuation of the bank's favorable progress, it was the opinion of a majority of the Board that the alternative program submitted by the trust company should be accepted. Accordingly, approval was given to a letter to the Federal Reserve Bank of Boston in the form attached to these minutes as Item No. 4, with the understanding that, as stated in the letter, this represented no commitment on the part of the Board with respect to the action that might be taken on applications for additional branches submitted by the trust company. On this action, Governor Robertson voted "no" for the reasons he had stated.

Operation Alert 1957. Governor Robertson, who had just returned from the Board's relocation site where he had represented the Board during this week's phase of Operation Alert 1957, gave a brief informal report in which he called attention particularly to the encouraging progress that had been made in reconciling the views of the Board, the Treasury, and other interested agencies with regard

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to policy questions in the area of preattack planning for postattack economic and financial rehabilitation.

On behalf of the other members of the Board, Chairman Martin expressed appreciation to Governor Robertson for his leadership of System activities incident to the exercise.

The meeting then adjourned.

Secretary's Notes: Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson approved on behalf of the Board on July 18, 1957, the following actions regarding the Board's staff:

Leave without pay

Joan Darby, Clerk, Division of Research and Statistics, for such time as may be necessary (probably until late September 1957) following such leave without pay as the Division may approve under current Board leave regulations.

Acceptance of resignations

Teresa S. Hutchinson, Stenographer, Legal Division, effective July 31, 1957.

Laura B. Robinson, Clerk, Division of Research and Statistics, effective July 28, 1957.

Eleanor Staples, Statistical Clerk, Division of Bank Operations, effective July 13, 1957.

Pursuant to the recommendation contained in a memorandum dated July 17, 1957, from Mr. Conkling, Assistant Director, Division

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of Bank Operations, Governor Shepardson today approved on behalf of the Board the appointment of Claudina V. Kane as Clerk-Stenographer in that Division, with basic annual salary at the rate of \$3,840, effective the date she assumes her duties.



Assistant Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 1
7/19/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 19, 1957

Mr. A. H. Stok, Vice President,
American Overseas Finance Corporation,
30 Pine Street,
New York 5, New York.

Dear Sir:

This refers to your letter of June 25, 1957, advising that on June 13, 1957, substantially all the assets then held by your corporation were transferred to American Overseas Finance Company, which assumed substantially all your liabilities. It is noted that as of June 13, 1957, your corporation ceased to do an active business as an Edge Act corporation. Your letter enclosed a certified copy of the minutes of a special meeting of stockholders, held June 4, 1957, at which the stockholders unanimously voted the liquidation and closing of the corporation and adopted a Plan of Liquidation.

It is further noted that the liquidation of your corporation has been in a large measure completed, except that there remain a few outstanding liabilities, which are being processed for payment. It is understood that you will advise the Board of Governors when the liquidation has been completed.

For the Board's records, it will be appreciated if you will furnish a detailed balance sheet of the corporation as of the "Closing Date" as defined in the Basic Agreement, showing assets and liabilities in parallel columns under these headings:

Assets at date of transfer
Assets transferred to American Overseas Finance Company
Assets to be liquidated

Liabilities at date of transfer
Liabilities assumed by American Overseas Finance Company
Liabilities unsatisfied

In connection with your reference to a certificate of dissolution, the matter is under consideration and you will be advised further as soon as practicable.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 2
7/19/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 19, 1957

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

Attention Mr. W. M. Taylor,
Deputy Comptroller of the Currency.

Dear Mr. Comptroller:

Reference is made to a letter from your office dated February 27, 1957, enclosing copies of an application to organize a national bank at Melbourne, Florida, and requesting a recommendation as to whether or not the application should be approved.

Information contained in a report of investigation of the application made by an examiner for the Federal Reserve Bank of Atlanta discloses generally favorable findings with respect to the adequacy of the capital structure of the proposed bank, its future earnings prospects, and the need for its services in the community. With respect to the management of the bank, it is indicated that the proposed executive officer is a man of broad experience except in the lending field, and that some strengthening in the board of directors would be desirable. One of the directors is interested in land which the bank proposes to lease as a site for a bank building and our informant is of the opinion that more reasonable arrangements should be made for the property. After considering the information available, the Board of Governors recommends approval of the application provided arrangements are made for management satisfactory to your office.

Comptroller of the Currency

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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.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

Item No. 3
7/19/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 19, 1957.



Mr. Phillip S. Hughes,
Acting Assistant Director for
Legislative Reference,
Executive Office of the President,
Bureau of the Budget,
Washington 25, D. C.

Dear Mr. Hughes:

This is in response to your communication of June 27, 1957, requesting the views of the Board concerning a draft bill proposed by the Department of Agriculture to amend Title I of the Bankhead-Jones Farm Tenant Act, and the Act of August 28, 1937, relating respectively to farm ownership and soil and water conservation loans.

The proposed amendments are apparently intended: (1) to provide greater flexibility and efficiency in the administration of this farm loan program; (2) to improve the functioning of the program by enhancing in a number of ways the attractiveness of these loans to private lenders; and (3) to make it easier for small banks to participate in the insured loan program by raising the maximum size of loans permitted to any one borrower from 10 per cent to 25 per cent of capital and surplus. The proposed amendments make no change in the legal maximum interest rate (5 per cent) that can be charged borrowers but reduces the minimum portion thereof that will be retained by the Government for administrative costs and insurance from one per cent to 1/2 per cent.

Most of the proposed amendments do not directly affect the Board's credit and supervisory responsibilities, and the Board has no comments to make with respect to them. On those amendments that bear more closely on its area of responsibility, the Board offers no objections to the proposals offered by the Department of Agriculture.

The Board would like to take this opportunity, however, to reiterate its belief that monetary and credit policy can be most effective when interest rates on direct and insured loans made by Government agencies are set to reflect primarily market conditions and are adjusted flexibly as market conditions change. Adherence to

Mr. Phillip S. Hughes

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such a policy generally will assure borrowers that no artificial barriers will be erected to impede their access to credit; it will encourage lenders to participate more actively in such loan programs; and it will permit Government agencies to avoid the complexities and added administrative burdens that develop when inflexible ceilings are established without close reference to changing credit market conditions. In view of the rapidly changing conditions in credit markets, the Board would be favorably disposed should an additional amendment be offered looking toward providing the Secretary of Agriculture greater administrative discretion in determining maximum rates on these loans.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 4
7/19/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 22, 1957



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

Dear Mr. Latham:

Reference is made to your letter of June 28, 1957, submitting for consideration, a revised plan of the Hadley Falls Trust Company, Holyoke, Massachusetts, to retire 4,000 shares (\$400,000) of its outstanding preferred stock. In addition to the retirement of preferred stock, the trust company proposed to increase the par value of the remaining shares of preferred stock on its books from \$60 to \$100 per share; to sell 2,500 shares of additional common stock at \$50 per share, and to increase the par value of common stock from \$30 to \$40 per share. It is proposed that additional retirements of preferred stock will be made about December 31, 1959, and on or before December 31, 1962.

Consideration has been given again to all of the information available with respect to the condition of the trust company and the various facts cited, including your favorable recommendation, with the result that the Board has approved the retirement of \$400,000, retirable value of preferred stock by the Hadley Falls Trust Company, provided its capital structure is simultaneously increased by the sale of \$125,000 common stock. This approval of retirement of preferred stock should not be interpreted as approval of any future retirements of preferred stock as outlined in the plan submitted by the trust company as such proposals would have to be considered on the basis of facts and circumstances then existing. Moreover, the Board does not deem it appropriate to make any commitments with respect to the amount of capital which may be required in connection with the future establishment of branches.

The Board feels that management of the trust company should continue to exert its active efforts to improve the bank's capital position.

Very truly yours,

Merritt Sherman,
Assistant Secretary.