

Minutes for February 3, 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>J</u>	_____
Gov. Robertson	x _____	_____
Gov. Balderston	x <u>CCB</u>	_____
Gov. Shepardson	x <u>CS</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, February 3, 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. Riefler, Assistant to the Chairman
 Mr. Thomas, Economic Adviser to the Board
 Mr. Leonard, Director, Division of Bank Operations
 Mr. Young, Director, Division of Research and
 statistics
 Mr. Marget, Director, Division of International
 Finance
 Mr. Hackley, General Counsel
 Mr. Masters, Director, Division of Examinations
 Mr. Molony, Special Assistant to the Board
 Mr. Horbett, Associate Director, Division of
 Bank Operations
 Mr. Conkling, Assistant Director, Division of
 Bank Operations
 Mr. Noyes, Adviser, Division of Research and
 Statistics
 Mr. Koch, Associate Adviser, Division of Research
 and Statistics
 Mr. Dembitz, Research Associate, Division of
 Research and Statistics
 Mr. Furth, Associate Adviser, Division of
 International Finance
 Mr. Hersey, Associate Adviser, Division of
 International Finance
 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:

2/3/58

-2-

	<u>Item No.</u>
Letters to Wachovia Bank and Trust Company, Winston-Salem, North Carolina, approving the establishment of two branches, one in Winston-Salem and the other in Greensboro. (For transmittal through the Federal Reserve Bank of Richmond)	1, 2
Letter to Citizens Commercial & Savings Bank, Flint, Michigan, approving the establishment of a branch at 925 South Saginaw Street. (For transmittal through the Federal Reserve Bank of Chicago)	3
Letter to the Federal Reserve Bank of Dallas granting permission to the First State Bank of Odessa, Texas, to act as trustee in connection with a particular trust.	4
Letter to Hamilton, Denniston, Butler & Riddick, Mobile, Alabama, regarding a question raised by The American National Bank & Trust Company of Mobile concerning the provisions of Regulation Q. (With a copy to the Federal Reserve Bank of Atlanta)	5
Memorandum from the Division of Examinations recommending certain designations and travel arrangements in connection with forthcoming examinations of foreign branches.	6

Reserve requirements. Pursuant to the previous request of the Board, there had been distributed under date of January 30, 1958, copies of a memorandum from Mr. Thomas submitting a draft of a memorandum which attempted to analyze the various considerations involved in a possible revision of the existing structure of reserve requirements, to describe and appraise various proposals that had been advanced, to present the results of some hypothetical tests of the effect of these proposals on individual banks, and to suggest possible alternatives for reserve requirement legislation that the Board might consider for recommendation to the Congress. In view of the time element, the attached draft memorandum had not had complete staff review and the views and recommendations presented therein were of a tentative nature.

2/3/58

-3-

In introductory comments, Mr. Thomas said that the Board appeared to be faced with the alternative of proposing a basic revision of reserve requirements which would have to be supported vigorously or proposing something that might not solve all of the existing problems but would be more likely to result in legislation. Also, he said, there was the question whether, for reasons of monetary policy or otherwise, the Board wished to lower reserve requirements at this time, as contrasted with the question of what to do about a reformulation of the structure of reserve requirements. It was his view that it would be preferable not to change existing requirements for any group of banks until the Board decided what it wished to do about a possible change in the reserve requirement structure, for it might develop that a lowering of requirements under the present authority would produce results inconsistent with what might be decided later on the broader problem. Turning to the proposal which had been advanced by the American Bankers Association, he characterized it as a popular one because it appeared to offer advantages for all classes of banks but one which would produce a structure of requirements lacking a rational or logical basis. In addition, he thought it questionable whether, as would be contemplated by this proposal, the Board ought to make any commitment to reduce reserve requirements by a certain time to any particular level. Rather, it appeared to him that the action to be taken at times in the future should be left for the decision of the Board in the light of prevailing circumstances.

2/3/58

-4-

Chairman Martin then spoke of the procedural problem confronting the Board at this stage and suggested that the Board must come to grips with the problem fairly quickly. In his opinion the Board ought to arrive at what it considered to be the best program of reserve requirements, regardless of the chances of having that program accepted, but it also should have in mind that the matter might come to a head in the near future in such a way as to necessitate settling on some kind of a compromise. As to the time schedule, he suggested that the Board appeared to have no more than 30 days to make a decision if it intended to recommend legislation to the Congress with any hope that the proposal would be considered at this session. Certainly, he said, the Board could not delay beyond the first of April at the latest.

Further discussion followed concerning the alternative proposals for a revision of the present structure of reserve requirements, as outlined in the memorandum submitted by Mr. Thomas. Attention was given particularly to the proposal under which requirements would be based on both the volume and turnover of deposits (the so-called "velocity proposal"). While comments at the staff level were generally to the effect that in theory this proposal offered a rational basis of reserve requirements, some of the members of the staff felt that the administrative problems inherent in such a plan would be substantial. At the same time, they expressed doubt whether the proposal would completely eliminate all of the inequities observed in the present system. For these reasons question

2/3/58

-5-

was raised as to whether the main objectives of the velocity proposal could not be achieved through more modest amendments to existing legislation. In any event, there was general agreement that the velocity proposal would have to undergo considerably more testing and study than had been possible to date, which suggested that it would be difficult to make a specific legislative recommendation along those lines in the near future.

Governor Robertson expressed doubt whether any reserve requirement formula would completely eradicate inequities and suggested that it would be necessary to offer a relatively simple and understandable plan in order to obtain legislation. The fact that the proposal of the American Bankers Association was easily understandable seemed to him to be the principal reason for the support which the plan had obtained. From a procedural standpoint, he believed that the Federal Reserve System must present something in the near future or run the risk of having legislation enacted which it did not regard as satisfactory. All things considered, it was his tentative opinion that the Board should consider recommending legislation which (1) would permit banks to count vault cash as a part of their required reserves, since this was theoretically sound and could also be advocated for emergency planning purposes, and (2) would provide for a system of reserve requirements based on the size of banking institutions. A program embodying these two points, he said, would be easily understandable and still be something with which the Federal Reserve System

2/3/58

-6-

could work reasonably well, since it would tend to achieve to a substantial extent the objectives of the velocity proposal.

Governor Robertson went on to say that in his opinion the System should stand firmly against any plan which would produce too small a spread between minimum and maximum reserve requirements; that is, any proposal which would deprive the Board of the power to raise and lower requirements sufficiently in case of need. Finally, he felt that the Board should be specific in stating that there should be no time limit whatever in reducing reserve requirements to any particular level and that changes should be made only as warranted by prevailing conditions. In substance, it was his view that the Board must act quickly if it was going to get anything, that the proposal should be as simple as possible, that it should be admitted that the proposal would not eliminate all inequities, and that the difficulty of eradicating all inequities completely should be brought out. In a final comment, he stated reasons why he would favor continuing to provide some leeway to raise and lower reserve requirements against time deposits.

Chairman Martin said that he saw merit to the views expressed by Governor Robertson, and in this connection he recalled that the Board had reached agreement some time ago on the desirability of vault cash legislation but had postponed making a recommendation. He was inclined to feel that there were substantial administrative difficulties in the velocity proposal, attractive as it might be theoretically. From a

2/3/58

-7-

practical standpoint it seemed important to him to recognize that the plan of the American Bankers Association was now "on the table." In his opinion, therefore, it would be desirable to analyze that proposal and determine what modifications were considered essential. Then the Board could, if it wished, call in the representatives of the American Bankers Association for discussion of those points. If agreement could not be reached, it would of course be necessary to start over again, but from a tactical standpoint he felt that the Board would do better at this stage to work with the proposal of the American Bankers Association and make adjustments in it than to come up in the first instance with an entirely new proposal.

Governor Mills agreed, stating that he would be inclined rather strongly to attempt to develop a formula that would be as equitable as possible and still differ as little as possible from the American Bankers Association's proposal. He judged from the memorandum submitted to the Board by Mr. Thomas that the plan proposed by the Federal Reserve Bank Presidents was in broad outline comparable to that of the American Bankers Association, and he suggested that the Board might have some obligation to listen attentively to a proposal developed within the Reserve Banks, since they are closer to the operating problems of the member banks and are familiar with what is possible of accomplishment from a practical standpoint.

2/3/58

-8-

There followed additional discussion of the advantages and disadvantages of the alternative plans, the possibility of achieving significant improvements in the present system of reserve requirements through relatively minor modifications of the Board's existing statutory authority, and the difficulties that would be involved in preparing proposed legislation along the lines of the velocity proposal.

Governor Balderston then made a statement in which he expressed agreement with the view that the Board should reexamine the American Bankers Association's proposal as promptly as possible in order to determine to what extent that proposal would have to be modified in order to be acceptable. He said that he had been intrigued by the velocity proposal but that in view of the time pressure he was not sure what could be done about it except possibly to ask the Congress for authority to remove individual banks from their present reserve classifications on the basis of presentations by them concerning their actual situation. Theoretically, the velocity proposal appealed to him because last year, for example, the increased turnover of demand deposits seemed to negate much of the restraint that the System was trying to apply. Also, he was impressed by the information gathered by the Chicago Reserve Bank which showed a wide difference between the activity of corporate and individual accounts. He would be pleased, Governor Balderston said, if in some way the Congress could see fit to broaden the Board's powers so that it could experiment a little with

2/3/58

-9-

the velocity proposal. However, the procedural difficulties at the moment were such that he felt the Board might be well advised to study the American Bankers Association's plan and then discuss with the Association the points of difference.

In further comments, Governor Balderston stated that in a transitional period he believed that classification of banks by cities for reserve purposes might be a convenience to the Board even if it was illogical, for the absence of such a classification could leave the Board without any clear idea of how to make the transition to desired objectives. He concluded by repeating that in his opinion the Board should push forward as rapidly as it could to determine the points on which it wished to stand firm and then announce those points to the American Bankers Association with a view to ascertaining whether an acceptable compromise could be reached.

There followed further discussion of the theory of reserve requirements and their usefulness as an instrument of monetary policy, following which Chairman Martin stated again that to him the procedural aspect of the matter was very clear. He felt that the Board must make a formal reply to the American Bankers Association concerning its proposal, and that in such a reply it must indicate how much, if any, of the plan it was willing to accept. He then suggested that the Board continue its consideration of this and other phases of the subject later this week.

2/3/58

-10-

The meeting then recessed and reconvened in the Board Room at 2:30 p.m. with the same members of the Board present. Changes in staff attendance as compared with the morning session were as follows: Messrs. Thurston, Assistant to the Board, Shay, Legislative Counsel, and Williams, Associate Adviser, Division of Research and Statistics, were present while Messrs. Sherman, Masters, Horbett, Conkling, Noyes, Dembitz, and Solomon were not present.

Testimony before the Joint Economic Committee. There had been distributed to the members of the Board copies of a preliminary draft of statement to be made by Chairman Martin on behalf of the Board on February 6, 1958, in testifying before the Congressional Joint Economic Committee in connection with hearings on the Economic Report of the President.

The draft was reviewed and numerous suggestions were made by the members of the Board for changes in content and tone, particularly with respect to the approach that should be taken in commenting upon the pattern of economic developments in the past year and the relationship thereto of Federal Reserve policy. However, general agreement was expressed with the broad framework of the draft and at the conclusion of the discussion it was understood that a revised draft of testimony reflecting the comments made at this meeting would be prepared for the Board's consideration.

The meeting then adjourned.

2/3/58

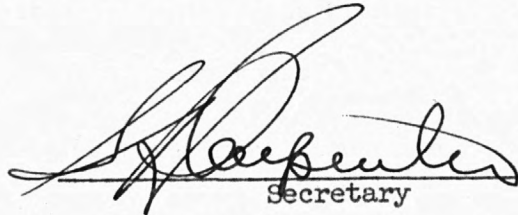
-11-

Secretary's Notes: Governor Shepardson today approved on behalf of the Board the following items affecting the Board's staff:

Memorandum dated January 16, 1958, from Mr. Kelleher, Director, Division of Administrative Services, recommending an increase in the basic salary of John H. Hunley, Messenger in that Division, from \$3,370 to \$3,455 per annum, effective February 9, 1958.

Memorandum dated January 31, 1958, from Mr. Thomas, Economic Adviser to the Board, requesting authority to accept invitations to (1) give a talk to a Graduate School Seminar of Yale University on March 14, 1958, and (2) participate in the Business Economists Conference sponsored by the School of Business of the University of Chicago to be held April 24-25, 1958.

Governor Shepardson also approved today on behalf of the Board letters to the Federal Reserve Banks of Cleveland and Chicago approving the appointment of Eugene Donald Pecora as assistant examiner and the designation of Richard G. Johnson as special assistant examiner. Copies of the letters are attached hereto as Items 7 and 8, respectively.



Secretary

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

Item No. 1
2/3/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 3, 1958



Board of Directors,
Wachovia Bank and Trust Company,
Winston-Salem, North Carolina.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Richmond, the Board of Governors of the Federal Reserve System approves the establishment of a branch at the intersection of Stratford Road and Interstate Expressway, Winston-Salem, North Carolina, by Wachovia Bank and Trust Company, Winston-Salem, North Carolina, provided the branch is established within one year from the date of this letter, and the approval of the State authorities is in effect as of the date of the establishment of the branch.

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
2/3/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 3, 1958



Board of Directors,
Wachovia Bank and Trust Company,
Winston-Salem, North Carolina.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Richmond, the Board of Governors of the Federal Reserve System approves the establishment of a branch in the 1500 block of West Lee Street, Greensboro, North Carolina, by Wachovia Bank and Trust Company, Winston Salem, North Carolina, provided the branch is established within one year from the date of this letter and the approval of the State authorities is in effect as of the date of the establishment of the branch.

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
2/3/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 3, 1958



Board of Directors,
Citizens Commercial & Savings Bank,
Flint, Michigan.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors of the Federal Reserve System approves the establishment of a branch by Citizens Commercial & Savings Bank at 925 South Saginaw Street, Flint Michigan, provided the branch is established within one year from the date of this letter, and that approval of State authorities is effective 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. 4
2/3/58



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 3, 1958

Mr. L. G. Pondrom, Vice President,
Federal Reserve Bank of Dallas,
Dallas 2, Texas.

Dear Mr. Pondrom:

Accompanying your letter of January 14, 1958, is a letter from the First State Bank of Odessa, Texas, a member State bank, applying for permission to administer a single trust to collect the proceeds of an insurance policy and to distribute the proceeds to the named beneficiaries.

The bank's charter authorizes it to exercise trust powers. Since admission to membership on April 23, 1945, it has not exercised trust powers and wishes only to receive authority to administer the above-mentioned trust. The member bank is subject to the standard conditions of membership.

After consideration of the facts, the Board grants permission to the member bank under its condition of membership numbered 1 to act as trustee in the above-mentioned manner, with the understanding that no further fiduciary business will be undertaken without first obtaining the Board's permission.

Please advise the member bank accordingly.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

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

Item No. 5
2/3/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 3, 1958



Mr. Thomas A. Hamilton,
Hamilton, Denniston, Butler & Riddick,
Attorneys & Counsellors at Law,
First National Bank Building,
Mobile 13, Alabama.

Dear Mr. Hamilton:

In reply to your letter of January 13, 1958, this is to advise you that The American National Bank & Trust Company of Mobile may by mutual consent of the parties modify the contracts represented by the outstanding time certificates of deposit described in your letter so as to pay a different rate of interest from that specified in the contracts. Specifically, the bank may pay interest at the maximum rate of 3 per cent on such certificates, provided this rate of interest is not paid for any period before January 1, 1957.

The bank may not convert an outstanding time certificate of deposit into a savings account because this would, in effect, defeat the purpose of section 4 of Regulation Q, as it would permit the depositor to withdraw the funds before maturity of the certificate of deposit. Since the outstanding time certificates of deposit may be modified to pay 3 per cent interest, there would appear to be no reason to consider the exception contained in subsection (d) which permits the withdrawal of time deposits before maturity in emergency situations.

If you have any further questions on this matter, it is suggested that you submit them to the Federal Reserve Bank of Atlanta which may refer them to the Federal Reserve Board if such reference is believed advisable.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Merritt Sherman".

Merritt Sherman,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 6
2/3/58

Date January 27, 1958.

Office Correspondence

To Board of Governors

Subject: Examinations of foreign branches of State member banks and foreign banking corporations.

From Division of Examinations

CONFIDENTIAL (F.R.)

In accordance with the policy established by the Board of Governors on July 18, 1950, as modified on March 13, 1956, arrangements have been made to examine the Tokyo, Osaka, and Beirut branches of The Chase Manhattan Bank, and the Singapore and Beirut branches of Bank of America, New York.

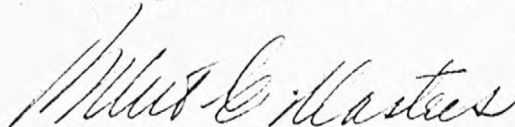
(1) It is recommended that Harry J. Meyer, Supervising Examiner, Federal Reserve Bank of New York, and Robert C. Johnsen, Examiner, Federal Reserve Bank of San Francisco, be designated by the Board of Governors as Federal Reserve Examiners for the purpose of participating in these examinations.

The examinations of the branches in Tokyo, Osaka, and Beirut will be conducted by Mr. Goodman, and the examination of the Singapore branch by Federal Reserve Examiner Poundstone of the Board's staff. The proposed examinations of the branches of The Chase Manhattan Bank will be made jointly with examiners for the New York State Banking Department.

The Federal Reserve Banks of New York and San Francisco will absorb all expenses of their employees participating in these examinations.

(2) It is recommended also that Messrs. Goodman and Poundstone be authorized to travel on an actual expense basis should the per diem allowances provided in the standardized government travel regulations be inadequate to cover the expenses of the entire trip, plus reimbursement for baggage insurance in a reasonable amount.

Respectfully submitted,



Robert C. Masters, Director,
Division of Examinations.

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

Item No. 7
2/3/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 3, 1958



Mr. Paul C. Stetzelberger, Vice President,
Federal Reserve Bank of Cleveland,
Cleveland 1, Ohio.

Dear Mr. Stetzelberger:

In accordance with the request contained in your letter of January 28, 1958, the Board approves the appointment of Eugene Donald Pecora as an assistant examiner for the Federal Reserve Bank of Cleveland. Please advise as to the date upon which the appointment 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. 8
2/3/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 3, 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 January 29, 1958, the Board approves the designation of Richard G. Johnson as a special assistant examiner for the Federal Reserve Bank of Chicago. Please advise as to the date upon which the designation is made effective.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.