### Minutes for February 12, 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	В
Chm.	Martin	x(W)	-AAAA
Gov.	Szymczak		×
Gov.	Vardaman 1/		×
Gov.	Mills		*
Gov.	Robertson	× K	
Gov.	Balderston	× CCB	
Gov.	Shepardson	ROMA	

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 Wednesday, February 12, 1958. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman

Mr. Balderston, Vice Chairman

Mr. Robertson Mr. Shepardson

Mr. Carpenter, 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. Hackley, General Counsel

Mr. Molony, Special Assistant to the Board

Mr. Shay, Legislative Counsel

Mr. Noyes, Adviser, Division of Research and Statistics

Mr. Solomon, Assistant General Counsel

Mr. Hexter, Assistant General Counsel

Mr. Benner, Assistant Director, Division of Examinations

Mr. Wood, Economist, Division of Research and Statistics

Mr. Young, Assistant Counsel

Discount rates. Unanimous approval was given to a telegram to the Federal Reserve Bank of Boston approving the establishment without change by that Bank on February 10, 1958, of the rates on discounts and advances in its existing schedule.

Request from Congressman Moss. In a letter dated January 28, 1958, Chairman Moss of the House Government Information Subcommittee raised certain questions with respect to the availability of loan applications for public inspection. A proposed reply had been distributed prior to this meeting.

appropriate, particularly insofar as it involved the lending operations of the Federal Reserve Banks, Governor Robertson suggested the possibility of responding in order to each of the several questions raised by Congressman Moss. It being agreed that a letter composed along such lines would seem desirable, the staff was requested to prepare a draft for consideration at the meeting of the Board tomorrow.

Mr. Leonard then withdrew from the meeting.

Proposed Housing Act of 1958 (Item No. 1). In a communication dated January 29, 1958, the Bureau of the Budget requested the Board to submit by today its views on a draft bill entitled "Housing Act of 1958." There had been sent to the members of the Board copies of a memorandum from Mr. Walter Young dated February 7, 1958, summarizing principal provisions of the draft bill, along with copies of a second memorandum discussing the substantive provisions of the proposed legislation in somewhat more detail. Also submitted was a draft of letter to the Budget bureau which would consist for the most part of excerpts taken from the Board's letter to the Bureau dated February 26, 1957, concerning the then proposed "Housing Amendments of 1957" and the Board's letter to the Bureau dated December 10, 1957, transmitting a proposed report on 8, 2791, a bill which would create a Home Loan Guarantee Corporation.

At this meeting it was suggested that an additional paragraph be included in the letter which would state that the Board favored, as

Provided by section 114 of the draft bill, repeal of section 605 of the Housing Act of 1957, which directs the Federal Housing Commissioner to fix reasonable limits on the charges, fees, and discounts imposed upon the builder, seller, or purchaser in connection with the financing of the construction or sale of any housing covered by a mortgage insured under the National Housing Act. The reason given for favoring repeal of this provision would be that experience had shown it to have the effect of interfering unduly with the functioning of the mortgage market.

In a discussion of the proposed letter to the Budget Bureau,
certain changes were suggested, principally for the purpose of eliminating
language not pertinent from the standpoint of the current draft bill.

Particular attention was given to the additional paragraph proposed for
inclusion in the letter in the light of questions raised by Governor
Robertson as to whether this was a matter concerning which the Board
should comment. After the history and effects of section 605 of the
Housing Act of 1957 had been reviewed by members of the staff, Governor
Robertson indicated that he would not object to inclusion of the paragraph,
especially since the Board's letter was being sent to the Budget Bureau
and related to legislation in the formative stage, although he continued
to have some doubt about the desirability of commenting on section 114.

It seemed to him that this was primarily something which should be
advocated by the Federal Housing Commissioner in his discretion.

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

Messrs. Wood and Walter Young then withdrew from the meeting.

Leave of absence for Reserve Bank employee (Item No. 2). Unanimous approval was given to a letter to the Federal Reserve Bank of Chicago interposing no objection to an arrangement under which Miss Lillian M. Rymarowicz of the Bank's Research Department would be given a leave of absence without pay for approximately six months in order to accept a temporary assignment with the Bureau of the Census. The file on this matter had been circulated to the members of the Board and a copy of the approved letter is attached hereto as Item No. 2.

Repurchase agreements (Item No. 3). Governor Robertson referred to the information which he had presented to the Board at the meetings on February 5 and 7, 1958, concerning certain steps contemplated by the Comptroller of the Currency in view of current discussion about the Status of repurchase agreement transactions of member banks. With regard to one of those steps, namely a proposed change in the Report of the House Banking and Currency Committee on the Financial Institutions Act, the Board had authorized him to advise the Comptroller of its opinion that this was a matter for his (the Comptroller's) decision, although the Board felt that care should be exercised in order to avoid a misleading legislative history. Now, however, a letter had been received from the Comptroller under date of February 7, 1958, presenting, with a request for the Board's views, language proposed for inclusion in the Committee Report which went somewhat further than the language previously suggested.

There had been distributed to the members of the Board, with a memorandum from Mr. Hexter dated February 11, 1958, the letter from the Comptroller and a suggested reply.

Governor Robertson read the proposed reply and said that he considered it appropriate. He noted that such a letter would give support to the Comptroller of the Currency if he chose to resist the inclusion of the suggested language in the House Committee Report.

Pursuant to Governor Robertson's recommendation, unanimous approval then was given to a letter to the Comptroller of the Currency in the form attached as Item No. 3.

At this point Mr. Thurston, Assistant to the Board, was called into the meeting.

Statement made by Congressman Patman. Further reference was made to the statement of Congressman Patman before the House Banking and Currency Committee on February 7, 1958, in connection with hearings on the Financial Institutions Act, in which Mr. Patman referred critically to certain expenses of the Federal Reserve System. The content of articles now appearing in the press indicated that there had been released to the press material which Mr. Patman had requested permission to insert in the hearing record.

Governor Balderston stated that he was particularly concerned about those portions of Mr. Patman's remarks having reference to fees paid to consultants in connection with the recent study of consumer instalment

credit. Since those comments indicated a misunderstanding concerning the nature of the expenses incurred, he had asked Mr. Noyes to prepare a letter which might be sent to Committee Chairman Spence, if the Board so desired, clarifying the circumstances surrounding these particular expenditures. He then read the draft of letter which had been prepared.

In a discussion which followed, Chairman Martin expressed the View that in due course, after the material inserted in the record by Mr. Patman had become available, a report should be sent to the Banking and Currency Committee covering all of the items to which reference was made by Mr. Patman, even though such a report could not be prepared in time for inclusion in the record of the hearings on the Financial Institutions Act. He said that he had expressed such a view to Chairman Spence in telephone conversations, at which time he also told Mr. Spence that the Chairmen and Presidents of the Federal Reserve Banks would be available to testify if that seemed desirable.

The view then was expressed that the sending of a letter along the lines suggested by Governor Balderston might be appropriate at this time for several reasons, including the fact that Mr. Patman's testimony with respect to the consultants brought into the picture persons outside the System. Such a letter, it was pointed out, would serve the purpose of making known the Board's intention to respond, when the necessary information was available to it, to all of the items which Mr. Patman had mentioned.

Several suggestions for rephrasing of the proposed letter then were made, following which Mr. Molony was requested to prepare a revised draft of letter for consideration at the meeting of the Board tomorrow.

All of the members of the staff except Messrs. Carpenter and Hackley then withdrew from the meeting.

Possible retention of Mr. Davis for special assignment. Governor Robertson referred to his comment at the meeting of the Federal Open Market Committee yesterday concerning the possibility of employing Mr. John Davis, First Vice President of the Federal Reserve Bank of Philadelphia Who is retiring at the end of this month, to work on certain phases of the study of float. He suggested that since he would be away and therefore not in a position to follow up on the matter, Mr. Leonard be authorized to negotiate with Mr. Davis regarding part-time employment and then present to the Board for approval a statement of a recommended basis upon which Mr. Davis would be employed. Before this was done, Governor Robertson Said, he would clear the matter with President Leedy, outgoing Chairman of the Presidents' Conference, and with President Erickson, the new Chairman of the Conference.

After some discussion, agreement was expressed with the procedure proposed by Governor Robertson.

Mr. Hackley then withdrew from the meeting.

Reserve requirements. There was some discussion on the problem of reserve requirements and it was understood that this matter would be considered further at the meeting of the Board tomorrow.

The meeting then adjourned.

Secretary's Notes: Governor Shepardson approved on behalf of the Board on February 11, 1958, the following items:

Memorandum dated February 7, 1958, from Mr. Leonard, Director, Division of Bank Operations, recommending the appointment of Seymour Golodner as Analyst in that Division, with basic annual salary at the rate of \$5,065, effective the date he assumes his duties.

Letter to the Federal Reserve Bank of Chicago approving the designation of Robert L. Porter as special assistant examiner. A copy of the letter is attached hereto as Item No. 4.

Telegram to the Federal Reserve Bank of Kansas City approving the appointment of Clyde E. Hinman as assistant examiner. A copy of the telegram is attached as Item No. 5.

Governor Shepardson approved today on behalf of the Board a letter to the Federal Reserve Bank of Dallas approving the appointment of Wallace C. Kimbrough as assistant examiner. A copy of the letter is attached hereto as Item No. 6.

Governor Shepardson also approved today on behalf of the Board a change in the procedure relating to advances of funds for official travel, as recommended in a memorandum from the Office of the Controller dated February 11, 1958. A copy of the memorandum is attached as Item No. 7.

Sagratami





WASHINGTON 25, D. C.

Item No. 1 2/12/58

ADDRESS OFFICIAL CORRESPONDENCE

February 12, 1958.

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

Dear Mr. Jones:

for the views of the Board of Covernors on the proposed bill cited as "Housing Amendments of 1958".

The draft bill includes a number of provisions similar to those which were incorporated in the draft bill submitted to the Board for its views in 1957, although the present draft is even more detailed and comprehensive than was the 1957 draft. The Board's views on the proposed draft are in general the same as those expressed by the Board in its report to the Bureau of the Budget dated February 26, 1957, on the then proposed "Housing Amendments of 1957". At that time the Board stated in part as follows:

"On a great majority of the provisions of this bill, which are technical amendments to existing law, the Board has no specific comment to make, except perhaps to question whether such matters are properly the subject of specific legislation. The frequency with which these laws must be amended gives rise to the question whether more general legislation, flexibly administered, might not be much more effective. As it is, every accretion of experience or change in economic conditions appears to require changes in basic statutes.

"The proposed amendments to the National Housing Act are a case in point..... It would seem reasonable that the Commissioner should exercise the judgment required to make a less detailed statute effective. In the case of the price to be paid by the Federal National Mortgage Association for mortgages under the Special Assistance Program, the proposal now is to restore to the Association discretion that was removed only last year.

"\* \* \* On other matters, the Board would favor giving the FHA Commissioner general authority to accept for insurance mortgages, within these broad limits, with terms that he deemed satisfactory, and to exercise such administrative discretion as is necessary to meet changing market conditions."

Section 114 of the draft bill would repeal section 605 of the Housing Act of 1957, which directs the Federal Housing Commissioner to fix reasonable limits on the charges, fees and discounts imposed upon the builder, seller or purchaser, in connection with the financing of the construction or sale of any housing covered by a mortgage insured under the National Housing Act. Similar direction is given by section 605 to the Administrator of Veterans' Affairs with respect to housing loans insured or guaranteed under the Servicemen's Readjustment Act of 1944. The Board would favor repeal of this provision, since experience shows that the provision has had the effect of interfering unduly with the functioning of the mortgage market.

It is noted that consideration is tentatively being given to a special mortgage co-insurance program. This program is similar to that proposed in S. 2791 with respect to which the Board, by letter dated December 10, 1957, submitted to the Bureau of the Budget its proposed report to the Senate Banking and Currency Committee. The Board's views on the mortgage co-insurance program are expressed in two paragraphs of that report as follows:

"The fact that, under the proposed program, only the top 20 per cent /25 per cent in the current draft bill/ of a mortgage is insured rather than the full mortgage, as in the case of the present FHA programs, should not necessarily be interpreted to mean that the risk exposure of the insurer would be appreciably less. The extent of exposure undoubtedly depends strongly on cyclical experience, and in a major reversal such as we went through in the 1930's both the number of loans in default and the amount of loss on each defaulted loan might be large. Short of a disaster of this sort, however, the bulk of defaulted loans is likely to show losses of less than 20 per cent. In other words, unless we contemplate a very bad situation, there should be little difference in risk between the two programs, hence little difference between the premiums required to make them self-sustaining.

"Another aspect of this comparison should be noted. The co-insurance element of the proposed program would increasingly limit the Government's liability as the

Mr. Roger W. Jones

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severity of trouble increased. Sound public policy requires the reverse. A day to day reminder to lenders, by way of a co-insurance feature, that unsound lending is costly is likely to have a good effect on lending practices, and thus minimize the chances that we shall experience serious trouble. At the same time, if serious trouble does come despite the use of sound lending practices, complete insurance would be much more helpful than partial insurance in limiting the extent of the trouble and aiding recovery."

Very truly yours,

R Carpenter Secretary.



OF THE

### FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

Item No. 2 2/12/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 12, 1958

Mr. H. J. Newman, Vice President, Federal Reserve Bank of Chicago, Chicago 90, Illinois.

Dear Mr. Newman:

Thank you for your letter of January 24, 1958 advising that a leave of absence without pay has been granted to Miss Lillian M. Rymarowicz of your Research Department, for approximately six months starting February 3, 1958, to enable her to accept employment on a temporary basis with the United States Department of Commerce, Bureau of the Census, Government Division.

The Board of Governors interposes no objection to the arrangement with Miss Rymarovicz as described in Your letter.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter, Secretary.



# BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Item No. 3 2/12/58

WASHINGTON

OFFICE OF THE CHAIRMAN

February 12, 1958

Honorable Ray M. Gidney, Comptroller of the Currency, Washington 25, D. C.

My dear Mr. Gidney:

This is in reply to your letter of February 7 with respect a sentence suggested for inclusion in the House Banking Committee Report on the proposed Financial Institutions Act of 1957 (S. 1451 and H. R. 7026). You request the Board's views on the following proposed clause regarding paragraph (8) of section 34(b) of Title I:

". . . nor is it intended that the change in this section li.e., deletion of the words 'in the form of notes'] shall in any way alter the applicability to security transactions of section 32 of this title."

(S. Rep. No. 121, 85th Cong.) referred specifically to the proposed deletion of "in the form of notes". It pointed out (p. 14) that loans on the collateral of United States securities "often take the form of repurchase or similar agreements. The legal obligation of the obligor under such agreements is considered to be of equal stature with that evidenced by a promissory note. It is therefore the intent of the Congress that any obligation secured as required by this paragraph may qualify for the exception to the usual limitation."

Position that repurchase agreements and similar agreements involving the Senate Committee Report is in accord with that view. Although the Sentence quoted in your letter is ambiguous, nevertheless, in view of the history of the subject, its inclusion in the House Committee Report might plausibly be advanced thereafter as an indication that the House Banking Committee regarded repurchase agreements and similar agreements as "security transactions" and therefore subject to the provisions of section 32 of Title I ("Dealing in securities") rather than to those of section 34 ("Maximum loan limitations"). Any Committee

Honorable Ray M. Gidney

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statement that might be used to support the erroneous contention that extensions of credit via repurchase agreements and the like are securities transactions rather than loans might impede the efforts of your Office and the Board of Governors to enforce the provisions of law that actually are applicable to those transactions. Accordingly, the Board concludes that the inclusion in the House Committee Report of the sentence quoted in your letter would be undesirable.

Sincerely yours,

Wm. McC. Martin, Jr.



OF THE

### FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

Item No. 4 2/12/58

ADDRESS OFFICIAL CORRESPONDENCE

February 12, 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 February 6, 1958, the Board approves the designation of Robert L. Porter 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.

Item No. 5 2/12/58

### TELEGRAM

### BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM WASHINGTON

February 12, 1958

WOOLLEY - KANSAS CITY

Reurlet February 7, 1958, Board approves appointment of Clyde E. Hinman as assistant examiner for Federal Reserve Bank of Kansas City. Please advise date upon which appointment is made effective and salary rate.

It is noted Hinman is indebted to Union National Bank of Kansas City in amount of \$1,900. Approval is given with understanding he will not participate in any examinations of such bank, or any other bank to which loan may be transferred, until indebtedness is liquidated.

(Signed) Merritt Sherman

SHERMAN

OF THE

### FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

Item No. 6 2/12/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 12, 1958

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

Dear Mr. Pondrom:

In accordance with the request contained in your letter of February 5, 1958, the Board approves the appointment of Wallace C. Kimbrough as an assistant examiner for the Federal Reserve Bank of Dallas. Please advise us as to the date upon which the appointment is made effective.

It is understood that Mr. Kimbrough's father is a director and officer of The Denton County National Bank of Denton, Denton, Texas, a member bank. Accordingly, the Board's approval of the appointment of Mr. Wallace C. Kimbrough is given with the understanding that he will not participate in any examination of The Denton County National Bank of Denton, Denton, Texas, as long as his father is an officer or director of that bank.

Very truly yours,
(Signed) Merritt Sherman

Merritt Sherman, Assistant Secretary.

### FEDERAL RESERVE SYSTEM

Item No. 7 2/12/58

Ace Correspondence

Date\_February 11, 1958

Board of Governors

Subject: Advance of funds for official

Office of the Controller

travel.

# RECOMMENDATION

For the reasons stated below, it is recommended that the Board revise its ection of October 18, 1948 (copy attached) relating to advance of funds for official official travel, to eliminate the requirement that the traveler pledge security for the contract of from amounts due him for annual for the advance by giving consent to deduction from amounts due him for annual leave leave and to his credit in the retirement system.

It is, therefore, recommended that future travel advances be made in accordance with the following procedure:

The Office of the Controller may, upon written application, advance to a member of the staff who has been authorized to travel such reasonable amounts as may be needed for official travel not to exceed \$500 at any one time; and, upon approval of the Board Member in charge of internal operations, amounts exceeding \$500.

## COMMENTS

It is believed that the assignment now required serves no real purpose. It is believed that the assignment now required serves no loss per support occasion arise necessitating such action, the Controller's Office would expect to be a support of the controller's Office w expect to Withhold any payment of salary due, including annual leave payment, Well as any balance in the employee's Savings Bond account.

Under present rules contributions to the Civil Service Retirement Office, regarding assignments of contributions to the Retirement System of the Rederal Reservice assignments of contributions to the Retirement System of the Rederal Reservice assignments of contributions to the Retirement System of the Rederal Reservice Reservice Retirement System of the Retirement Syst Under present rules contributions to the Civil Service Retirement and Rederal Reserve Banks, we were advised that they do not pay out of an individbutions first butions any sum except upon application for a refund of contributions any sum except upon application for a refund of contributions first butions for a refund of contributions for a refundation for a refundat butions filed on the prescribed form and that it is their general practice to the the contributor only, unless he requests bey the full amount of the refund to the contributor only, unless he requests the full amount of the refund to the paid to some one other than in the full amount of the refund to the contributor only, unless than himself application that a specified amount be paid to some one other than

Incidentally, under rules prescribed in the Standardized dovernment indemnity advances for official travel no longer need be secured by indemnity bond or assignment of salary, etc.

S. H. Bass,

Chief, Fiscal Section.

Attachment