

Minutes for August 8, 1957

To: Members of the Board

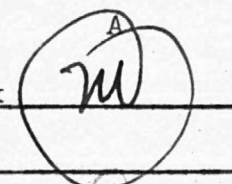
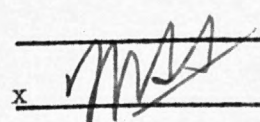
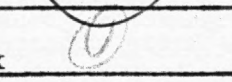
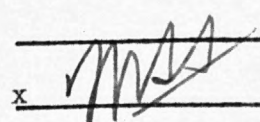

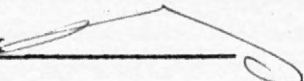

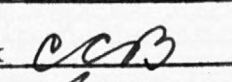
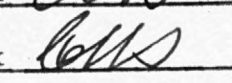
From: Office of the Secretary

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

It is proposed to place in the record of policy actions required to be kept under the provisions of Section 10 of the Federal Reserve Act an entry covering the item in this set of minutes commencing on the page and dealing with the subject referred to below:

Page 2 Approval of a discount
rate of 3-1/2 per cent
for the Federal Reserve
Banks of Philadelphia,
Chicago, Minneapolis,
and Kansas City.

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></u>	<u></u>
Gov. Szymczak	<u></u>	x <u></u>
Gov. Vardaman	x <u></u>	<u> </u>
Gov. Mills	x <u></u>	<u> </u>
Gov. Robertson	<u> </u>	x <u></u>
Gov. Balderston	x <u></u>	<u> </u>
Gov. Shepardson	x <u></u>	<u> </u>

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, August 8, 1957. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser to the Board
Mr. Masters, Director, Division of Examinations
Mr. Farrell, Assistant Director, Division of Bank Operations
Mr. Koch, Assistant Director, Division of Research and Statistics
Mr. Solomon, 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:

Letter to the Federal Reserve Bank of Chicago interposing no objection to the placing of an order to rent an electronic computer.

Item No.

1

Letter to the Comptroller of the Currency submitting an unfavorable recommendation with respect to an application to organize a national bank at Almeda, Texas. (This letter had been drafted in its revised form following receipt of the views of President Irons which the Board decided to request at the meeting on July 29, 1957. The letter was approved with the understanding that a copy would be sent to the Federal Reserve Bank of Dallas)

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Mr. Farrell then withdrew from the meeting.

Discount rates. Chairman Martin reported having received information to the effect that the Chicago Reserve Bank's directors, at their meeting today, might act to increase the Bank's discount rate of 3 per cent, subject to review and determination by the Board of Governors. He said that it would be helpful to him, particularly in view of a visit to the Treasury Department which he was scheduled to make later this morning, to have the thinking of the other members of the Board as to what their position would be if advice should be received later today that the Chicago directors or the directors of other Federal Reserve Banks had acted to increase the current discount rate.

In response, Governors Balderston, Mills, and Shepardson indicated that they would favor approving an increase to 3-1/2 per cent in the rate at the Chicago or other Reserve Banks if advice should be received that such action had been taken. Since Chairman Martin was of the same view, this made it clear that a majority of the Board would be disposed to approve Reserve Bank action to increase the rate and that it would not be necessary to get in touch with the absent members of the Board to establish the majority viewpoint.

Governor Vardaman stated that he would be inclined not to increase the discount rate at this time. In explanation, he said that his thinking revolved around the question of what good would

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be accomplished by increasing the rate and what reasons might be given unless there was evidence of an increase in member bank borrowing. In his view, the main purpose of the discount rate was to control such borrowing, and he questioned whether the rate should be raised in the absence of indication of abuse of the discount privilege. He also questioned the advisability of moving on the discount rate so shortly after announcement earlier this week of an increase from 4 to 4-1/2 per cent in the commercial bank prime interest rate, for he felt this might give the appearance that the change in the discount rate had been dictated by the change in the prime rate.

In response to a question as to how the maintenance of a 3 per cent discount rate might be explained with the prime rate at 4-1/2 per cent and a rate of roughly 4 per cent on Treasury one-year paper, Governor Vardaman expressed the view that the purpose of the discount rate was not to set a pattern of interest rates but rather to more or less police the borrowing of member banks.

In reply to questions by Governor Vardaman concerning the reasons that might be given for a discount rate increase at this time but did not obtain several weeks ago, reference was made to the problems posed by the large Treasury refinancing operation.

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In this connection, it was brought out that the subject of the discount rate had been a matter of discussion at meetings of the Federal Open Market Committee for some time, that some members of the Board and Reserve Bank Presidents would have favored earlier action on the discount rate, but that the matter of timing involved consideration of factors such as the Treasury financing.

Governor Vardaman then turned to questions relating to whether there was evidence of larger member bank borrowing following the increase in the prime rate, particularly in the Chicago area. The response was in terms that the figures for the report week which ended yesterday were not yet available, but that borrowing had been heavy the past several days and that in any event the matter should be looked at more from the standpoint of the level of borrowing over the past several weeks.

Following further discussion of recent credit developments which included reference to trends in member bank borrowing and the relationship of the discount rate to the commercial bank prime rate since 1951, Governor Vardaman said he recognized that discount rate action on the part of the System at this time would be simply following the trend of the general interest rate structure rather than setting a trend. He noted that his objection to a possible change in the discount rate several weeks ago was based primarily on the thought that action at that time would have tended to set the trend, and in his view the discount rate should not set but follow the trend.

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Governor Vardaman then inquired whether consideration should be given to the possibility of the establishment of penalty rates for continuous or repetitive borrowing in the thought that the whole banking system should not be penalized because of the performance of a relatively few member banks. The views expressed by other members of the Board on this point were to the effect that the establishment of penalty rates might be regarded as recognition of the right to borrow continuously, a higher rate would not prevent such borrowing, differentials would create difficult problems in the administration of the discount window, and the current circumstances would not seem to be propitious for suggesting such a plan in the absence of a favorable expression from the Reserve Banks.

At the conclusion of the discussion, Governor Vardaman stated that, although his views were along the lines that he had expressed at this meeting, he would go along reluctantly with approving an increase in the discount rate at this time, particularly so that the record would reflect a unanimous vote, if it was the opinion of the majority of the Board that this action should be taken.

It was then agreed that the Board would meet again this afternoon if advice should be received that the directors of one or more Federal Reserve Banks had acted to change the discount rate.

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Study of small business financing. At the suggestion of the Chairman, it was agreed to defer until another meeting of the Board further detailed discussion of the proposed study of small business financing which was most recently considered by the Board at the meeting on August 5, 1957.

However, Governor Vardaman repeated the reasons why he had opposed such a study by the Board in the absence of a more formal request at the Congressional level than had been received thus far.

Chairman Martin then commented on the Federal Reserve System's responsibilities in the field of small business credit and expressed doubt whether it would be advisable for the Board to step aside at this time and disclaim responsibility. He said that the small business problem was one of concern to everybody in Government, that he did not think there was any agency as well equipped as the Federal Reserve to undertake a study such as the one now proposed, and that he would favor carrying out the study as a constructive step in an area where the Board might have been remiss in the past in not providing more positive leadership. He felt that the Board now had a clear responsibility to come to grips with the credit aspects of the small business problem and that it should do the best job possible.

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Governor Vardaman said he did not think that he and the Chairman were far apart in their thinking. However, he had doubted the advisability of undertaking the small business study in the light of bills pending in the Congress that would require such a study by the Small Business Administration and because he did not regard the requests from Senator Fulbright and Congressman Patman as being sufficiently authoritative bases on which to proceed. Therefore, he would not favor launching the study at this time unless the Board clearly decided that it should make the study on its own volition.

Chairman Martin responded that this was exactly the basis that he would have in mind, that he would not want to make the study simply to please individual members of the Congress, and that he felt the study was one which the Board should undertake regardless of whether requests were received.

Governor Vardaman then stated that he would be willing to proceed with the study on a basis such as that suggested by the Chairman.

The meeting then recessed and reconvened at 3:00 p.m. with the same attendance as at the end of the morning session except that Mr. Masters was not present and Messrs. Fauver, Assistant Secretary, Thurston, Assistant to the Board, Molony, Special

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Assistant to the Board, and Farrell, Assistant Director, Division of Bank Operations, were present.

Discount rates (Items 3 to 8, inclusive). Advice had now been received that at meetings held today the directors of the Federal Reserve Banks of Philadelphia, Chicago, and Kansas City had established, subject to review and determination by the Board of Governors, a rate of 3-1/2 rather than 3 per cent on discounts for and advances to member banks under sections 13 and 13a of the Federal Reserve Act. The directors of the respective Banks had established increased rates for certain other items in their schedules of discount and purchase which were in appropriate alignment with the proposed 3-1/2 per cent rate.

Advice also had been received that the directors of six Federal Reserve Banks had established without change the rates of discount and purchase in their existing schedules. Such action was taken at Atlanta on August 5, 1957, at St. Louis on August 6, at San Francisco on August 7, and at Richmond, Cleveland, and Dallas today. (Subsequent to the meeting, information was received that, for reasons stated in the wire of advice, the New York Bank also had reestablished its existing rates of discount and purchase.)

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Governor Vardaman requested that the following statement be included in the minutes in explanation of his position:

I vote to approve an increase in the discount rate with great reluctance, and only because it is obvious that the prevailing rates on Treasurys and other available investments are such as to permit and encourage borrowing for profit by the Federal Reserve member bank. The precipitous increase in member bank borrowings during the past week offers strong evidence of this tendency on the part of the member bank. I do not, however, expect that this increase is sufficient to have a material effect in retarding the trend toward rising prices or on the over-all demand for credit.

Thereupon, it was voted unanimously to approve, effective August 9, 1957, the rates of discount and purchase established today by the Federal Reserve Banks of Philadelphia, Chicago, and Kansas City; and that if advice should be received subsequent to this meeting that the directors of other Federal Reserve Banks had likewise acted to establish a discount rate of 3-1/2 per cent, along with appropriate subsidiary rates of discount and purchase, they should be informed that the Board approved the establishment of such rates. It was also agreed that a press statement in the usual form should be issued at 4:00 p.m. EDT, that appropriate advice concerning the Board's action should be sent by telegram to all Federal Reserve Banks and branches, and that a notice should be published in the Federal Register.

Secretary's Note: Subsequent to the meeting, the Federal Reserve Bank of Minneapolis advised that the directors of that Bank had established

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at their meeting today a rate of 3-1/2 per cent on discounts and advances pursuant to sections 13 and 13a and other appropriate rates of discount and purchase.

Copies of the telegrams sent to the Federal Reserve Banks of Philadelphia, Chicago, Minneapolis, and Kansas City pursuant to the foregoing action are attached to these minutes as Items 3, 4, 5, and 6, respectively, and a copy of a supplemental telegram to Kansas City is attached as Item No. 7. A copy of the statement which was issued to the press is attached as Item No. 8.

Governor Vardaman stated that he had received from Mr. Thomas a memorandum discussing the use of a penalty rate applicable to persistent borrowing by member banks. He stated that he would like to have the memorandum distributed to the members of the Board and appropriate members of the staff, and it was understood that this would be done.

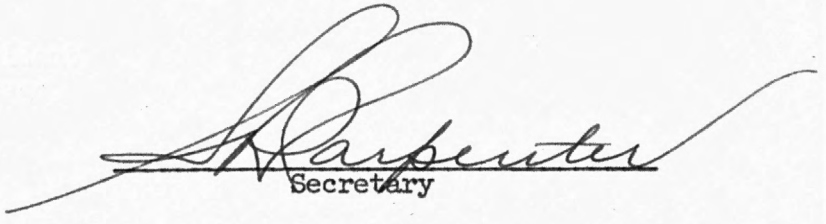
The meeting then adjourned.

Secretary's Note: Pursuant to the recommendation contained in a memorandum dated August 5, 1957, from Mr. Koch, Assistant Director, Division of Research and Statistics, Governor Shepardson today approved on behalf of the Board the appointment of Florence G. Moffett as Clerk in the Division of Research and Statistics, with basic annual

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salary at the rate of \$3,500, effective
the date she assumes her duties.


Secretary

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

Item No. 1
8/8/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 8, 1957



Mr. Carl E. Allen, Jr., President,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Allen:

This refers to your letter of July 26, 1957, stating that your Board of Directors had authorized, subject to approval by the Board of Governors, the placing of an order to rent an IBM 650 computer, equipped with disk memory, magnetic tape, and printer on-line output; and that the authorization included the pre-installation expenses which will be necessarily incurred prior to delivery of the computer.

It is noted from your letter that--

(1) The pre-installation costs are expected to range for other than salaries from \$40,000 to \$70,000, and for salaries from \$100,000 to \$135,000; and that the latter will be covered insofar as possible by present employees without additional expense.

(2) The immediate application of the computer would be limited to internal accounting routines, with application to other areas on the basis of experience; and that it is expected that the savings on accounting routines will at least equal the post-installation continuing expense.

(3) The order which will be placed with IBM will contain a clause providing that it may be canceled without cost to your Bank.

The Board sees no objection to this proposal, and will be interested in the progress of the undertaking.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.

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

Item No. 2
8/8/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 8, 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 May 27, 1957, enclosing copies of an application to organize a national bank at Almeda, Texas, 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 Dallas indicates that the proposed capital structure of the bank would be adequate based upon the anticipated volume of business to be acquired. The proposed bank is to be affiliated with the Bank of the Southwest National Association located in downtown Houston, which, no doubt, will be in a position to furnish satisfactory management. However, the prospects for profitable operations of the bank are not very favorable and there does not appear to be a sufficient need for the bank in the area at this time. It appears that the applicants first applied for a State charter and, when favorable action on that application was not taken, it was withdrawn and replaced by an application for a national bank charter. On the basis of the information available, it is believed that the organization of a bank at the proposed location is premature and, accordingly, the Board of Governors does not feel justified in recommending approval of the application.

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) S. R. Carpenter

S. R. Carpenter,
Secretary.

T E L E G R A M
LEASED WIRE SERVICEItem No. 3
8/8/57BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

August 8, 1957

McCreedy - Philadelphia

Reurtel today. Board approves effective August 9, 1957, rates of 3-1/2 per cent on discounts for and advances to member banks under Sections 13 and 13a, 4 per cent on advances to member banks under Section 10(b), and 4 per cent on advances to individuals, partnerships, or corporations other than member banks under last paragraph of Section 13. Board also approves establishment of rates from 3-1/2 per cent to 6 per cent on direct advances under Section 13b, including advances made in participation with financing institutions. Otherwise Board approves establishment by your Bank, without change, of rates of discount and purchase in Bank's existing schedule.

(Signed) S. R. Carpenter

CARPENTER.

T E L E G R A M
LEASED WIRE SERVICEItem No. 4
8/8/57BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

August 8, 1957.

Dawes - Chicago

Reurtel today. Board approves effective August 9, 1957, rates of 3-1/2 per cent on discounts for and advances to member banks under Section 13 and 13a, 4 per cent on advances to member banks under Section 10(b), and 4-1/2 per cent on advances to individuals, partnerships, or corporations other than member banks under last paragraph of Section 13. Board also approves establishment of rates from 3-1/2 per cent to 6 per cent on direct advances under Section 13b, including advances made in participation with financing institutions, with minimum charge on commitments of 1/2 per cent. Otherwise Board approves establishment by your Bank, without change, of rates of discount and purchase in Bank's existing schedule.

(Signed) S. R. Carpenter

Carpenter

T E L E G R A M
LEASED WIRE SERVICE

Item No. 5

8/8/57

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

August 8, 1957.

Deming - Minneapolis

Reurtel today. Board approves effective August 9, 1957, rates of 3-1/2 per cent on discounts for and advances to member banks under Sections 13 and 13a, 4 per cent on advances to member banks under Section 10(b), and 4-1/2 per cent on advances to individuals, partnerships, or corporations other than member banks under last paragraph of Section 13. Board also approves establishment of rates from 4 per cent to 6 per cent on direct advances under Section 13b, including advances made in participation with financing institutions; and commitments under Section 13b--

(a) to make advances direct to industrial or commercial businesses--10 to 25 per cent of rate to be charged borrower with minimum of 1/2 per cent;

(b) to financing institutions 10 to 25 per cent of rate charged borrower with minimum of 1/2 per cent provided that no commitments shall be given on loans on which borrower is charged more than 6 per cent.

Otherwise Board approves establishment by your Bank, without change, of rates of discount and purchase in Bank's existing schedule.

(Signed) S. R. Carpenter

Carpenter

T E L E G R A M
LEASED WIRE SERVICEItem No. 6
8/8/57BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

August 8, 1957

Hall - Kansas City

Reurtel today. Board approves effective August 9, 1957, rates of 3-1/2 per cent on discounts for and advances to member banks under Sections 13 and 13a, and 4 per cent on advances to member banks under Section 10(b). Otherwise Board approves establishment by your Bank, without change, of rates of discount and purchase in Bank's existing schedule.

(Signed) S. R. Carpenter

CARPENTER

T E L E G R A M
LEASED WIRE SERVICEItem No. 7
8/8/57BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

August 9, 1957.

Hall - Kansas City

Reur supplemental wire yesterday. Board approved effective August 9, 1957, rate of 4-1/2 per cent on advances to individuals, partnerships, or corporations other than member banks under last paragraph of Section 13.

(Signed) S. R. Carpenter

Carpenter

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 8
8/8/57

Statement for the Press

For immediate release

August 8, 1957.

The Board of Governors of the Federal Reserve System today approved action by the directors of the following four Federal Reserve Banks increasing the discount rates of those Banks, effective Friday August 9, 1957, to 3-1/2 per cent.

Federal Reserve Bank of Philadelphia

Federal Reserve Bank of Chicago

Federal Reserve Bank of Minneapolis

Federal Reserve Bank of Kansas City

The rate previously in effect at these banks was 3 per cent.