

Minutes for August 14, 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 7 Approval of a discount rate of 3-1/2 per cent for the Federal Reserve Bank of San Francisco.

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>MM</u>	<u>MAS</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>MB</u>	<u> </u>
Gov. Shepardson	x <u>MS</u>	<u> </u>

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, August 14, 1957. The Board met in the Board Room at 2:30 p.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. Johnson, Controller, and
 Director, Division of Personnel
 Administration
 Mr. Masters, Director, Division of
 Examinations
 Mr. Cherry, Legislative Counsel
 Mr. Solomon, Assistant General
 Counsel

Letters from Congressman Patman. Chairman Martin called attention to three letters received late yesterday afternoon and today from Congressman Patman of Texas, the first of which referred to the reports of examination of the Federal Reserve Banks and the report of audit of the System Open Market Account which were sent several days ago to the Chairman of the House Banking and Currency Committee at Mr. Patman's request. In his letter of August 9, 1957, transmitting the reports, Chairman Martin stated that they were being sent to the Committee with the understanding that they might be made available in confidence only to members of Congress, their staffs, and the staff of the Committee, this being the same basis on which

8/14/57

-2-

similar reports were sent to the Committee in 1954. Mr. Patman's letter stated that it would be convenient to him and his staff if the reports could be removed from the quarters of the Committee to a room in another Government building across the street known as George Washington Inn. The letter also stated that Mr. Patman would personally guarantee that no one would enter the room who was not working for him on his staff, that there would be no leaks of information, and that the reports would be kept in perfect condition and returned in good order.

In a discussion of what response would be appropriate, Governor Vardaman suggested writing a letter to Committee Chairman Spence in which, after reference to the receipt of Mr. Patman's letter, a statement would be made along the lines that inasmuch as the reports had been sent by the Board to the Committee upon request, the matter of their physical location would appear to be within the responsibility of the Committee and the Board would consider it appropriate for the question to be governed by the Committee's views as to the proper use of the documents.

Agreement having been expressed with the approach suggested by Governor Vardaman, Mr. Solomon was requested to prepare a letter to Mr. Spence for the Chairman's signature, with the understanding that the letter would be sent in Chairman Martin's discretion after he had talked with Mr. Spence.

8/14/57

-3-

The other two letters from Congressman Patman requested information in several different categories, including information on the waiver of penalties against member banks for failure to maintain required reserves, the classification of member banks for reserve purposes, and the operation of the System Open Market Account.

Consideration of these letters led to a general discussion concerning types of information which the Board should refrain from divulging to outside parties in the public interest. With specific reference to the letters from Mr. Patman, it was noted that the answers to the first could be compiled quite readily but that the reply to the other letter would require the gathering of a considerable amount of data. It was understood that the replies would be sent at the earliest opportunity and that an interim acknowledgment would be made.

Mr. Cherry then withdrew from the meeting.

Request from the Civil Service Commission. Governor Shepardson referred to a request from the Civil Service Commission for a report on Board employees by occupational series as established under the Civil Service Classification Act. By way of background, he said that in 1951 somewhat similar information was requested by the Civil Service Commission but not furnished. However, in 1955 the Board, in a gesture of cooperation, supplied information of this kind to the Civil Service Commission and the National Science Foundation in connection with a study of the availability of professional personnel.

8/14/57

-4-

The current request, he said, was received several months ago and had been a matter of negotiation by the Division of Personnel Administration, which was unsuccessful in obtaining withdrawal of the inquiry. A letter addressed to Chairman Martin had now been received from Mr. John W. Macy, Jr., Executive Director of the Civil Service Commission, quoting a regulation of the Commission with regard to such requests and stating that this regulation, promulgated under authority of the President, had the effect of a legal requirement for agencies within the Executive Branch of the Government.

Governor Shepardson went on to say that at one stage consideration was given to the possibility that certain basic information from the Board's payroll records could be turned over to the Commission for adaptation for the purpose of the survey, but that the Division of Personnel Administration doubted whether the Commission would be able to refine this basic information successfully. He said it had been his feeling - a view which he had conveyed to the Personnel Division - that the request probably need not be complied with, since it appeared to be of the same general nature as various reports collected from time to time by the Commission from agencies that are under Civil Service. However, in view of the letter from Mr. Macy, he felt that the matter should be brought to the Board's attention.

In an ensuing discussion, the thought was expressed that if the data were to be furnished, the basis would have to be one of

8/14/57

-5-

cooperation rather than compliance under the terms of Mr. Macy's letter, which inferred that the Board was bound by regulations applicable to agencies in the Executive Branch of the Government. In the circumstances, Governor Shepardson was requested to get in touch with Mr. Macy, advise him of the Board's desire to be as cooperative as possible in matters of this kind, clarify why the Board could not comply with the request on the basis indicated in the letter, and suggest that if the material was desired on a cooperative basis the Board would be glad to consider a letter written to its Chairman by the Chairman of the Commission.

Messrs. Riefler, Thomas, and Johnson then withdrew from the meeting.

Items distributed or circulated to the Board. The following items, which had been distributed or 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>
Memorandum from Mr. Johnson recommending that the Board authorize payment to the Retirement System of the Federal Reserve Banks of an amount representing the Board's accrued liability for employees under the Bank Plan by reason of the pending changes in retirement benefits.	1
Letter to the Federal Reserve Bank of Atlanta approving the appointment of William B. Morgan as Alternate Assistant Federal Reserve Agent.	2

8/14/57

-6-

	<u>Item No.</u>
Letter to the Federal Reserve Bank of San Francisco approving the appointment of Charles V. Hinman as Federal Reserve Agent's Representative at the Portland Branch.	3
Letter to Bank of America, New York, New York, approving a proposed increase in the Bank's capital stock. (For transmittal through the Federal Reserve Bank of New York)	4
Letter to the Federal Reserve Bank of Atlanta relating to the request of Consolidated Naval Stores Company for a tax certification under the Bank Holding Company Act.	5

Proposed purchase by The Chase Manhattan Bank of certain corporate stock. There had been circulated to the members of the Board a file relative to the proposed investment of \$25,000 by The Chase Manhattan Bank, New York, New York, in the stock of Manch, Inc., a corporation which would act as nominee to hold title to FHA and VA mortgages held in certain labor union trusts for which the member bank acts as custodian for a group of individual trustees. This file indicated that the bank had been advised by the Office of the Comptroller of the Currency that in the case of a national bank the Office would not object to the stock acquisition, the view being that the expenditure was a necessary cost of doing business and must be charged to expense. It also appeared that an officer of the Federal Reserve Bank of New York had advised a representative of the member bank that in his opinion the Board would take the same view as the

8/14/57

-7-

Comptroller's Office. Upon review, however, the Board's staff concluded that the stock purchase was not permitted by any provision of the law and that it would constitute a violation of section 5136, Revised Statutes. A suggested letter to the New York Reserve Bank would take this position, ask that the member bank be notified of the Board's opinion, and request that in any future case of this kind the Reserve Bank take the matter up with the Board before giving an opinion as to the legality or propriety of the proposed action.

Following preliminary discussion of the matter which indicated that the members of the Board were interested in developing fully the legal and practical aspects of the situation, it was agreed, at the suggestion of Chairman Martin, to hold the item over for further consideration at another meeting of the Board.

The meeting then adjourned.

Secretary's Note: During the day advice was received from the Federal Reserve Bank of San Francisco that the directors of that Bank had established, subject to review and determination by the Board of Governors, a rate of 3-1/2 per cent on discounts for and advances to member banks under sections 13 and 13a of the Federal Reserve Act, along with appropriate subsidiary rates of discount and purchase. Pursuant to the authority given at the meeting on August 12, 1957, the Secretary sent to the Reserve Bank a telegram in the form attached hereto as Item No. 6.

8/14/57

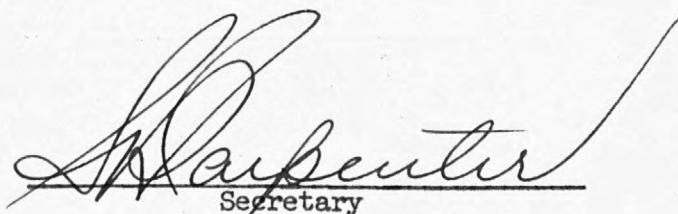
-8-

Secretary's Note: In order to enable them to consider in the preparation of their final report comments made by Governors Balderston and Szymczak on a draft of the report, Governor Shepardson today approved on behalf of the Board extension of the appointments of Messrs. Leslie R. Rounds, Chester Morrill, and George B. Vest as Consultants to the Board, on the same contractual basis as originally approved by the Board, for such additional days after August 16, 1957, as might be necessary in the judgment of the Vice Chairman for the completion of their assignment.

Secretary's Notes: Governor Shepardson approved on behalf of the Board on August 13, 1957, a letter to the Federal Reserve Bank of New York, of which a copy is attached hereto as Item No. 7, approving the appointment of Walter E. Jones as examiner.

Pursuant to the recommendation contained in a memorandum dated August 9, 1957, from Mr. Marget, Director, Division of International Finance, Governor Shepardson also approved on behalf of the Board on August 13, 1957, acceptance of the resignation of Anna I. Sansalone, Clerk in that Division, effective August 9, 1957.

Governor Shepardson today approved on behalf of the Board a letter to the Federal Reserve Bank of Philadelphia, of which a copy is attached hereto as Item No. 8, approving the appointment of Wayne H. Hainley as assistant examiner.


Secretary

Office Correspondence

Date August 8, 1957

Board of Governors

Subject: Payment of Accrued Liability
to Retirement System

E. J. Johnson

Attached is a letter dated August 5, 1957, from the Secretary of the Retirement System of the Federal Reserve Banks advising of the accrued liability payment with respect to Board employees who are under the Bank Plan. This results from the changes in the benefits by reason of the amendments to the Rules and Regulations adopted by the Trustees on July 29, 1957.

Recommendation

It is recommended that the Board authorize the payment to the Retirement System of \$8,281 (of the total amount of \$8,343,289 for the Banks and the Board) representing its accrued liability.

Comments

Four employees were still under the Bank Plan at the time of the preparation of the actuary's estimates of accrued liabilities. Since that time one employee has changed to the Board Plan and the three remaining employees have this under consideration with the decision required by September 1, 1957, as set by the Board. It is understood that any additional adjustment for accrued liability resulting from these employees changing to the Board Plan will be made in the actuarial rate established at the time of the next valuation on February 28, 1958.

(Signed) E. J. Johnson

Attachment

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

Item No. 2
8/14/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 14, 1957



Mr. Walter M. Mitchell,
Federal Reserve Agent,
Federal Reserve Bank of Atlanta,
Atlanta 3, Georgia.

Dear Mr. Mitchell:

In accordance with the request contained in your letter of August 5, 1957, the Board of Governors approves the appointment of Mr. William B. Morgan as Alternate Assistant Federal Reserve Agent at the Federal Reserve Bank of Atlanta.

This approval is given with the understanding that Mr. Morgan will be solely responsible to the Federal Reserve Agent and the Board of Governors for the proper performance of his duties, except that, during the absence or disability of the Federal Reserve Agent or a vacancy in that office, his responsibility will be to the Assistant Federal Reserve Agent and the Board of Governors.

When not engaged in the performance of his duties as Alternate Assistant Federal Reserve Agent he may, with the approval of the Federal Reserve Agent and the President, perform such work for the Bank as will not be inconsistent with his duties as Alternate Assistant Federal Reserve Agent.

It will be appreciated if Mr. Morgan is fully informed of the importance of his responsibilities as a member of the staff of the Federal Reserve Agent and the need for maintenance of independence from the operations of the Bank in the discharge of these responsibilities.

It will also be appreciated if Mr. Morgan's executed Oath of Office, with advice as to the effective date of his appointment, is forwarded to the Board.

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. 3
8/14/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 14, 1957



AIR MAIL

Mr. A. H. Brawner, Federal Reserve Agent,
Federal Reserve Bank of San Francisco,
San Francisco 20, California.

Dear Mr. Brawner:

In accordance with the request contained in your letter of July 31, 1957, the Board of Governors approves the appointment of Mr. Charles V. Hinman as a Federal Reserve Agent's Representative at the Portland Branch to succeed Mr. Donald H. Goetz.

This approval is given with the understanding that Mr. Hinman will be solely responsible to the Federal Reserve Agent and the Board of Governors for the proper performance of his duties, except that, during the absence or disability of the Federal Reserve Agent or a vacancy in that office, his responsibility will be to the Assistant Federal Reserve Agent and the Board of Governors.

When not engaged in the performance of his duties as Federal Reserve Agent's Representative Mr. Hinman may, with the approval of the Federal Reserve Agent and the Vice President in charge of the Portland Branch, perform such work for the Branch as will not be inconsistent with his duties as Federal Reserve Agent's Representative.

It will be appreciated if Mr. Hinman is fully informed of the importance of his responsibilities as a member of the staff of the Federal Reserve Agent and the need for maintenance of independence from the operations of the Bank in the discharge of these responsibilities.

It is noted from your letter that Mr. Hinman will execute the usual Oath of Office, which will be forwarded to the Board of Governors with advice of the effective date of his appointment.

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. 4
8/14/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 14, 1957



Mr. Russell G. Smith,
Executive Vice President,
Bank of America,
40 Wall Street,
New York, New York.

Dear Mr. Smith:

This refers to your letter of July 19, 1957, and enclosures, requesting the Board's approval of a proposal to increase the capital stock of Bank of America.

It is noted that the capital stock of Bank of America is to be increased from \$13,000,000 consisting of 130,000 shares to \$23,000,000 consisting of 230,000 shares, the additional shares to be sold at \$100 per share.

The Board approves the proposed increase in the capital stock of Bank of America and the proposed amendment to the Articles of Association of Bank of America in this connection. The Board's approval is given without regard to any additional capital that may be necessary in the event that Bank of America, after obtaining the Board's further and final approval, consummates the proposed purchase of the stock of Banca d'America e d'Italia.

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. 5
8/14/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 14, 1957



Mr. J. E. Denmark, Vice President,
Federal Reserve Bank of Atlanta,
Atlanta 3, Georgia.

Dear Mr. Denmark:

This is with further reference to your letter of May 29, 1957, enclosing a letter of May 24 from Mr. F. Elgin Bayless, President of Consolidated Naval Stores Company, with respect to tax certification in connection with Consolidated's proposed distribution of shares of the Barnett National Bank and Barnett National Securities Corporation of Jacksonville. The Board has now received from the Internal Revenue Service a ruling on the question mentioned in the Board's letter of June 26 to you; a copy of that ruling is enclosed for the consideration of your Bank's counsel.

The last three paragraphs of Mr. Bayless' letter indicate a possible misunderstanding of the tax provisions of the Bank Holding Company Act. As pointed out in previous correspondence, section 1103(b) of the Internal Revenue Code calls for certification by the Board that the corporation concerned satisfies all requirements for "qualified bank holding corporation" status. One of these requirements is that the corporation "is a bank holding company". Internal Revenue Code, §1103(b)(1). A second requirement, as it appears to apply to this case, is that the corporation either (a) "would have been a bank holding company on May 15, 1955, if the Bank Holding Company Act of 1956 had been in effect on such date", or (b) "is a bank holding company determined solely by reference to . . . property acquired by it on or before May 15, 1955". Internal Revenue Code, §1103(b)(2)(A).

These statutory provisions are mandatory, and the Board has no discretion to waive them. Consequently, the Board cannot make the requested certification unless it is established that Consolidated not only (1) is a bank holding company at the present time, but also (2) either was a bank holding company on May 15, 1955, or is a bank holding company determined solely by reference to property acquired on or before May 15, 1955. In other words, with respect to "(1)", if the "agricultural exemption" (§2(a)(E) of the Act) applies to Consolidated at the present time, the Board could not make the requisite certification. With respect to "(2)", under the enclosed interpretation of section 1103(b)(2) of the Internal Revenue Code, section 2(a)(E) would not prevent an affirmative finding by the Board if, upon evaluation of all

Mr. J. E. Denmark

- 2 -

property that is presently held by Consolidated but was acquired by it on or before May 15, 1955, it appeared that less than 80 per cent of such property consisted of holdings in the field of agriculture.

Since it is essential, in order to establish that the first requirement enumerated above is satisfied, to establish the value of all of Consolidated's present assets, it would seem advisable, when that valuation has been made, to ascertain whether the second requirement is satisfied (that is, that section 2(a)(E) is not applicable) with respect to Consolidated's present assets that were acquired on or before May 15, 1955. If section 1103(b)(2)(A) can be satisfied on that basis, it would obviate the need for any appraisal of the value of Consolidated's assets on May 15, 1955, which presumably would reduce substantially the work and expense that will be involved in the making of appraisals in this case.

The legal questions dealt with in the preceding paragraphs are unusually complex and technical, and the foregoing explanation may not be sufficient to present the matter clearly. In that event, your General Counsel may consider it advisable to telephone the Board's staff for the purpose of discussing such questions in more detail.

Mr. Bayless also inquires regarding the appropriate procedure for appraisal of the assets of his company. The Board of Governors does not have any employees who would be available and qualified to appraise Consolidated's assets. While persons in your Bank would, no doubt, be in a position to appraise some of Consolidated's assets, it is felt that since the appraisal of a sizeable portion of the assets is not within the ordinary functions of your Bank, all appraisals should be furnished by Consolidated. Therefore, Mr. Bayless should be told that it will be necessary for Consolidated to engage independent appraisers, and that it would be advisable to make certain in advance that the Board would regard the persons selected by Consolidated to be qualified for this purpose.

Mr. Bayless refers to the possibility of supplying "affidavits of reputable real estate, citrus men, or bankers". Suitable affidavits or certificates from such persons probably would be acceptable if they were qualified to make sound independent appraisals, and if the affidavit or certificate was based on an adequate investigation of the properties appraised. It is doubtful whether an affidavit of Consolidated's Secretary as to the market value of its stocks would constitute a satisfactory "independent appraisal", and it might not prove excessively burdensome to obtain an appraisal of such assets from one or more reputable securities dealers or brokers.

Mr. J. E. Denmark

- 3 -

Mr. Bayless also inquires whether certain enumerated assets would be included among Consolidated's "holdings in the field of agriculture" within the purview of section 2(a)(E) of the Act. These questions may be very complex, as a legal matter, and their answers necessarily will depend upon the circumstances in each case. Presumably all such assets will have to be appraised in any event, in order to ascertain the value of Consolidated's "total assets". Accordingly, it seems advisable to the Board to postpone consideration of these questions until the assets have been appraised, since it may be unnecessary to decide those questions, or some of them, depending upon the total and individual values established by the appraisal.

The Board will appreciate your transmitting to Consolidated the substance of this letter. It is suggested that any data Consolidated submits be in duplicate, in order that one copy may be immediately transmitted to the Board and one copy retained by your Bank. After a review of such data, please give the Board the benefit of your comments.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.

Enclosure

T E L E G R A M
LEASED WIRE SERVICEBOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTONItem No. 6
8/14/57

August 14, 1957.

Millard - San Francisco

Reurtel today. Board approved, effective August 15, for your Bank (a) rate of 3-1/2 per cent on discounts for and advances to member banks under Sections 13 and 13a, and (b) other rates as set forth in your telegram of today.

(Signed) S. R. Carpenter

Carpenter

The rates referred to in (b) above were as follows:

On advances to member banks under Section 10(b) -- 4 per cent;

On advances to individuals, partnerships, and corporations other than member banks under last paragraph of Section 13--4-1/2 per cent;

On advances direct to industrial and commercial businesses under Section 13b, including advances made in participation with financing institutions--a range of 4 per cent to 6 per cent;

On commitments to make advances to financing institutions (provided that no commitments shall be given on a loan on which the borrower is charged more than 6 per cent per annum):

(1) On undisbursed portion of loan--1/4 per cent;

(2) On disbursed portion of loan--10 per cent to 25 per cent of loan rate with a minimum of 1/2 per cent per annum.

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

Item No. 7
8/14/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 13, 1957

Mr. John F. Pierce, Chief Examiner,
Federal Reserve Bank of New York,
New York 45, N. Y.

Dear Mr. Pierce:

In accordance with the request contained in your letter of August 7, 1957, the Board approves the appointment of Walter E. Jones as an examiner for the Federal Reserve Bank of New York. Please advise as to the date upon which the appointment is made effective and as to the salary rate.

It is noted that Mr. Jones is indebted to The Connecticut Bank and Trust Company, Hartford, Connecticut, a State member bank located in the First Federal Reserve District, in the amount of \$4,174. Accordingly, the Board's approval is given with the understanding that, should examiners for the Federal Reserve Bank of New York be requested to participate in examinations of State member banks in the First District, Mr. Jones will not participate in any examination of The Connecticut Bank and Trust Company until his indebtedness has been liquidated or otherwise eliminated.

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. 8
8/14/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 14, 1957

Mr. Joseph R. Campbell,
Assistant Vice President,
Federal Reserve Bank of Philadelphia,
Philadelphia 1, Pennsylvania.

Dear Mr. Campbell:

In accordance with the request contained in your letter of August 9, 1957, the Board approves the appointment of Wayne H. Hainley as an assistant examiner for the Federal Reserve Bank of Philadelphia. Please advise us as to the date upon which his appointment is made effective.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.

