

To: Members of the Board
 From: Office of the Secretary

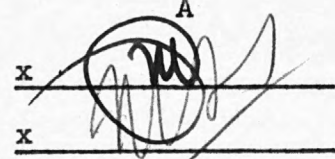
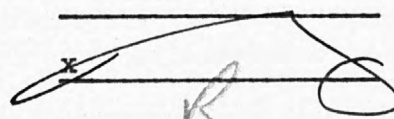
Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

It is proposed to place in the record of policy actions required to be kept under the provisions of Section 10 of the Federal Reserve Act entries covering the items in this set of minutes commencing on the page and dealing with the subjects referred to below:

Page 2 Reduction in reserve requirements of member banks.

Page 2 Approval of a discount rate of either 2 per cent or 1-3/4 per cent for any Federal Reserve Bank advising of the establishment of either rate.

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 	_____
Gov. Szymczak	x _____	_____
Gov. Vardaman <u>1/</u>	_____	x _____
Gov. Mills	x 	_____
Gov. Robertson	x _____	_____
Gov. Balderston	_____	x <u>ccrs</u>
Gov. Shepardson	x <u>Shep</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
Thursday, April 17, 1958. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
Mr. Thurston, Assistant to the Board
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. Molony, Special Assistant to the Board

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:

	<u>Item No.</u>
Letter to The Hanover Bank, New York, New York, approving the establishment of a branch at 401 Madison Avenue. (For transmittal through the Federal Reserve Bank of New York)	1
Letter to Girard Trust Corn Exchange Bank, Phila- delphia, Pennsylvania, approving the establishment of twelve out-of-town branches incident to its proposed merger with Upper Darby National Bank, Upper Darby, Pennsylvania. (For transmittal through the Federal Reserve Bank of Philadelphia)	2
Letter to The First National Bank of Altavista, Altavista, Virginia, approving its application for fiduciary powers. (For transmittal through the Federal Reserve Bank of Richmond)	3

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	<u>Item No.</u>
Letter to Bank of the Southwest National Association, Houston, Texas, authorizing acceptance of dollar-exchange drafts drawn by Banco do Brasil, Rio de Janeiro, Brazil. (For transmittal through the Federal Reserve Bank of Dallas)	4
Letter to the Senate Banking and Currency Committee reporting on S. 3561, a bill to amend Section 24 of the Federal Reserve Act to exempt real estate loans guaranteed by States.	5
Memorandum from Mr. Johnson recommending a procedure with respect to preemployment security investigations.	6
Memorandum from the Office of the Controller recommending approval of a payment to Price Waterhouse & Co. for services rendered in auditing the Board's accounts for 1957.	7

Reserve requirements (Item No. 8) and discount rates. Chairman

Martin referred to the informal discussion at the executive session of the Board yesterday of actions that might be taken to reduce further the reserve requirements of member banks and a reduction in the discount rates of the Federal Reserve Banks in the event the boards of directors of the Banks should act to reduce such rates. At the meeting of the Federal Open Market Committee on April 15 some of the Presidents indicated that action on the discount rate would be considered at meetings of their directors this week, and Chairman Martin stated that President Hayes of the Federal Reserve Bank of New York called this morning to say that he proposed to submit to his directors today a recommendation that the rate be reduced to 1-3/4 per cent. The Chairman suggested that in

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these circumstances further consideration be given to the two matters at this meeting of the Board.

Chairman Martin also said that President Hayes had commented that if rate action is taken by his directors, he would like to announce the action at 4:00 p.m. this afternoon. In this connection, Mr. Thurston said that he had discussed with President Allen of the Federal Reserve Bank of Chicago whether a four o'clock release of announcements of discount rate changes by the Federal Reserve Banks would raise any difficulties in the Chicago District and that Mr. Allen had replied that he would favor announcement at that time.

Chairman Martin then called upon Mr. Thomas who outlined the developments on which an estimate was based that positive free reserves for the statement week ended yesterday, without further System action, would be about \$465 million, \$430 million for the current statement week, \$360 million for the following statement week, and \$240 million for the week ending May 7. This assumed, he said, a moderate further gold outflow during the next two weeks but does not make allowance for the \$98 million of bills purchased for System account on Wednesday, April 16. Required reserves in general were behaving pretty much according to pattern with somewhat more of an increase than expected which indicated that bank credit was expanding a little. Currency in circulation had not shown the expected post-Easter decline.

With respect to the effective date of possible action on reserve requirements, Mr. Thomas stated that if it were decided, as had been

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suggested, to reduce requirements of banks in central reserve cities by 1 percentage point and reserve cities by 1/2 percentage point, the first 1/2 percentage point for central reserve cities could be made effective today and the second 1/2 per cent for central reserve cities and the 1/2 per cent for reserve cities could be made effective on April 24. If this action were taken, he said, it would release about \$260 million of reserves for central reserve city banks and \$190 million for reserve city banks, or a total of about \$450 million.

As to classes of banks, Mr. Thomas stated that the reserve position of Chicago banks was approximately in balance and while the New York banks had an excess position yesterday, they were still borrowing substantial amounts of Federal funds and one bank was borrowing about \$200 million from the Federal Reserve Bank because of a low reserve position and a deficit reserve position carried over from the preceding week which would have to be made up this week. The reserve city banks had a small free reserve position but their position fluctuated widely from day to day. He added that the excess reserves of country banks declined sharply on April 15 so that the situation was one which clearly called for the injection of additional reserve funds. He reviewed briefly conditions in the money market and said that the market was in a tighter position than the System intended it to be and that it was likely to continue in that position due in large part to the extraordinary outflow of gold.

Chairman Martin then asked for the views of the members of the Board as to the desirability of action on reserve requirements.

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Governor Mills stated that he had considered the matter further since the executive session yesterday and that it was still his view that the appropriate way to supply additional reserves in the present situation would be through open market operations rather than by a reduction in reserve requirements.

The principal reason for this view, he said, was that recent System actions had developed a repetitive sequence of discount rate and reserve requirements reductions which must be creating a belief in the financial community that a pattern of similar actions could be anticipated. This will lead to the conclusion that as additional reserves are supplied and then employed by the recipient banks for investment purposes, interest rates can be expected to fall. Banks will then have an incentive to attempt to increase their investments in United States Government securities at existing prices in anticipation of still lower rates, and to extend their maturities at the expense of their potential liquidity. An indication of that process, he said, has been that banks seem to have forsaken Treasury bills in preference for intermediate and long-term issues of United States Government securities, which may account for the relatively heavy position of Treasury bills and the firming in their yields. If additional reserves were supplied by the System through the purchase of Treasury bills, instead of by reducing reserve requirements, the heaviness in the bill market might be lifted, at least to some extent, as some of the bills being offered in the market by foreign central banks

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and others were absorbed by System purchases. There was no guarantee, he added, that if reserve requirements were lowered the central reserve and reserve city banks would help the situation by investing aggressively in the Treasury bill market. It was more likely that they would employ their new reserves to acquire longer-term United States Government securities.

Beyond those considerations, there was a very fundamental one in Governor Mills' opinion, namely, that if the repetitive process of discount rate and reserve requirement reductions is continued, the System will run the risk of being enmeshed in a procedure that embodies some of the evils that were associated with a pegged market for United States Government securities, when there was genuine concern that pulling the pegs would have a damaging effect on the market. The longer the System adheres to its present repetitive procedures, he said, the more difficult it will be to break away and to return to the principle of a flexible market under which market factors can assert themselves naturally and reserves are supplied when they are needed and not too far in advance of that need.

Chairman Martin stated that while he saw the point made by Governor Mills with respect to repetitive action, the thing that impressed him was the advantages that were inherent in the System's announcing reductions in reserve requirements and discount rates simultaneously. As to the need for reserves, he stated that he was satisfied that there could

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be a very substantial further outflow of gold which could come at a time when it could not be forecast.

He referred to the bill introduced in the Congress at the Board's request which would amend the law with respect to reserve requirements and stated that if member banks were authorized to count vault cash as reserves as the proposed legislation would permit, requirements of 18 per cent for central reserve city banks, 16-1/2 per cent for reserve city banks, and 11 per cent for country banks would provide such a narrowing in differentials between the different classes of banks as to provide rationale for the proposed bill. It was his feeling that while it could not be said that the System would be "at the end of the road" if the proposed actions on reserve requirements and discount rates were taken, they would remove any necessity for further monetary action for some time to come. If such actions were taken he did not know where the bill rate would go, but he had talked to a number of people in New York on Monday of this week when he was there and that although the bill rate might go down to 5/8 per cent he questioned whether it would "go out of sight."

His further comment was that some action was called for but that whether it was done by open market operations or a reduction in reserve requirements was not of prime importance. However, it seemed to him that action on reserve requirements would provide about as good a rationale as could be provided in the face of a possible gold outflow. Since there

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was a tightening in the reserve position of member banks that must be relieved, he felt that the System was in a situation which gave it a clear opportunity to make an adjustment toward lower reserve levels without interfering with over-all monetary policy and at the same time remove the need for further System actions for some time to come. He added the further thought that if the System should find a very sharp decline in reserves two, three, or four weeks from now and then reduced reserve requirements, the action would not be as satisfactory as it would if it were taken now. Furthermore, he felt that the Board had an obligation to act one way or another today in the light of the discussion at the meeting of the Open Market Committee on April 15.

Governor Robertson stated that for somewhat different reasons he had reached the same conclusions as stated by Chairman Martin. He felt that the Board could reduce reserve requirements without creating any bad effects, that a portion of the reserves created by the reduction could be absorbed later if necessary, and that the reduction should be made so that the Board would have as much headroom as possible to move back up in large steps when that became necessary in the future. He did not think there was much headroom now since the proposed legislation would reduce the possible maximum reserve requirements for central reserve city banks to only one percentage point above existing requirements and he did not believe that was enough. Therefore, he would favor moving down whenever the Board could do so and the present was the time when that action could be taken since reserves had to be supplied in the present situation in one form or another.

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Governor Shepardson concurred in the views expressed by Chairman Martin and Governor Robertson. He said it was clear that additional reserves would have to be supplied in the magnitude that would be involved in a reduction in reserve requirements. Furthermore, the Board had taken the position consistently that the general level of reserve requirements was higher than necessary and that the Board should look for opportunities to make reductions when consistent with credit policy. The present offered an opportunity to take such action and for that reason he was in accord with the proposed reduction.

Governor Szymczak concurred that the present offered an opportunity for a reduction. He would prefer to move on central reserve city banks only as a means of making the adjustments that would have to be made eventually. However, since a larger amount of reserves was required at the present time and since he felt the Board should learn to make a more flexible use of changes in reserve requirements and this instrument could be used more flexibly than had been in the past, he favored a reduction in the amount suggested as well as a reduction in the discount rate to be announced as soon as possible.

Governor Robertson made the further comment that if reserves were to be supplied exclusively by open market operations, it would drive the bill rate down because it would be in that area that open market operations would be conducted. Another reason for a reduction in reserve requirements was that by utilizing monetary policy to the

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fullest extent at this time it might be possible to head off other actions that would be more difficult to reverse when the economy turned upward.

There was a general discussion of the points made by Governor Mills as to the effect of repetitive actions to reduce reserve requirements and the discount rate and of what the situation would be if reserves were supplied through open market operations. There was also a discussion of the possible effect of these actions on Treasury bill rates and the market for Treasury bills.

At this point Messrs. Thurston and Molony withdrew from the meeting.

After some further discussion, it was voted unanimously to take action to reduce reserve requirements for central reserve city banks by 1/2 percentage point effective today, April 17, and for central reserve and reserve city banks by 1/2 percentage point effective April 24. In explanation of his affirmative vote, Governor Mills stated that while he felt as stated earlier in this meeting, he did not believe actions of this kind should be taken on a divided vote and for that reason he was voting with the majority.

In accordance with the above action, unanimous approval was given to the following amended supplement to Regulation D, Reserves of Member Banks, with the understanding that copies of the amendment would be sent by telegram to all Federal Reserve Banks and branches together with the

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text of the press release attached hereto as Item No. 8 which would be released to the press at 4:00 p.m. E.S.T. this afternoon, that the Reserve Banks would be requested to advise the State bank supervisors in the respective districts of the Board's action and that they print the amended supplement to Regulation D and furnish copies to all member banks in their respective districts, and that appropriate notice of the Board's action be published in the Federal Register.

SUPPLEMENT TO REGULATION D
Issued by the Board of Governors of the Federal
Reserve System

Effective as to each member bank at the opening of business on April 17, 1958, except as otherwise indicated.

RESERVES REQUIRED TO BE
MAINTAINED BY MEMBER BANKS
WITH FEDERAL RESERVE BANKS

Pursuant to the provisions of section 19 of the Federal Reserve Act and section 2(a) of its Regulation D, the Board of Governors of the Federal Reserve System hereby prescribes the following reserve balances which each member bank of the Federal Reserve System is required to maintain on deposit with the Federal Reserve Bank of its district:

1. If not in a reserve or central reserve city--
 - (a) 5 per cent of its time deposits, plus
 - (b) 11 per cent of its net demand deposits.

2. If in a reserve city (except as to any bank located in an outlying district of a reserve city or in territory added to such city by the extension of the city's corporate limits, which, by the affirmative vote of five members of the Board of Governors of the Federal Reserve System, is permitted to maintain the reserves specified in paragraph 1 above)--
 - (a) 5 per cent of its time deposits, plus
 - (b) 17 per cent of its net demand deposits until the opening of business on April 24, 1958, and 16-1/2 per cent of its net demand deposits thereafter.

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3. If in a central reserve city (except as to any bank located in an outlying district of a central reserve city or in territory added to such city by the extension of the city's corporate limits, which, by the affirmative vote of five members of the Board of Governors of the Federal Reserve System, is permitted to maintain the reserves specified in paragraph 1 or 2 above)--

- (a) 5 per cent of its time deposits, plus
- (b) 18-1/2 per cent of its net demand deposits until the opening of business on April 24, 1958, and 18 per cent of its net demand deposits thereafter.

Consideration was then given to the action to be taken by the Board should one or more of the Federal Reserve Banks act to reduce the discount rate today, and it was clear from the discussion that the members of the Board favored such a reduction.

Question was raised whether action should be taken this morning on such a reduction or whether it would be practicable to defer action until a meeting this afternoon in order to prevent any possibility of a leak. It was agreed, however, that since Messrs. Mills, Robertson, and Shepardson were to appear before the House Select Committee on Small Business this afternoon, it would be better for the Board to take action this morning while five members of the Board were available, with the understanding that this would not be a precedent with respect to further actions of this kind.

Thereupon, by unanimous vote, the Board approved, effective April 18, 1958, a rate of either 2 per cent or 1-3/4 per cent should such a rate be fixed by the board of directors of any Federal Reserve Bank today,

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along with appropriate subsidiary rates. In addition, the Secretary was authorized, in the event advice were received after today that any other Federal Reserve Bank had established a discount rate of either 2 per cent or 1-3/4 per cent, with appropriate subsidiary rates, to notify such Banks that the Board approved the reduced rate, effective the following business day.

It was understood that should reduced rates be made effective on April 18 or thereafter in accord with the above action the usual press statement would be issued at 4:00 p.m. E.S.T. for immediate release, that appropriate telegrams of notification would be sent to Federal Reserve Banks and branches, and that notice of the action would be published in the Federal Register.

Secretary's Note: Pursuant to the action taken by the Board of Governors at this meeting, the Secretary today advised the five Federal Reserve Banks mentioned below that the Board approved the rates indicated, effective April 18, 1958:

On discounts for and advances to member banks under sections 13 and 13a for Federal Reserve Banks of New York, Philadelphia, Chicago, St. Louis and Minneapolis--1-3/4 per cent;

On advances to member banks under section 10(b) for each of these banks--2-1/4 per cent;

On advances to individuals, partnerships, and corporations other than member banks under last paragraph of section 13 for Philadelphia --3-1/2 per cent; and for St. Louis--2-3/4 per cent;

Without change, the remaining rates in the Banks' existing schedules.

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The Presidents of all Federal Reserve Banks and the Vice Presidents in charge of Federal Reserve Bank branches were advised by telegram of the rates approved, a press statement in the usual form concerning approval of the 1-3/4 per cent rate for the five Banks was released at 4:00 p.m. E.S.T., and arrangements were made for publication of a notice in the Federal Register.

Proposed amendments to Bank Holding Company Act. The Board then resumed the discussion which was begun at the meeting on April 14 and continued at the meeting on April 16 with respect to amendments to the Bank Holding Company Act to be recommended to the Congress in the report to be made by the Board on or before May 9, as required by section 5(d) of the Bank Holding Company Act.

Messrs. Hostrup and Nelson, Assistant Directors of the Division of Examinations; Hexter, Solomon, and O'Connell, Assistant General Counsel; and Fauver, Assistant Secretary, joined the meeting at this point.

Governor Mills raised again the question of the desirability of submitting to the interested bank holding companies for comment the decisions reached by the Board with respect to the draft recommendations relating to the repeal or amendment of section 6 of the Bank Holding Company Act and amendment to section 23A of the Federal Reserve Act. Governor Mills was particularly concerned about the possible effects of these amendments and felt that the Board should be very careful in making a proposal that would be so narrow in its limitations that it would be contrary to what the Board is trying to accomplish. What concerned him was the suggestion that section 23A be amended to cover

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discount transactions because he could not foresee fully the effect that such an amendment would have.

Mr. Hackley stated that after representatives of the bank holding companies met with the Board on March 17, 1958, they met with the staff and about the only thing referred to at that time was the ruling of the Board in the General Contract case. It was quite clear, Mr. Hackley said, that the representatives would be entirely satisfied with the proposed revision of section 23A which would provide limits on loans by banks to their subsidiaries in lieu of the present absolute prohibition on loans contained in the Bank Holding Company Act.

In a further discussion of Governor Mills' suggestion, it was agreed unanimously that Mr. Hackley should discuss the proposals listed in items 25-30, inclusive, in his memorandum of March 28 with Mr. Gesell, who is Counsel for Transamerica Corporation (which concern has no direct interest in the problems involved) or with some other appropriate member of Mr. Gesell's legal firm who is familiar with the problems involved. It was also understood that the matter would be discussed with the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation.

On the basis of the discussion, recommendations 25, Part A of 26, 27, 29, 30, 31, and 32 were approved for inclusion in the revised draft to be prepared by the Legal Division. Part B of recommendation 26 and recommendation 28 were dropped.

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Recommendation 25 provided for a repeal of section 6 of the Bank Holding Company Act and an incorporation of its basic provisions in section 23A of the Federal Reserve Act by an amendment. This would have the effect of making the provisions apply to all insured banks rather than merely to member banks of the Federal Reserve System; it would cover "one-bank situations" instead of the two-bank definition in the Bank Holding Company Act; limit credit from a bank to an affiliate to a percentage of capital and surplus, as in section 23A, rather than the outright prohibition provided by section 6; and cover nonrecourse purchases of paper which the Board has construed section 6 to cover but which is omitted under section 23A at present.

Part A of recommendation 26 would be applicable if Congress decided to retain section 6 rather than to amend section 23A of the Federal Reserve Act and would prohibit holding company banks from purchasing third party paper from other companies in a holding company system without recourse. Part B of recommendation 26, which it was agreed would be dropped, would, if section 6(a) is retained, tighten intra-system purchases by deleting the words "under repurchase agreement" from section 6(a)(3).

Recommendation 27 provides for the exemption of inter-bank transactions. A bank, being subject to supervision and regulation, is less likely than an unsupervised business to accumulate unsound assets to be unloaded on an affiliated bank. Accordingly, most of the reasons

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for prohibiting loans by a bank to its holding company or fellow subsidiary do not apply when the borrower is also a bank.

Recommendation 28, which it was agreed would be dropped, would make clear that a renewal of an existing loan to a bank holding company or subsidiary is not to be deemed a violation of section 6(a)(4).

Recommendation 29 would exempt loans secured by Government securities from prohibitions on self-dealing. Section 23A of the Federal Reserve Act already provides for such an exemption which would also seem desirable for section 6 since credits of the kind described do not present problems of possible abuses of the assets of a bank.

Recommendation 30 would exempt investments eligible for national banks under section 5136 of the Revised Statutes. This would make section 6(b) comparable to similar provisions in section 4(c)(4) which exempts such investments from the divestment requirements of the Act.

Recommendation 31 would clarify the extent to which extraterritorial considerations are or are not intended to affect the operation of the Bank Holding Company Act.

Recommendation 32 would repeal a number of provisions of existing law, enacted by the Banking Act of 1933, which relate to "holding company affiliates." The elimination of these provisions would remove the confusion resulting from the existence of two sets of laws which relate to the same general subject but which are based on different definitions of what constitutes a holding company.

Thereupon the meeting adjourned.


Secretary

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

Item No. 1
4/17/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 17, 1958



Board of Directors,
The Hanover Bank,
New York 17, New York.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors of the Federal Reserve System approves the establishment of a branch of The Hanover Bank, New York, New York, at 401 Madison Avenue, New York, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.

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

Item No. 2
4/17/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 17, 1958

Board of Directors,
Girard Trust Corn Exchange Bank,
Philadelphia, Pennsylvania.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Philadelphia, the Board of Governors of the Federal Reserve System approves the establishment of branches by Girard Trust Corn Exchange Bank, Philadelphia, Pennsylvania, at the following locations:

6908-10 Market Street,
Upper Darby, Pennsylvania,

Glendale Road and Ludlow Street,
Upper Darby, Pennsylvania,

P.T.C. Terminal Building,
Market Street at 69th Street,
Upper Darby, Pennsylvania,

4221 Ferne Boulevard,
Drexel Hill, Pennsylvania,

1021 Pontiac Road,
Drexel Hill, Pennsylvania,

Penn Fruit Building,
Oak Lane and Baltimore Pike,
Clifton Heights P. O., Pennsylvania,

1625 East Darby Road (Brookline),
Havertown, Pennsylvania,



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Board of Directors - 2 -

Manoa Shopping Center,
West Chester Pike and Eagle Road,
Havertown, Pennsylvania,

3533 West Chester Pike,
Newtown Square, Pennsylvania,

712 $\frac{1}{2}$ Church Lane,
Yeadon, Pennsylvania,

West Chester Pike and Summit Avenue,
Broomall, Pennsylvania,

Lawrence Park - Shopping Center,
Lawrence and Sproul Road,
Broomall, Pennsylvania,

provided, (1) the merger of Upper Darby National Bank, Upper Darby, Pennsylvania, with and into Girard Trust Corn Exchange Bank, is effected substantially in accordance with the agreement between the parties dated January 14, 1958, (2) shares of dissenting stockholders of the constituent corporations which may be acquired, are disposed of within six months from the date of acquisition, and (3) the establishment of the branches is effected within six months from the date of this letter.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.

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

Item No. 3
4/17/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 17, 1958

Board of Directors,
The First National Bank of Altavista,
Altavista, Virginia.

Gentlemen:

The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers and grants you authority to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies or other corporations which come into competition with national banks are permitted to act under the laws of the State of Virginia, the exercise of all such rights to be subject to the provisions of section 11(k) of the Federal Reserve Act and Regulation F of the Board of Governors of the Federal Reserve System.

A formal certificate indicating the fiduciary powers which The First National Bank of Altavista is now authorized to exercise will be forwarded to you in due course.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.

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

Item No. 4
4/17/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 18, 1958

Bank of the Southwest National
Association, Houston,
Houston, Texas.

Gentlemen:

The Board of Governors of the Federal Reserve System authorizes your bank, pursuant to the provisions of section 13 of the Federal Reserve Act, to accept drafts or bills of exchange drawn upon you by Banco do Brasil, Rio de Janeiro, Brazil, in an amount not exceeding \$2,000,000 in the aggregate at any time, which are drawn and accepted for the purpose of furnishing dollar exchange as required by the usages of trade in Brazil and which conform to all other applicable provisions of said section 13 and Federal Reserve Regulation C.

The right is reserved to terminate this authorization upon 90 days' notice to your bank, as provided in the regulation.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 5
4/17/58

OFFICE OF THE CHAIRMAN

April 17, 1958

Honorable J. W. Fulbright,
Chairman, Committee on
Banking and Currency,
United States Senate,
Washington, D. C.

Dear Senator Fulbright:

This is in response to your letter of March 27 requesting a report by the Board of Governors on S. 3561, a bill "To amend section 24 of the Federal Reserve Act to exempt real estate loans guaranteed by States from its provisions."

The third sentence of section 24 of the Federal Reserve Act places maximum limits upon (1) the maturity of loans by national banks upon the security of real estate and (2) the amount that may be lent in relation to the appraised value of real-estate security. S. 3561 would exempt from these limits "real estate loans which are 100 per centum guaranteed or insured by a State or by a State authority for the payment of the obligations of which the faith and credit of the State is pledged."

The provisions of the third sentence of section 24 are designed to prevent national banks from making real-estate loans that might involve an undue risk of loss. Where a loan is supported by the credit of a State there would not appear to be any significant risk even if the loan is for a period exceeding the maximum prescribed in section 24 or for a larger percentage of the value of the real-estate security than would be permissible under that section. Accordingly, the Board of Governors favors the objective embodied in S. 3561.

The fourth sentence of section 24 prescribes limitations upon the aggregate amount of real-estate loans that may be made by a national bank. One purpose of these provisions is to help safeguard national banks' liquidity. The backing of a State would not necessarily assure the liquidity of a long-term real-estate loan, but that question does not arise under S. 3561, since the aggregate limitations would not be affected thereby. However, the title of the bill seems to

Honorable J. W. Fulbright

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suggest that loans of the kind described are to be exempt from all provisions of section 24, and therefore your Committee may consider it advisable to amend the last words of the title of the bill to refer to "certain of its provisions"--that is, certain provisions of section 24.

It might also be desirable, for the sake of clarity and uniformity, (1) to substitute the word "or" for the words "and shall not apply to real estate loans" in the body of the bill, and (2) to substitute the word "loan" for the word "mortgage" at the end of the proviso.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 6
4/17/58

Office Correspondence

Date April 7, 1958

To Board of Governors

Subject: Pre-Employment Security

From E. J. Johnson

Investigations

In accordance with Governor Shepardson's request, this Division has reviewed its present procedure for security investigations, with consideration being given to possibly more complete pre-employment investigations.

Present Procedure

At the present time the procedure with regard to applicants for employment in the 78 sensitive positions at the Board is as follows (the positions of the other 47 employees cleared are not considered sensitive as the clearances are for defense planning duties and not necessarily as associated with the position occupied by the employee):

Pre-Employment

(1) Application reference checks are initiated, and the more important responses are in hand before a decision to hire is made.

(2) A name check is requested of the Federal Bureau of Investigation, which initiates a search by name for any derogatory security information that is of record there. This procedure is usually completed in two or three days.

Upon Employment

(1) Immediately upon employment for a sensitive position at the Board, a full-field security investigation is started. The time required for this varies from about two months to three months, depending upon the number of areas in which the employee has worked or lived in the past and whether he has had overseas employment.

(2) Pending clearance, the Division to which the employee is assigned is advised in writing that a security investigation is in process and that no classified material should be made available to this employee until security clearance is given.

Comment

The only more complete pre-employment check is one that would require a full-field investigation of applicants for sensitive positions before employment. The principal problem in doing this is that the applicant may accept another position rather than wait the two to three months required for the investigation.

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We discussed this with certain Government agencies that obtain full-field investigations prior to employment. The Office of Defense Mobilization and the Central Intelligence Agency advise that they have had no difficulty in requiring applicants to await the results of a full-field investigation. The State Department expressed apprehension with regard to applicants in the lower grades, as they have most of their turn-over at that level and find that competition entices applicants away if they are not hired fairly soon. They usually hire at those levels pending a satisfactory investigative report. The Department of Commerce has had some adverse experience, stating that one of their problems in this connection is that, once an investigation is started, the full charge (presently \$345 per investigation) is made by the Civil Service Commission even though the applicant accepts a position elsewhere.

Recommendation

In view of the added protection obtained, it is recommended that a pre-employment full-field security investigation be made, for a trial period of one year, of selected applicants for vacancies in sensitive positions at the Board above salary Group M (GS Grade 5) with the understanding that, should it appear that an outstanding applicant would be lost should employment be deferred until the completion of the investigation, the requirement could be waived subject to the concurrence of the Governor whom the Board has designated as responsible for its internal affairs that are of a managerial nature.

With regard to applicants for positions in salary Group M and below, the present procedure would continue.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 7
4/17/58

1207

Office Correspondence

Date April 10, 1958

To Board of Governors

Subject: _____

From Office of the Controller

Attached for the Board's approval is a statement from Price Waterhouse & Co. in the amount of \$5,000 for accounting services in the examination of the financial statements of the Board for the year ended December 31, 1957.

For the past three years, charges made by Arthur Andersen and Company for auditing the Board's books amounted to \$2,500 a year. Because of the wide difference in the charges made by the two accounting firms, the matter was discussed informally with Price Waterhouse. Their position is that since this was their first audit of the Board's books it was necessary for them to spend a considerable amount of time acquainting themselves with our accounting procedures, with the result that the period of the audit was longer than otherwise would have been the case. In this connection, it was stated that their charges next year would be considerably lower, due to the fact that they now have a working knowledge of the Board's accounting methods which would enable them to do the job faster, and it could be expected that their bill would be somewhere in the neighborhood of \$2,500 to \$3,000.

While the Price Waterhouse bill of \$5,000 would seem to be high in relation to the \$2,500 which Arthur Andersen and Company charged for the last three years, it should be mentioned that when the latter firm was engaged in 1952 to make an audit for the first three months of that year and to submit a report containing comments and suggestions on procedures and operating practices, the fee was \$3,000 and the year-end audit for 1952 cost an additional \$2,694, or total charges of \$5,694.

In its letter of August 7, 1957, to Price Waterhouse & Co., authorizing them to make an audit of the Board's books, the Board stated that no restrictions would be placed upon them as to the scope of the audit or the manner in which it was to be conducted, and that the audit should be as extensive as they deemed desirable. In the circumstances, there appears to be no real basis upon which any question could be raised as to the size of their \$5,000 bill.

Provision of \$2,500 in the 1958 budget of the Office of the Controller for auditing the Board's books was based on charges made in recent years by Arthur Andersen and Company.

It is respectfully requested that approval of this payment to Price Waterhouse & Co. be also considered as approval for the over-expenditure of \$2,500 in the "All other" account classification in the budget of the Office of the Controller.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 8
4/17/58

Statement for the Press

For immediate release

April 17, 1958.

The Board of Governors has reduced the reserves required to be maintained by central reserve city banks against demand deposits by 1/2 of 1 per cent, effective today, April 17, and by an additional 1/2 of 1 per cent effective April 24. Effective April 24, the Board has also reduced the reserves required to be maintained by reserve city banks against demand deposits by 1/2 of 1 per cent.

This action will release about \$450 million from present required reserves. The reduction for central reserve cities from 19 per cent to 18-1/2 per cent, effective today, will release about \$130 million of reserves, and the reduction from 18-1/2 per cent to 18 per cent, effective April 24, will release about the same amount. At reserve city banks the reduction from 17 per cent to 16-1/2 per cent, effective April 24, will release about \$190 million.