

Minutes for June 11, 1958

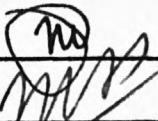
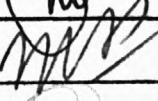
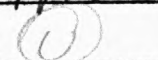
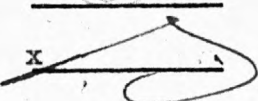

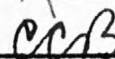
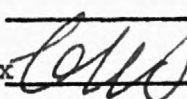
To: Members of the Board

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.

| | A | B |
|-----------------|--|--|
| Chm. Martin | x <u></u> | <u> </u> |
| Gov. Szymczak | x <u></u> | <u> </u> |
| Gov. Vardaman | x <u></u> | <u> </u> |
| Gov. Mills | x <u></u> | <u> </u> |
| Gov. Robertson | <u> </u> | x <u></u> |
| Gov. Balderston | <u> </u> | x <u></u> |
| Gov. Shepardson | x <u></u> | <u> </u> |

Minutes of the Board of Governors of the Federal Reserve System
on Wednesday, June 11, 1958. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Young, Director, Division of Research and Statistics
Mr. Masters, Director, Division of Examinations
Mr. Shay, Legislative Counsel
Mr. Noyes, Adviser, Division of Research and Statistics
Mr. Koch, Associate Adviser, Division of Research and Statistics
Mr. Hexter, Assistant General Counsel
Mr. Hooff, Assistant Counsel
Mr. Brill, Chief, Capital Markets Section, Division of Research and Statistics
Mr. Wood, Economist, Division of Research and Statistics

Items circulated to the Board. The following items, which had been circulated to the members of the Board and copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:

Item No.

Letter to Hightstown Trust Company, Hightstown, New Jersey, approving the establishment of a branch in East Windsor Township. (For transmittal through the Federal Reserve Bank of Philadelphia)

1

Letter to the American National Bank of Shawnee, Shawnee, Oklahoma, approving its application for fiduciary powers. (For transmittal through the Federal Reserve Bank of Kansas City)

2

6/11/58

-2-

Item No.

Letter to The First National Bank of Lamesa, Lamesa, Texas, approving its application for fiduciary powers. (For transmittal through the Federal Reserve Bank of Dallas)

3

Letter to the Federal Reserve Bank of San Francisco regarding whether Common Trust Fund No. 1 of the Union Bank, Los Angeles, California, may be considered a common trust fund operated in conformity with section 17 of Regulation F.

4

Mr. Hooff then withdrew from the meeting.

Report on H.R. 10637 (Item No. 5). The Subcommittee on Housing of the House Banking and Currency Committee had requested the Board's views on H.R. 10637, a bill to create a Home Loan Guarantee Corporation. This bill was substantially the same as S. 2791, on which the Board had expressed its views to the Bureau of the Budget on December 10, 1957, and later to the Senate Banking and Currency Committee on April 2, 1958. In addition, Chairman Martin had discussed the Senate bill in his appearance before the Senate Subcommittee on Housing on May 13, 1958. The suggested reply to the House Subcommittee which had been distributed to the members of the Board under date of June 9, 1958, with a memorandum from Mr. Young, followed closely the language of Chairman Martin's statement on S. 2791.

Mr. Hexter noted that the proposed letter would state at one place that the guarantees to be issued by the Home Loan Guarantee Corporation would be available only to mortgagees that had been examined and audited by the corporation, while in fact the language of H.R. 10637 would make the function of examination and audit discretionary with the corporation.

6/11/58

-3-

Accordingly, substitute language to meet this point was suggested, and accepted by the Board.

Agreement also was expressed with a suggestion by Governor Mills to delete from the letter, as unnecessary, a specific statement to the effect that the proposed corporation would be an agency potentially competitive with the Federal Housing Administration.

Thereupon, unanimous approval was given to a letter to the House Subcommittee on Housing in the form attached as Item No. 5, with the understanding that a copy would be sent to the Budget Bureau as a matter of information.

During the discussion of the foregoing matter Mr. Riefler, Assistant to the Chairman, entered the room, and at the conclusion of the discussion Messrs. Shay and Wood withdrew.

Possible effect of recent judicial decision (Item No. 6). A recent decision of the United States Court of Appeals for the Second Circuit, turning principally on a question of the separation of functions of prosecution and decision, as required by section 5(c) of the Administrative Procedure Act, had caused the Department of Justice to assess the importance of that decision, which affected two Post Office Department cases, with a view to possible application for a writ of certiorari. In a letter dated May 29, 1958, the Department stated that weight would be given, in deciding whether to make such application, to the impact of the decision on the work of the respective departments and agencies of the Federal Government. As stated in a memorandum from Mr. Hexter dated

6/11/58

-4-

June 9, 1958, copies of which had been distributed to the Board, it seemed unlikely that the work of the Board would be adversely affected because the Board had never authorized its General Counsel to render decisions in administrative proceedings and the Court of Appeals had recognized that a "fusion of prosecutor and judge" is permissible at the "highest level of authority." However, it was felt that certain possible implications of the decision could affect the conduct of the Board's administrative proceedings, particularly if the principle should be construed as prohibiting members of the Board's Legal Division from advising the Board with respect to its decisions. Therefore, it appeared that it might be of benefit to the Board if the scope of the decision of the Court of Appeals were clarified by the Supreme Court. A suggested reply to the Department of Justice phrased along such lines was submitted with Mr. Hexter's memorandum.

Following supplemental comments by Mr. Hexter, unanimous approval was given to the proposed letter to the Department of Justice, a copy of which is attached under Item No. 6.

At this point Mr. Thomas, Economic Adviser to the Board, entered the room and Mr. Noyes withdrew.

Proposed changes in F.R. 240. There had been sent to the members of the Board copies of a memorandum from Mr. Young dated June 9, 1958, requesting permission to make certain changes, subject to Budget Bureau approval, in Form F.R. 240, Confidential Report of Member Firm of a National Securities Exchange. The report was to be collected as of

6/11/58

-5-

June 30, 1958, for the first time in a period of 18 months, and for the first time since the authorized reporting date was changed from the end of December to the last business day in June pursuant to action taken by the Board on December 10, 1957.

Following comments by Mr. Young during which he referred to the purpose and nature of the report and brought out that the proposed changes had been discussed with the staff of the New York Stock Exchange, unanimous approval was given to the revised form of report and it was understood that the necessary steps would be taken to obtain the approval of the Budget Bureau.

Over-the-counter securities transactions. Mr. Koch commented that pursuant to an earlier suggestion by Governor Vardaman, the Division of Research and Statistics had obtained a copy of a study made in 1954 under the auspices of the New York Stock Exchange concerning the volume of transactions in listed securities handled outside of the Exchange. The report, he said, arrived at the conclusion that about 7 or 8 per cent of such transactions were handled outside of the Exchange by over-the-counter dealers.

There followed a brief discussion based on Mr. Koch's comments during which Governor Vardaman expressed doubt as to the accuracy of the estimate cited in the report, if that estimate was in fact intended to reflect the percentage of listed stocks and bonds traded outside of the Exchange.

6/11/58

-6-

All of the members of the staff except Mr. Carpenter then withdrew and Messrs. Johnson, Director, Division of Personnel Administration, and Molony, Special Assistant to the Board, were called into the room.

Charlotte Branch matter. In accordance with the discussion of the Board on June 10, there had been circulated among the members the letter received by the Chairman on June 6, but dated April 28, 1958, from officers of the First Baptist Church of Charlotte, North Carolina, with which was enclosed a copy of a letter dated April 28 sent by the same officers to the Federal Reserve Bank of Richmond regarding employment policies of the Charlotte Branch. The letter to the Federal Reserve Bank referred to an interview with Mr. Cherry, Vice President in charge of the Branch, in which he was reported as having stated that the Branch "does not employ nor does it intend to employ Negroes within the near future in any clerical or professional positions" and that "not only was this the policy of the Charlotte Branch but of all the member banks of this region." The letter also said that "Mr. Cherry made it clear that (1) he was not interested in discussing the merits of the case, i.e., whether the policy was fair or unfair, (2) he was not interested even in discussing the possibilities of the Bank hiring Negroes in clerical or professional capacities." The reply of the Federal Reserve Bank of Richmond to the April 28 letter, which was sent under date of May 23, stated in part that: "a basic element of our policy must of necessity be employment of persons who will contribute to collective efficiency under conditions as they

6/11/58

-7-

presently exist. In this connection, we should point out that neither the Federal Reserve Bank of Richmond nor any other Federal Reserve Bank controls or has authority to control the employment policies or practices of commercial banks which are members of the Federal Reserve System. Such policies and practices are set by their stockholders and directors within the framework of applicable State and Federal laws." The reply of the Richmond Bank had been circulated among the members of the Board with the letter from the officers of the First Baptist Church.

There was a discussion at this meeting of the action to be taken by the Board and the form that action might take. It was agreed (1) that inasmuch as the Board of Directors of the Federal Reserve Bank of Richmond was meeting tomorrow, Chairman Martin should discuss the matter with President Leach by telephone, (2) that Mr. Thurston, Assistant to the Board, and Mr. Molony should give consideration to the form of a letter that could be sent to the Federal Reserve Bank of Richmond, and (3) that, in the absence of Chairman Martin on Monday, June 16, when the Presidents' Conference will be in session in Washington, Governor Szymczak should discuss with the Presidents the importance of the Federal Reserve Banks following nondiscriminatory employment policies.

Governor Shepardson stated that, since a question was raised during the discussion yesterday with respect to the Board's own employment policies, he had discussed the matter with Mr. Johnson and, while there are no Negroes in some areas of the Board's staff, all applications in these areas have been impartially considered and the few Negroes who have

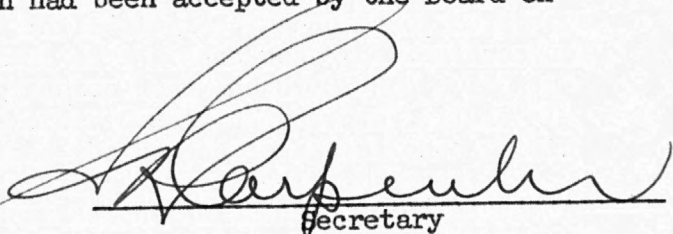
6/11/58

-8-

made application for stenographic positions have not been able to pass the test. He added that it appeared that unless the Board undertook special, out of the ordinary measures to recruit colored people in such positions as stenographers, statistical clerks, and economists, it was probable that vacancies in these positions would have to continue to be filled with white employees.

The meeting then adjourned.

Secretary's Note: Pursuant to the recommendation contained in a memorandum dated June 9, 1958, from Mr. Kelleher, Director, Division of Administrative Services, Governor Shepardson today approved on behalf of the Board rescission of the resignation of Gladys H. Garber, Mailing List Clerk in that Division, which had been accepted by the Board on May 27, 1958.



Secretary

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

Item No. 1
6/11/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



June 11, 1958

Board of Directors,
Hightstown Trust Company,
Hightstown, New Jersey.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Philadelphia, the Board of Governors approves the establishment of a branch near the southwesterly corner of Hightstown-Princeton Road and U. S. Route 130 in East Windsor Township, Mercer County, New Jersey. This approval is given provided the branch is established within one year from the date of this letter and that formal approval of the State Commissioner of Banking and Insurance is effective at the time the branch is established.

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
6/11/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 11, 1958

Board of Directors,
American National Bank of Shawnee,
Shawnee, Oklahoma.

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 Oklahoma, 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 American National Bank of Shawnee 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. 3
6/11/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 11, 1958

Board of Directors,
The First National Bank of Lamesa,
Lamesa, Texas.

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 Texas, 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 Lamesa 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
6/11/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



June 11, 1958

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

Dear Mr. Millard:

This refers to the letter of Mr. Slade dated April 1, 1958, in which request is made for a determination by the Board as to whether Common Trust Fund No. 1 of Union Bank, Los Angeles, California, as amended December 31, 1957, may be considered a common trust fund operated in conformity with the provisions of Section 17 of Regulation F. The general nature of operation of this fund, before amendment, was found to be inconsistent with applicable provisions of Regulation F when this matter was earlier considered by the Board, and you were so informed by letter dated August 23, 1957.

The question to be resolved is whether the trusts administered by Union Bank that participate in its Common Trust Fund No. 1 under the arrangement sponsored by the Southern California Permanente Medical Group may be considered trusts created and used for "true fiduciary purposes" within the meaning of Section 17 of Regulation F. From information contained in the various documents submitted in connection with the arrangement, it appears that the governing members of the association conceived and are promoting a plan whereby its members can readily establish trusts to be administered by the Union Bank. Under the plan, a standardized revocable trust agreement is available to members, which provides in essence for (1) broad investment powers in the trustee bank, including specific power to invest in one or more common trust funds; (2) termination of the trust on the death of the trustor unless sooner revoked; and (3) the designation of a person or persons to receive distribution of the trust corpus upon the death of the trustor if funds of the trust are invested in the common trust fund. An initial deposit is made by each member who executes a trust agreement and thereafter additions to the trust corpus are made by means of periodic payments or deposits. A

Mr. E. R. Millard

- 2 -

representative of the association acts as liaison between its membership and the bank in regard to matters concerning the trusts created by the individual members.

A valid trust may be created and be properly termed "truly fiduciary" within the meaning of applicable State law in that all requisite elements are present, but it does not necessarily follow that it may be considered as having been created for the "true fiduciary purposes" contemplated by Section 17 of Regulation F. A more restrictive definition has been adopted by the Board in order to prevent the use of common trust funds as bank-operated investment trusts which are open to participation by the general public through trust guise or form. Thus, it is the purpose for which a trust has been created and is being used that is controlling in making a determination as to its "true fiduciary purposes" and all the surrounding facts and circumstances must be considered. In the case at hand the origin and history of the arrangement, the provisions of the uniform trust agreements, and the activities of the committee appointed by the association in connection with the trusts created by its members, have all been considered in an effort to perceive the underlying purpose of the trustors in creating these trusts. We are unable, however, to recognize any motivating purpose in the creation or use of the trusts other than to obtain the investment benefits to be derived from participation in a common trust fund. It is, therefore, the Board's opinion that the trusts established under the plan of Southern Medical Permanente Medical Group have not been created and are not being used for the true fiduciary purposes contemplated by Section 17 of Regulation F.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 5
6/11/58

OFFICE OF THE CHAIRMAN

June 11, 1958.

The Honorable Albert Rains,
Chairman, Subcommittee on Housing
of the Committee on Banking
and Currency,
House of Representatives,
Washington 25, D. C.

Dear Mr. Rains:

This is in reply to your request for the Board's views
on H.R. 10637, a bill creating the Home Loan Guarantee Corporation.

The Board believes that the public interest might be
better served if the Federal Government worked toward a single
program of insurance of home mortgages--not several programs. To
avoid the kind of policy conflicts that are inherent in the duplica-
tion of administering bodies operating in the same field, we think
that all programs for insurance of home mortgages should be lodged
with the Federal Housing Administration.

The fact that, under the proposed program, only the top
20 per cent of a mortgage is insured rather than the full mortgage,
as in the case of the present FHA programs, would not necessarily
mean an appreciably smaller risk exposure to the insurer. Short
of disaster of the sort that we went through in the 1930's, the
bulk of defaulted loans is likely to show losses of less than 20
per cent. In other words, except in an extreme situation, there
should be little difference in risk between the two programs, hence
little difference between the premiums required to make them self-
sustaining. Of course, if the standards for the acceptance of risks
were markedly lower under the proposed program, the premiums re-
quired for successful operation would be correspondingly higher.

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 severity of trouble increased.
Sound public policy requires the reverse. Of course, a day-to-day
reminder to lenders, by way of some sort of co-insurance feature,

The Honorable Albert Rains

-2-

that unsound lending is costly is likely to have a good effect on lending practices, and thus minimize the chances of serious trouble. At the same time, however, if serious trouble should come despite the use of sound lending practices, complete insurance would be much more helpful than partial insurance in keeping the trouble within manageable limits.

The bill as drafted raises other questions, also. Contrary to the Federal policy of some years' standing, the Home Loan Guarantee Corporation would be authorized to borrow by issuing obligations with exemptions from Federal, State and local taxes. The Board believes that as a matter of public policy tax exemption favoring particular types of obligations is undesirable.

The bill as drafted would authorize the Corporation to examine institutions already subject to supervision and examination by other public authorities, and the Board believes that this would not be desirable. While there is much to be said for re-emphasizing the principle of co-insurance in Federal mortgage programs, the Board feels, for the reasons set forth above, that enactment of H.R. 10637 would be undesirable.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

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

Item No. 6
6/11/58



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 11, 1958

Mr. J. Smith Henley, Director,
Office of Administrative Procedure,
Office of Legal Counsel,
Department of Justice,
Washington 25, D. C.

Dear Mr. Henley:

This is in response to your letter of May 29 to Mr. Frederic Solomon, Assistant General Counsel of the Board of Governors, regarding a possible application for a writ of certiorari with respect to the decision of the United States Court of Appeals for the Second Circuit in Columbia Research Corporation v. Schaffer.

In the conduct of the Board's administrative proceedings, it is improbable that a situation of the kind covered by Columbia would arise--that is, a situation in which an agency's general counsel is the final arbiter of a controversy in which one of his subordinates initiates or conducts the prosecution. From that point of view, therefore, the doctrine of this case would not adversely affect the work of the Board. However, if the holding and opinion in the Columbia case should cast doubt on the propriety of a general counsel's advising his agency regarding its decision in a matter prosecuted by an assistant general counsel or other subordinate (assuming a satisfactory separation of prosecuting and decision functions in all other respects), the law of this decision might have a significantly adverse effect on the Board's work.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.