

Minutes for January 6, 1958

To: Members of the Board

From: Office of the Secretary

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

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

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

	A	B
Chm. Martin	x <u>M</u>	_____
Gov. Szymczak	x <u>MS</u>	_____
Gov. Vardaman <u>1/</u>	_____	x _____
Gov. Mills	x <u>[Signature]</u>	_____
Gov. Robertson	x _____	_____
Gov. Balderston	x <u>CCB</u>	_____
Gov. Shepardson	x <u>[Signature]</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 the Board of Governors of the Federal Reserve System
on Monday, January 6, 1958. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Fauver, Assistant Secretary
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser to the Board

Messrs. Young, Garfield, Noyes, and Robinson,
Miss Burr, and Messrs. Williams, Brill,
Eckert, Gehman, Jones, Miller, Manookian,
Tamagna, Wernick, and Wood of the Division
of Research and Statistics

Messrs. Marget, Furth, Hersey, Sammons, Bangs,
Reynolds, and Wood of the Division of
International Finance

Economic review. The members of the Division of International Finance devoted their comments principally to a review of current prices for the principal exports of countries producing primary commodities, in the light of the contention in some quarters that a downward trend of prices for such commodities might provoke a recession which would spiral throughout the world trading system and hit the United Kingdom with particular force because of its position as an exporter of manufactured goods and banker for countries in distress. The review indicated that the picture at present was hardly one which seemed likely to bring about difficulties for the United Kingdom on a scale approximating those of 1931. Rather, it was felt that the problem of more concern related to

1/6/58

-2-

developments in the industrialized countries and what they might mean in terms of their effects on the countries producing primary commodities.

The review of domestic developments by the Division of Research and Statistics revealed a continuation of the decline of most important economic indicators from earlier levels of business and financial activity.

All of the members of the Research and International Finance Divisions then withdrew from the meeting along with Messrs. Sherman, Fauver, Riefler, and Thomas. Messrs. Hackley, General Counsel, Solomon, Assistant General Counsel, and Nelson, Assistant Director, Division of Examinations, entered the room at this point along with Messrs. Sherwin Haxton and Millard F. Emt.

Proposed absorption of The Citizens Bank, Attica, New York.

Pursuant to arrangements previously agreed upon by the Board, Messrs. Haxton and Emt, directors of The Citizens Bank, Attica, New York, were present to offer their views with respect to the proposed absorption of the bank by The Marine Trust Company of Western New York, Buffalo, New York. On December 27, 1957, the Board decided by a 3-1 vote to deny the application of The Marine Trust Company for consent to the absorption and approval of the establishment of a branch at the location of The Citizens Bank, and subsequently Mr. Haxton asked for an opportunity to be heard by the Board.

Mr. Haxton first distributed to the members of the Board copies of a map showing the banks and branch banking offices located within an

1/6/58

-3-

18-mile circle having the town of Attica as its center, along with a statement which disclosed that four directors and their families held 2,662 of the 3,000 outstanding shares of stock of The Citizens Bank. The statement also showed that none of these four directors was less than 67 years of age, that four other directors held a total of 204 shares of stock, and that the remaining 134 shares were held by 20 stockholders.

Mr. Haxton then outlined the circumstances under which he was invited about 10 years ago to become the principal stockholder of The Citizens Bank and stated that for this stock he had paid a price of \$55 per share. He went on to say that he was interested in eight or nine different businesses, that he did not have sons or sons-in-law who could take charge of his business interests, and that therefore he desired to liquidate some of his holdings in view of his age (73), even though he was now in good health. In this connection, he said that over a period of two or three years representatives of Marine Trust Company had spoken to him occasionally about the possible purchase of The Citizens Bank.

With reference to the characteristics of the town of Attica, Mr. Haxton said that it is not on any direct route between principal cities, that it is not a community exhibiting substantial growth, that the presence of a State prison gives the town some economic stability because of the permanent payroll, but that there is not a great deal of wealth in the town. There is a Westinghouse branch plant employing

1/6/58

-4-

about 200 persons, he said, but otherwise Attica is primarily a farming community. In terms of bank deposits, he felt that the prospects for growth were not comparable to those of certain other localities in the area. After noting that The Citizens Bank has deposits of about \$3 million and that the local branch of Marine Trust Company has deposits of about \$4.3 million, he said it had been indicated to him that the larger banking organizations are generally not particularly interested in purchasing banks with less than \$5 million of deposits. From the standpoint of profits, he was satisfied that The Citizens Bank was faring better than the branch of Marine Trust Company, but that was partly because the local bank was not offering comparable fringe benefits, such as a pension plan, to its employees. After explaining that he was also a director of Central Trust Company of Rochester, he said that the Rochester bank's payroll payments represent about 30 per cent of its gross income, while similar payments by The Citizens Bank run about 20 per cent of a gross annual income of approximately \$145,000.

Turning to the proposed sale of the bank, Mr. Haxton said that although some profit would be made, the matter had not been approached primarily from that basis. Rather, it had been an effort designed to assure the availability of banking services that would be conservative and safe for the depositor and the community. He went on to say that very seldom in a small community is there a man who has the inclination and ability to carry forward the business of independent banking and that to a degree a small bank such as The Citizens Bank is more or less a personal enterprise. In a large bank, however, it is easier to supply needed personnel for a branch location.

1/6/58

-5-

With reference to the map which he had distributed, Mr. Haxton called attention to the substantial number of banking offices within the 18-mile circle. He said that conditions had changed considerably as the result of the use of the automobile and that a party not satisfied with banking services in Attica could easily go to a number of other places. He had seen examples of this during his service with the Attica bank and with a bank in the nearby community of Oakfield. He also noted that the majority of the banking outlets within the 18-mile circle are operated by independent interests.

Another important factor in deciding to sell the bank, Mr. Haxton said, was that the officers and employees, including several with long service, would be taken into the pension plan of Marine Trust Company on a retroactive basis, which of course would cost the absorbing bank quite a lot of money. For reasons of this kind, he felt that it was better for employees and depositors, and also from the standpoint of the economics of the banking business, to operate a bank with deposits of \$7 million rather than one with deposits of \$3 or \$4 million. While it was his belief that The Citizens Bank could go along and make more money than Marine Trust Company's branch, it seemed to him that there would be a real problem in finding persons to carry on the banking business when the older stockholders dropped out. In this connection, he mentioned that Mr. E. M. Birch, holder of 581 shares, had been retired three or four years and would like to convert his shareholdings into cash.

1/6/58

-6-

In further comments, Mr. Haxton said that over the past three or four years The Citizens Bank had come under some criticism from the banking authorities because of its heavy portfolio of mortgages. The bank had raised its rate to 6 per cent while the Marine Trust Company branch continued to offer mortgages at 5-1/2 per cent, which meant in effect that The Citizens Bank had been trying to push mortgages away from itself. At one time, he said, the State authorities had insisted on monthly reports concerning the bank's liquidity.

Mr. Embt then made certain comments regarding the history of The Citizens Bank in which he endeavored to bring out the difficulty in attracting private funds and leadership into the banking business where a small bank is concerned. He doubted whether there were persons with sufficient funds in the local community who could be induced to purchase the institution. As for himself, he said, he was not particularly concerned about the outcome of the proposed absorption, for if it went through he would probably use the money which he received to purchase stock in the Marine Midland organization. He was pleased, however, that the officers of The Citizens Bank would be taken into Marine Trust Company's organization and that he and another director had been invited to serve on the local advisory board. In this connection, he understood that arrangements were to be made whereby loans up to about \$30,000 could be passed on locally as compared with the maximum authorization of \$5,000 now in effect for the local management of Marine Trust Company's branch in Attica.

1/6/58

-7-

Mr. Haxton commented that the contract for the sale of The Citizens Bank expired December 31, 1957, but that the Marine Trust Company interests had indicated that they would hold the offer open if action could be taken reasonably soon. He also noted that a meeting of shareholders of The Citizens Bank was to be held this month and said that he would appreciate it if the proposal could be presented for action at that time.

Mr. Haxton then was asked whether, if the proposed absorption did not go through, there might be a possibility of disposing of The Citizens Bank in some other manner. He replied by mentioning a discussion with an officer of the Manufacturers and Traders Trust Company of Buffalo which indicated to him that that bank probably would not be particularly interested in acquiring a bank with deposits of less than \$5 million, especially where it was in direct local competition with the branch of another large banking institution. He had heard, incidentally, that the Attica branch of Marine Trust Company "made only about \$10,000 a year", but he felt satisfied that the current proposal would assure a profitable operation in Attica for that organization. If the Marine Trust Company offer did not go through, he doubted whether the bank could be sold unless parties in the city of Arcade might be interested, for he did not feel that the other banks in Buffalo would want to purchase the institution.

1/6/58

-8-

Chairman Martin concluded the discussion by stating that the Board appreciated having the views of Mr. Haxton and Mr. Embt and that it would give further consideration to the matter.

Messrs. Haxton and Embt then withdrew from the meeting.

Discount rates. Unanimous approval was given to telegrams to the following Federal Reserve Banks approving the establishment without change by those Banks on the dates indicated of the rates on discounts and advances in their existing schedules:

Boston	December 30
Atlanta	December 30
San Francisco	December 30
New York	January 2
Philadelphia	January 2
Minneapolis	January 2
St. Louis	January 3

At this point Mr. Shay, Legislative Counsel, entered the room.

Inquiry from Committee on Government Operations. There had been distributed to the Board copies of a preliminary draft of letter to Chairman Dawson of the House Committee on Government Operations in response to his request of November 27, 1957, for certain information with respect to the Federal Reserve System's activities in the field of research and development.

The Secretary stated that it had been hoped to have a final draft of reply ready for this meeting but that it had not been possible to finish the compilation of a complete response. The preliminary draft, he said, had been distributed with the thought that the Board might wish to discuss the general approach which had been taken therein, since there

1/6/58

-9-

might be some question as to the type of reply which ought to be made to an inquiry of this kind. In this connection, he pointed out that the Board had previously received a letter from the Committee requesting information which seemed to relate to activities carried on with appropriated funds. A reply was made which indicated that the request did not appear to be applicable to the System's activities, and subsequently the November 27 letter was received.

Chairman Martin expressed the view, in which the other members of the Board concurred, that the proposed reply was generally appropriate. Accordingly, it was agreed that a final draft of reply would be distributed with a view to further consideration of the matter at a meeting of the Board later this week.

Messrs. Riefler, Young, and Noyes rejoined the meeting at this point and Messrs. Boothe, Administrator, Office of Defense Loans, and Farrell, Assistant Director, Division of Bank Operations, also entered the room.

Bill to regulate maximum interest rates on guaranteed loans
Item No. 1). At the meeting on December 10, 1957, the Board gave consideration to a request from the Budget Bureau for a report on a bill, apparently proposed by the Treasury, "to encourage the most effective use of private credit under Federal loan guarantee and insurance programs", but no action on the matter was taken. Subsequently, the Budget Bureau renewed its request informally and there had been distributed again to

1/6/58

-10-

the members of the Board copies of the memorandum from Mr. Solomon dated December 6, 1957, which formed the basis for the earlier discussion.

Chairman Martin said that he had talked about the proposed bill several times with Secretary of the Treasury Anderson, that he thought the principal interest in it related to improving the flexibility of maximum rates of interest on FHA and VA mortgages, and that it would seem inconsistent for the Board to be opposed to any measure designed to achieve such a result. As to the effect of the proposed bill on the fixing of maximum interest rates on V-loans, he did not think that the Treasury was too much interested one way or the other. In general terms, it was his opinion that the Treasury was right in what it was trying to do.

Reference then was made to the position which had been taken by Governor Vardaman, and the Secretary read the portion of the minutes of the meeting on December 10, 1957, reflecting Governor Vardaman's comments.

In further discussion of the matter, Governor Mills expressed preference, as he had during the discussion on December 10, 1957, for the alternative reply suggested in Mr. Solomon's memorandum which would state that the proposed bill would permit maximum rates of interest on Government guaranteed or insured loans to be adjusted more nearly to conditions in the open market, that the Board had indicated in the past that it would favor such arrangements, and that the Board therefore

1/6/58

-11-

avored the proposed bill. His only question, he said, related to the fact that the bill itself apparently would extend to all loans guaranteed or insured by any department or agency of the Federal Government, whereas the suggested reply would refer specifically to facilitating adjustment of the maximum rates of interest on FHA and VA mortgages.

Following a discussion of the point raised by Governor Mills, it was agreed that the reply should be phrased in a manner which would refer to the maximum rates of interest on all Government guaranteed or insured loans.

Governor Robertson pointed out that the proposed bill would constitute only a recommendation on which the Congress itself would have to make a decision after studying the proposed legislation. From a theoretical standpoint, he felt that the position taken in the alternative reply favored by Governor Mills was correct.

The discussion then reverted to the effect of such legislation in relation to the fixing of rates under the V-loan program and Governor Mills suggested that inasmuch as the Board's rate-fixing authority under that program was now held by virtue of a delegation of power vested in the President by statute, there might not be too great a distinction between the situation at present and one under which rates would be determined with the approval of the Secretary of the Treasury, an official who is responsible to the President as a member of the Executive Branch of the Government.

1/6/58

-12-

Chairman Martin stated that this was another instance which raised a question about how far the Board felt justified in going in order to maintain itself in a position of special authority apart from other agencies of the Government, following which Governor Shepardson inquired whether it was felt there were any particular advantages accruing to the Board from the current delegation of authority in respect to the rates on V-loans.

In response, it was brought out that in practice the Board had given consideration to the views of other interested parties within the Government before taking action in this area; for example, before deciding to increase the maximum permissible rate on V-loans in May 1957.

At the conclusion of additional discussion, unanimous approval was given to a letter to the Bureau of the Budget in the form attached as Item No. 1.

The meeting then adjourned.

Secretary's Notes: Pursuant to the action taken by the Board on December 20, 1957, with respect to arrangements for a hearing on the request of First Bank Stock Corporation for determinations under section 4(c)(6) of the Bank Holding Company Act, there was sent on January 3, 1958, to Mr. Ueland, Vice President and Counsel of the Federal Reserve Bank of Minneapolis, a letter in the form attached as Item No. 2, with a copy to President Deming of the Minneapolis Reserve Bank.

1/6/58

-13-

Governor Shepardson approved on behalf of the Board, on the dates indicated, the following items:

January 3

Memorandum dated December 27, 1957, from Mr. Noyes, Adviser, Division of Research and Statistics, recommending an increase in the basic annual salary of Virginia Johns from \$3,925 to \$4,075, effective January 12, 1958, with a change in title from Clerk-Stenographer to Secretary in that Division.

Letter to the Federal Reserve Bank of Philadelphia approving the appointment of John Semanik as assistant examiner. A copy of the letter is attached as Item No. 3.

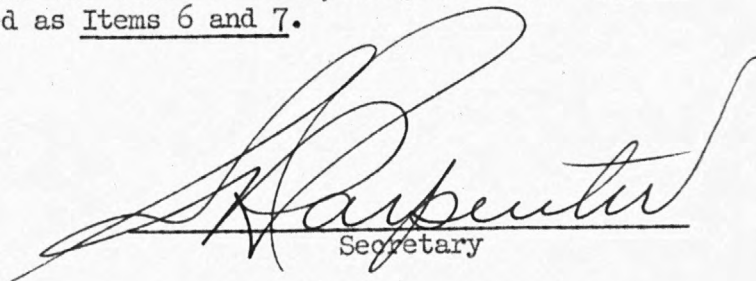
Telegram to the Federal Reserve Bank of Minneapolis approving the appointment of Sherwood D. Brekke as assistant examiner. A copy of the telegram is attached as Item No. 4.

January 6

Memorandum dated January 2, 1958, from Mr. Noyes, Adviser, Division of Research and Statistics, recommending acceptance of the resignation of Virginia Ogilvie, Secretary in the Division, effective January 24, 1958.

Letter to the Federal Reserve Bank of Chicago approving the designation of N. Edwin Demoney, Jr., as special assistant examiner. A copy of the letter is attached as Item No. 5.

Letters to the Secretary of the Treasury and the Under Secretary of Commerce concerning the forthcoming campaigns on behalf of the National Health Agencies and the Joint Crusade, respectively. Copies of the letters are attached as Items 6 and 7.


Secretary

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

Item No. 1
1/6/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 6, 1958



Mr. Roger W. Jones,
Assistant Director for
Legislative Reference,
Bureau of the Budget,
Washington 25, D. C.

Dear Mr. Jones:

This refers to your memorandum of December 4, 1957, requesting the views of the Board of Governors on a proposed bill "To encourage the most effective use of private credit under Federal loan guarantee and insurance programs." The proposed bill would provide that:

"notwithstanding any other provision of law, the maximum interest rates on loans guaranteed, insured, or otherwise underwritten by any department or agency of the Federal Government shall be determined by the head of each agency with the approval of the Secretary of the Treasury."

It appears that the proposed bill would facilitate the adjustment of the maximum rates of interest on U. S. Government guaranteed or insured loans to changes which may occur from time to time in the rates of interest prevailing in the open market on similar investments. As the Board has indicated in other connections, it believes that this would be a desirable result. Accordingly, the Board favors enactment of the proposed legislation.

Very truly yours,

A handwritten signature in dark ink, appearing to read "S. R. Carpenter", written in a cursive style.

S. R. Carpenter,
Secretary.

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

Item No. 2
1/6/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



AIR MAIL

January 3, 1958

Mr. Sigurd Ueland,
Vice President and Counsel,
Federal Reserve Bank of Minneapolis,
Minneapolis 2, Minnesota.

Dear Mr. Ueland:

In re Hearing on Request of First Bank Stock Corporation
for Determinations Under Section 4(c)(6) of Bank Holding
Company Act

Reference is made to telephone conversations previously had
in connection with the above-entitled procedure, as a result of which
it was understood that you would appear at said hearing in the capacity
of Board Counsel, with the assistance in this regard of Mr. Maurice H.
Strothman, Jr. Pursuant to the above-mentioned preliminary discussion,
you are hereby authorized to act as Board Counsel in this proceeding
and to utilize the services of Mr. Strothman to assist you in this
matter.

As you were earlier advised, Mr. Arthur Leff has been assigned
as Hearing Examiner to conduct this proceeding. A certification of
the assignment is enclosed.

You are further advised that pursuant to Rule III of the
Board's Rules of Practice for Formal Hearings, your authorization to
act as Board Counsel during the course of the First Bank Stock Corpora-
tion hearing includes the authority to designate any member of the
staff of the Federal Reserve Bank of Minneapolis or any other Federal
Reserve Bank to assist you during the hearing, as well as authority to
designate those persons having sufficient official interest in the
proceedings to warrant their attendance.

Your assistance in the matter of this hearing is greatly
appreciated.

Sincerely,

S. R. Carpenter,
Secretary.

Enclosure

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

Item No. 3
1/6/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 3, 1958

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

Dear Mr. Hill:

In accordance with the request contained in your letter of December 30, 1957, the Board approves the appointment of John Semanik as an assistant examiner for the Federal Reserve Bank of Philadelphia. Please advise as to the date on which the appointment is made effective.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

T E L E G R A M
LEASED WIRE SERVICEItem No. 4
1/6/58BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

January 3, 1958

DEMING - MINNEAPOLIS

Reurlet January 2, 1958, Board approves appointment of Sherwood D. Brekke
as assistant examiner for Federal Reserve Bank of Minneapolis. Please
advise as to date appointment made effective.

(Signed) Merritt Sherman

SHERMAN

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

Item No. 5
1/6/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 6, 1958



Mr. W. R. Diercks, Vice President,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Diercks:

In accordance with the request contained in your letter of December 31, 1957, the Board approves the designation of N. Edwin Demoney, Jr. as a special assistant examiner for the Federal Reserve Bank of Chicago. Please advise as to the date on which the designation is made effective.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

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

Item No. 6
1/6/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 6, 1958

Dear Mr. Secretary:

This refers to your letter of December 17, 1957, concerning the coming Campaign on behalf of the National Health Agencies.

I have designated Miss June E. Ayers, Administrative Assistant, Division of Personnel Administration, to serve as Chairman of the Campaign at the Board. A copy of my official message will be forwarded to you at a later date.

You may be assured that the Board will give its full cooperation and that all Board employees will have every opportunity to make voluntary contributions to the agencies of their choice.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

The Honorable Robert B. Anderson,
Secretary of the Treasury,
Washington 25, D. C.

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

Item No. 7
1/6/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 6, 1958

Dear Mr. Williams:

This refers to your letter of December 17, 1957, concerning the coming Campaign on behalf of the Joint Crusade agencies.

I have designated Miss June E. Ayers, Administrative Assistant, Division of Personnel Administration, to serve as Chairman of the Campaign at the Board. A copy of my official message will be forwarded to you at a later date.

You may be assured that the Board will give its full cooperation and that all Board employees will have every opportunity to make voluntary contributions to the agencies of their choice.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

The Honorable Walter Williams,
Under Secretary of Commerce,
Washington 25, D. C.