The attached set of minutes of the meeting of the Board of Governors of the Federal Reserve System on January 17, 1958, which you have previously initialed, has been amended in the interest of accuracy to substitute the word "bonds" for the word "bills" in the second line of the second full paragraph on page 4, the last line on page 4, and the eighth line on page 5; and to substitute the word "very" for the word "not" at the end of the ninth line on page 5.

If you were present at the meeting and approve the minutes as amended, please initial in column A. If you were not present, please initial in column B to indicate that you have seen the amended minutes.

	A	B
Chm. Martin	x	
Gov. Szymczak	x	
Gov. Mills	~~x~~	
Gov. Robertson	x	
Gov. Balderston	x CCB	
Gov. Shepardson		x

The attached set of minutes of the meeting of the Board of Governors of the Federal Reserve System on January 17, 1958, has been amended at the request of Governor Mills to edit his statement beginning with the first full paragraph on page 7 and continuing through the following paragraph.

If you approve these minutes as amended, please initial below.

Chairman Martin M

Governor Szymczak

Governor Mills

Minutes for January 17, 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 M	
Gov. Szymczak	x MSS	
Gov. Vardaman 1/		x
Gov. Mills	x	
Gov. Robertson	x R	
Gov. Balderston	x CCB	
Gov. Shepardson		x CNS

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 Friday, January 17, 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. Carpenter, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Molony, Special Assistant to the Board
Mr. Young, Assistant 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:

	Item No.
Letter to The Grafton Savings and Banking Company, Grafton, Ohio, approving the establishment of a branch in La Grange, Ohio. (For transmittal through the Federal Reserve Bank of Cleveland)	1
Letter to the Federal Reserve Bank of San Francisco approving an investment in bank premises by Commercial Security Bank, Ogden, Utah.	2
Letter to the Federal Reserve Bank of San Francisco waiving the requirement of six months' notice of withdrawal from membership in the Federal Reserve System for Inland Empire Bank, Umatilla, Oregon.	3
Letter to Garfield Commercial & Savings Bank, East Los Angeles, California, denying its application to establish a branch in Monterey Park, California. (For transmittal through the Federal Reserve Bank of San Francisco)	4
Memorandum from Mr. Walter Young recommending that no response be made to Budget Bureau Bulletin No. 58-3, relating to charges to be made for certain Government services.	5

Mr. Young, Assistant Counsel, then withdrew from the meeting and Messrs. Riefler, Assistant to the Chairman, Thomas, Economic Adviser to the Board, and Young, Director, Division of Research and Statistics, entered the room.

Discount rates. Telegrams had been received this week from three Federal Reserve Banks (Boston, New York, and Minneapolis) advising that their directors had established without change, subject to the approval of the Board of Governors, the rates on discounts and advances in the existing schedules of the respective Banks. Also, a telegram received yesterday from the Philadelphia Bank advised that the directors of that Bank had established, subject to the approval of the Board of Governors, a rate of 2-3/4 per cent (rather than 3 per cent) on discounts and advances under sections 13 and 13a of the Federal Reserve Act, along with a rate of 3-1/4 per cent on advances under section 10(b). Other rates in the Philadelphia Bank's existing schedule were established without change. The wire indicated that a letter would follow concerning the action taken but such a letter had not yet been received at the time of this meeting.

In response to a request by Chairman Martin for comment, Mr. Thomas said that Vice President Bopp of the Philadelphia Bank called him on the telephone during the course of the directors' meeting in Philadelphia to make certain inquiries regarding the dates of the forthcoming Treasury financing, at which time Mr. Bopp stated that the directors were impressed by the indications of decline in various lines of economic activity and felt that some action ought to be taken on the discount rate. If that were to be done, they concluded that the action should be taken well in advance of the Treasury financing. Mr. Thomas added that he was in agreement with the proposed change because he thought the situation was one which justified a reduction of the discount rate.

Mr. Young reported that there had been no significant developments in the economy not previously reported to the Board and that the current period might be characterized as a kind of interlude. About all that could be said was that a movement had started which had a good bit of momentum and that this momentum might be expected to continue for a while. Employment figures were showing the full impact of the usual seasonal trend on top of the cyclical movement and, as he had informed the Board at a recent meeting, the index of industrial production for December developed to be 136 rather than the anticipated 137. From all indications, the index could be expected to move a point or two further down in January and, in essence, there was no sign yet of a levelling out of the downward trend. Considering that the System would be locked in for a period by the Treasury financing later this month, he felt that action now on the discount rate might be more timely than to await the completion of the financing. The discount rate problem seemed to him to involve mostly the question of timing.

Chairman Martin then referred to the rather sharp decline in interest rates which had taken place over the past several weeks and said that, with net borrowed reserves standing at zero recently, it occurred to him that a change in the discount rate might have little effect other than in terms of the psychological reaction.

Mr. Thomas pointed out that the bill rate was now down to around 2.58, almost half a point below the discount rate, and that, as the Chairman had said, net borrowed reserves were in the neighborhood of zero. This was a situation, he recalled, that had not been paralleled for some time. Net borrowed reserves of zero meant that banks must still borrow around $500 or $600 million, but in the circumstances most of them might sell bills rather than borrow. This might result in an erratic movement in the bill rate according to temporary fluctuations in reserve needs. The psychology of the market, he said, was adjusted to the assumption that the discount rate was likely to be reduced and that more reserves were likely to be put into the market. If these actions were not taken, he felt that the bill rate might rise. Perhaps the movement of the bill rate had gone a little too fast, but he was not sure of that.

Mr. Thomas also commented that evidence of speculative positions in bonds was not too clear and that some of the speculation might have been worked out in the readjustments of the last few days. He concluded his summary by repeating that if the discount rate was not lowered and if the System continued to keep net borrowed reserves around the zero level, a rise in the interest rate level seemed likely.

Governor Balderston asked whether there was any evidence that the speculation in bonds had receded, to which Mr. Thomas replied that the only evidence was the weakness in the market in the last few days.

Mr. Riefler said that in the light of the general level of rates and business prospects, he would expect the discount rate to be reduced in the not distant future to 2-3/4 per cent. He had interpreted the discussion at the last Open Market Committee meeting as indicating a preference for deferring such action until after the Treasury financing, and personally he would not object to that. He did not know how one got evidence of speculation in Treasury bonds except from what people said, and people were saying that the extent of speculative activity was very great. He would have preferred that any such speculation be shaken out before a move was made on the discount rate. In general, he said, all indications pointed toward a reduction of the discount rate within the next six weeks, for there was no sign of the business situation turning around.

On bank credit trends, Mr. Thomas said that the big increase had been in loans to dealers, and these loans declined during the past week. Loans to others for purchasing and carrying Government securities had continued at a negligible level during this period. New York City banks reduced their holdings of notes last week but increased their holdings of one to five-year bonds.

In reply to a question by Governor Robertson, Mr. Thomas said that loans in the two weeks following Christmas at all reporting member banks went down, although total loans declined less than during the same two weeks a year ago. Commercial loans, however, went down more than last year. The liquidation of bank credit in the two weeks after Christmas was much less than a year ago, and in general the credit situation seemed to be holding up, there being no evidence of any serious liquidation of credit. It appeared that the banks were finding uses for their money; if they were not making business loans, they were putting their funds into securities. In summary, the decline in bank credit since Christmas appeared, if anything, to be less than seasonal.

In response to a question by Chairman Martin about the price situation, Mr. Young said that there had been somewhat more of a price decline recently in industrial materials. Copper prices, of course, had gone down, crude oil prices had declined, and some of the chemicals were lower. The textile markets continued to be weak.

On the assumption that the Board did not wish to act today on the Philadelphia rate, Chairman Martin raised the question whether it would be appropriate to inform the other Reserve Banks of the action taken by the Philadelphia directors. He had learned informally, he said, that the New York Bank was already aware of the matter, having been advised by the Philadelphia Bank. A related question, Chairman Martin pointed out, was whether the Board wished to approve today the reestablishment of existing discount rates by the three Banks which had advised the Board in the usual routine manner.

Governor Szymczak said that he was inclined to agree with Mr. Riefler and that he thought the Treasury financing posed a particular problem. After the financing was out of the way, that would be a different thing. He felt that the Board could very well refrain from taking any action on the Philadelphia rate at this time and simply advise the other Banks of receipt of the Philadelphia wire. This advice, he said, should be phrased in such a way as not to be suggestive of the course which should be taken by the other Banks.

Governor Mills expressed the view that there was a good statistical basis for reducing the discount rate as there had been relative stability in the volume of reserves available to the banks for the past three weeks and in the bill rate for the past week or ten days. Also, the System Open Market Account had sold securities in the last two days, thereby indicating to analysts familiar with System operations that there was no intention to flood the market with reserves.

Personally, Governor Mills said, he would be inclined to agree with the reasoning of Mr. Thomas that a reduction of 1/4 per cent in the discount rate at this time was advisable. He also said that he had interpreted the down trend in bank loans as being more basic than seasonal, and in this connection he noted that the New York figures yesterday showed bank deposits in that city below a year ago. He felt that it was fortunate that statistical and securities market circumstances had combined to justify a reduction in the discount rate with the resulting support to the money supply that should follow such action to the extent that the banks took the occasion to increase their investments. In his belief, the money supply required active support against the possibility that it would shrink substantially if there were a rapid liquidation of bank loans during the rest of January without any offsetting influence.

The discussion then reverted to the question of immediate procedure. There was unanimous agreement that the usual telegrams should be sent to the Federal Reserve Banks of Boston, New York, and Minneapolis advising that the Board approved the establishment without change by those Banks on the dates indicated in their wires (Boston on January 13 and New York and Minneapolis on January 16) of the rates on discounts and advances in their existing schedules. A reason influencing this decision was that deferment of action might be interpreted to mean that the Board had reached a decision in favor of approving the 2-3/4 per cent rate.

It was also agreed that it would be advisable as a matter of information to send a telegram to the Presidents of all Federal Reserve Banks advising them of receipt of the Philadelphia wire. Careful consideration was given to the wording of the proposed telegram in order that it might contain no implication that the Board had yet taken any position.

At the conclusion of the discussion, unanimous approval was given to a confidential telegram to the Presidents of all Federal Reserve Banks which would be sent in code and would read as follows: "For your information, Federal Reserve Bank of Philadelphia fixed discount rate of 2-3/4 per cent, subject to approval Board of Governors of the Federal Reserve System. Board will consider next week whether to approve or not."

The meeting then adjourned.

Secretary's Note: Acting in the absence of Governor Shepardson, Governor Balderston approved on behalf of the Board on the dates indicated the following items:

January 16

Memorandum dated January 13, 1958, from Mr. Young, Director, Division of Research and Statistics, recommending that Beverly A. Housell, Clerk-Stenographer in that Division, be granted permission to seek outside employment, other than Government, while on a leave-without-pay status in connection with maternity leave.

Memoranda from appropriate individuals concerned presenting the following items affecting the Board's staff:

Resignation

Jacquelyn Haas, Senior Clerk, Division of International Finance, effective January 31, 1958.

Notice of retirement

Rita S. Boyer, Statistical Assistant, Division of Bank Operations, effective January 1, 1958.

January 17

Memorandum dated January 17, 1958, from Mr. Young, Director, Division of Research and Statistics, recommending that Frank M. Tamagna, Consultant on Savings Statistics in that Division, be granted per diem in lieu of subsistence at the rate of $12 in connection with his forthcoming trip to Mexico City, Mexico, which was approved by the Board on December 4, 1957.

Pursuant to the recommendation contained in a memorandum from Governor Szymczak dated January 16, 1958, Governor Mills, acting in the absence of Governor Shepardson, approved on behalf of the Board on January 16, 1958, the transfer of Bernice T. Mann from the position of Secretary in the Division of Research and Statistics to the position of Secretary in Governor Szymczak's Office, with an increase in her basic annual salary from $4,075 to $4,350, effective January 20, 1958.

S. R. Carpenter
Secretary

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

Item No. 1
1/17/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 17, 1958

Board of Directors,
The Grafton Savings and Banking Company,
Grafton, Ohio.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Cleveland, the Board of Governors of the Federal Reserve System approves the establishment of a branch in La Grange, Ohio, by The Grafton Savings and Banking Company, Grafton, Ohio, provided (1) capital is increased to not less than $100,000 to comply with the Federal statutory requirements, (2) the branch is established within one year from the date of this letter, and (3) the approval of the State authorities is in effect as of the date the branch is established.

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
1/17/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 17, 1958

Mr. E. R. Millard, Vice President,
Federal Reserve Bank of San Francisco,
San Francisco 20, California.

Dear Mr. Millard:

Reference is made to your letter of December 27, 1957, submitting the request of the Commercial Security Bank, Ogden, Utah, for approval, under the provisions of Section 24A of the Federal Reserve Act, of an excess investment in banking premises arising from construction of a new bank building.

After considering the information submitted, the Board of Governors concurs in the Reserve Bank's recommendation and approves a total investment, direct and indirect, of not to exceed $1,550,000 in bank premises by Commercial Security Bank, Ogden, Utah.

It is assumed that the member bank will reduce this investment on a planned and regular basis.

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
1/17/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 17, 1958

Mr. E. R. Millard, Vice President,
Federal Reserve Bank of San Francisco,
San Francisco 20, California.

Dear Mr. Millard:

Reference is made to your letter of January 8, 1958, enclosing a copy of a resolution adopted by the board of directors of Inland Empire Bank, Umatilla, Oregon, signifying its intention to withdraw from membership in the Federal Reserve System and requesting a waiver of the six months' notice of such withdrawal.

In accordance with the bank's request, the Board of Governors waives the requirement of six months' notice of withdrawal. Accordingly, upon surrender of the Federal Reserve Bank stock issued to the bank, you are authorized to cancel such stock and make appropriate refund thereon. Under the provision of Section 10(c) of Regulation H, as amended effective September 1, 1952, the bank may accomplish termination of its membership at any time within eight months after notice of intention to withdraw is given. Please advise when cancellation is effected and refund is made.

The certificate of membership issued to the bank should be obtained, if possible, and forwarded to the Board. The State banking authorities should be advised of the bank's proposed withdrawal from membership and the date such withdrawal becomes effective.

It is our understanding that the bank has filed a formal application with the Federal Deposit Insurance Corporation for continuance of deposit insurance after withdrawal from membership.

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
1/17/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 17, 1958

Board of Directors,
Garfield Commercial & Savings Bank,
East Los Angeles, California.

Gentlemen:

Reference is made to your application, submitted through the Federal Reserve Bank of San Francisco, for permission to establish a branch in the vicinity of the intersection of Garvey and Garfield Avenues, Monterey Park, California.

The Board of Governors has given consideration to the information available and has concluded that in view of unresolved problems respecting managerial succession and the fact that the bank has not been in existence sufficiently long to assure satisfactory earnings ability or to solidify its position in the community, expansion into the field of branch banking would be inappropriate at this time. The Board would be willing to reconsider the application for a branch after a reasonable time if these matters are resolved satisfactorily.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 5
1/17/58

Office Correspondence

Date January 9, 1958

To Board of Governors

From Walter H. Young

Subject: Fees Charged by Federal Agencies for Licensing, Registration, and Related Activities.

The Board is in receipt of a communication from the Bureau of the Budget, Bulletin No. 58-3, dated November 13, 1957, relating to charges to be made for certain Government services. The Bulletin is addressed "To the Heads of Executive Departments and Establishments" and requests the preparation of legislative proposals essential for the development of an equitable and uniform Government-wide policy on charges for certain Government services or property. Requested legislation would be designed to remove all "present limitations or restrictions on the agency's authority to (a) recover full cost for Government services which provide a special benefit; and (b) obtain a fair market value for Government-owned resources or properties sold or leased." These legislative proposals are to be submitted to the Bureau of the Budget not later than February 1, 1958.

Bulletin No. 58-3 supersedes the Bureau of the Budget's Circular No. A-25 dated November 5, 1953. Circular No. A-25 was issued by the Bureau of the Budget pursuant to Title V of the Independent Offices Appropriations Act of 1952 (5 U.S.C. 140), enacted August 31, 1951, which contained provisions designed to make the providing of services, publications, licensing, etc., by Federal Government agencies "self-sustaining to the fullest extent possible."

In his memorandum of January 18, 1954, Mr. Solomon considered what effect if any Title V and Circular No. A-25 have on the Federal Reserve System. He came to the conclusion that while the question is not entirely free from doubt, Title V was not intended to apply to the Board, and at the same time mentioned a letter which the Bureau of the Budget wrote in a somewhat different connection indicating that the Bureau is also inclined toward this view. (See letter dated January 8, 1954, from the Director of the Bureau of the Budget to Congressman Patman.)

The Board's records indicate that no action was taken by the Board pursuant to Circular A-25, and, accordingly, it is recommended that no response be made with respect to Bulletin No. 58-3, which merely supersedes Circular No. A-25.