Minutes for March 11, 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.

Chm. Martin
Gov. Szymczak
Gov. Vardaman 1/
Gov. Mills
Gov. Robertson
Gov. Balderston
Gov. Shepardson

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 Tuesday, March 11, 1958. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser to the Board
Mr. Young, Director, Division of Research and Statistics
Mr. Hackley, General Counsel
Mr. Masters, Director, Division of Examinations
Mr. Molony, Special Assistant to the Board
Mr. Solomon, Assistant General Counsel

Inquiry from Congressman Patman (Item No. 1). Pursuant to the understanding at the meeting yesterday, there had been distributed to the members of the Board a revised draft of letter to Congressman Patman in response to his inquiry about the rise in the Federal funds rate to 2-1/2 per cent on March 4, 1958.

Following a brief discussion, unanimous approval was given to a reply to Mr. Patman in the form attached as Item No. 1, with the understanding that a copy would be sent to Chairman Spence of the House Banking and Currency Committee.

Bank holding company status of Republic National Bank (Item No. 2). In a memorandum dated March 10, 1958, which had been distributed to the members of the Board, Mr. Solomon discussed a further communication from the Republic National Bank, Dallas, Texas, regarding its status as a bank holding company under the Bank Holding Company Act of 1956. It appeared that the bank and its counsel continued to be concerned that
the Board's letter of January 14, 1958, might be considered an "order", in which event the 60-day period for filing of a petition for judicial review would expire on March 14, 1958, and a court might hold that Republic had lost its right to such review. From discussions with President Irons of the Federal Reserve Bank of Dallas and with Counsel for Republic, it was understood that Republic hoped to adjust its situation to the requirements of the Bank Holding Company Act, probably by reducing certain bank shareholdings below the 25 per cent figure stated in the definition of a bank holding company. Mr. Solomon's memorandum suggested sending a letter to Republic which would indicate that if the Board's January 14 letter should be considered an "order", it was being suspended to that extent so as to render it inoperative between that date and the date of the proposed letter. The memorandum also suggested further extending the period for registration by Republic for a period of 90 days from the date of such letter.

Governor Shepardson, who had participated in the informal conference held on February 17, 1958, with representatives of Republic, commented that although he was not quite clear about the reasons for Republic's concern regarding the possibility that the Board's letter of January 14 might be construed as an "order", he was satisfied after discussion with Messrs. Hackley and Solomon that a letter along the lines proposed could be sent without any harm to the Board's position. Apparently, such a letter would relieve Republic from any pressure to
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which it felt subject and might facilitate arrangements by Republic to adjust its situation to the requirements of the Bank Holding Company Act.

Accordingly, unanimous approval was given to the letter to the Republic National Bank of which a copy is attached as Item No. 2, with the understanding that a copy would be sent to the Federal Reserve Bank of Dallas.

Proposed amendment to Financial Institutions Act. In a memorandum dated March 10, 1958, which had been distributed to the members of the Board, Mr. Hackley referred to an informal request from a staff member of the House Banking and Currency Committee for comment on a possible amendment to the provisions of the proposed Financial Institutions Act which require the record owner of stock of a State member bank to notify the Board of Governors of the names of any persons having a beneficial interest in such stock in excess of 5 per cent of the outstanding shares of the bank. (The pending bill contained similar provisions relating to national banks and insured nonmember banks.) The suggested amendment would have the effect of transferring the responsibility for notification from the record owner of the stock to the beneficial owner, except that the trustee would make the report for a trust. This would follow the approach of the Securities Exchange Act of 1934 and would be in accord with a suggestion made by the Board to the Senate Banking and Currency Committee in 1957.
Following comments by Messrs. Hackley and Solomon, questions were raised by Governor Balderston with respect to the practical aspects of such an amendment, including how it was anticipated that the beneficial owner would be informed of his responsibility for notification and what enforcement procedures would be envisaged. In reply, Messrs. Hackley and Masters suggested that enactment of the Financial Institutions Act with a provision such as mentioned might well involve certain practical problems of the kind referred to by Governor Balderston. It appeared, for example, that in the case of each bank it would be incumbent upon the record owners of stock to get in touch with the beneficial owners and advise them of their reporting responsibility. It was pointed out, however, that the practical problems would be reduced to a certain extent by the fact that only beneficial owners of stock in excess of 5 per cent of the outstanding shares would be required to report and also by the fact that the trustee would make the report in the case of shareholdings by a trust.

At the conclusion of the discussion, it was understood that the Legal Division would informally advise the Banking and Currency Committee staff member that no objection was seen to the proposed amendment.

Tax reduction as an anti-recession measure. Pursuant to the request made at the meeting on February 13, 1958, there had been sent to the members of the Board with a memorandum from Mr. Young dated March 7, 1958, a staff memorandum dealing with the question of tax reduction as
an anti-recession measure. At the request of the Chairman, Mr. Young and other members of the staff commented informally on this general subject and it was understood that the memorandum would be discussed in more detail at another meeting of the Board.

Small business legislation. With a memorandum dated March 10, 1958, Mr. Young had suggested a possible approach to the problem of long-term financing facilities for small business which would be consistent in principle with an approach being pursued by the staff of the Treasury Department and also generally consistent with the major preliminary findings of the Board's small business financing study. At the request of Chairman Martin, Mr. Young outlined this approach and it was understood that the Board would give further consideration to the subject at another meeting.

Reply to statement by Mr. Patman. Governor Shepardson reported having received a telephone call from Chairman Smith of the Federal Reserve Bank of Dallas, who said that work was going forward on the Bank's report to the Board concerning the criticisms of its expenditures and operations included in Congressman Patman's statement before the Banking and Currency Committee on February 7, 1958, and asked whether there would be any objection to distributing the report for comment to those former directors who had served during the period covered by Mr. Patman's criticisms. Governor Shepardson said he had told Mr. Smith that he did not see any objection but he would check with the other members of the Board.

The unanimous view was expressed that there would be no objection to the procedure proposed by Chairman Smith.
Chairman Martin referred to an inquiry which Congressman Patman had directed to the Treasury Department concerning certain recent testimony by the Comptroller of the Currency in which reference was made to the ownership of the Federal Reserve Banks. He said that at his request Mr. Hackley had prepared a memorandum on the subject in which attention was drawn to the phraseology used in the so-called Patman report in 1952, and that he would send Mr. Hackley's memorandum to the Treasury as a matter of information and for whatever benefit it might be to that Department.

The meeting then adjourned.

Secretary's Notes: Governor Shepardson today approved on behalf of the Board a letter to The Brookings Institution expressing the hope that Mr. Farrell, Assistant Director of the Division of Bank Operations, might be considered at such time as the Board's proportionate representation in the Brookings Executive Conferences permitted the selection of another member of its staff.

Governor Shepardson also approved today on behalf of the Board a letter to the Federal Reserve Bank of Cleveland (attached Item No. 3) approving the appointment of Andrew J. Worth as assistant examiner.
The Honorable Wright Patman,  
House of Representatives,  
Washington 25, D. C.

Dear Mr. Patman:

With respect to your inquiry about the rise in the Federal funds rate to 2-1/2 per cent on March 4, it should be pointed out that this rate customarily fluctuates rather widely as it is highly sensitive to purely temporary variations in the available supply of bank reserves. In recent weeks, the rate has generally been at a low level because of the increased availability of reserves and the greatly reduced volume of member bank borrowings. The supply of reserves was further sharply increased at city banks on Thursday, February 27, and at country banks on Saturday, March 1, by the reductions in reserve requirements.

It appears that city banks actively and promptly put their additional reserves to use and even overanticipated somewhat the amount that would be available. Total loans and investments at New York City and Chicago banks in the week ending March 5 increased by about $750 million. For this and other reasons, including a substantial outflow of funds from New York City on Monday, March 3, the extreme ease that had developed in the New York money market previously was suddenly reduced. Money rates, which had declined sharply to below 1 per cent for Federal funds and to around 1-1/8 per cent for three-month Treasury bills, showed a tendency to adjust upward.

Country banks are necessarily slower in putting additional funds to use than is the case with city banks. They are slower in investing idle funds when money rates are low than when rates are high. Thus the full effect of the reserves released by the reduction in requirements is being only gradually felt in the central money market. It is true, as you suggest, that country banks as a rule do not participate actively in the Federal funds market, but in the course of time, as they put their additional reserves to use through the extension of loans or the purchase of securities or additions to their balances with correspondents, these funds will become distributed around the country and the effect will be felt in the money markets, as well as by businesses and others borrowing directly from banks.
We do not have precise information as to the number and types of banks which buy or sell Federal funds. On the basis of partial data, we estimate that roughly 150 banks, mostly large banks in financial centers, account for the bulk of such transactions. A number of smaller banks occasionally enter the market, usually as sellers of funds, and some nonbank institutions also sell moderate amounts of Federal funds.

If you have any further questions on this matter, we shall be glad to try to answer them.

Sincerely yours,

Wm. McC. Martin, Jr.
Mr. James W. Aston,
President,
Republic National Bank of Dallas,
Dallas, Texas.

Dear Mr. Aston:

This refers to your telegram of March 7, 1958, regarding the Board’s letter of January 14, 1958, to Mr. Pondrom of the Federal Reserve Bank of Dallas and the Board’s letter of February 25, 1958, to you regarding the status of your Bank under the Bank Holding Company Act of 1956.

Upon careful reconsideration of the matter the Board continues to be of the view expressed in its earlier letters to the effect that your Bank is a bank holding company within the meaning of the Bank Holding Company Act of 1956.

As indicated in the Board’s letter of February 25, 1958, the expressions of opinion in that letter and in the Board’s earlier letter of January 14, 1958, are regarded as interpretations of the statute and were not intended and not considered by the Board as an order reviewable under section 9 of the Bank Holding Company Act of 1956 or as final agency action reviewable under section 1009 of Title 5 of the U. S. Code. You are also advised that there has been no entry of the expressions of opinion in those letters as an order. However, if the expressions of opinion in those letters should for any reason be considered to be such an order or such final agency action, they are to that extent hereby suspended so as to be inoperative from the date of the first letter until the date of this letter.

In order to allow your Bank a reasonable time within which to prepare its Registration Statement, the Board grants (pursuant to section 5(a) of the Act) a period of 90 days from the date of this letter for the filing of a Registration Statement by your Bank under the Act.

Very truly yours,

G. R. Carpenter,
Secretary.
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 March 7, 1958, the Board approves the appointment of Andrew J. Worth 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) S. R. Carpenter

S. R. Carpenter,  
Secretary.