

Minutes for June 25, 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>W</u>   | _____ |
| Gov. Szymczak   | x <u>MS</u>  | _____ |
| Gov. Vardaman   | x <u>W</u>   | _____ |
| Gov. Mills      | x <u>W</u>   | _____ |
| Gov. Robertson  | x <u>R</u>   | _____ |
| Gov. Balderston | x <u>CCB</u> | _____ |
| Gov. Shepardson | x <u>W</u>   | _____ |

Minutes of the Board of Governors of the Federal Reserve System  
on Wednesday, June 25, 1958. The Board met in the Board Room at 10:00  
a.m.

PRESENT: Mr. Martin, Chairman  
Mr. Balderston, Vice Chairman  
Mr. Szymczak  
Mr. Vardaman  
Mr. Mills  
Mr. Robertson  
Mr. Shepardson

Mr. Carpenter, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Thurston, Assistant to the Board  
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. Shay, Legislative Counsel  
Mr. Noyes, Adviser, Division of Research and  
Statistics

Items distributed to the Board. The following items, which had  
been distributed 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 American National Bank of Bowling Green,<br>Bowling Green, Kentucky, approving its supplemental<br>application for fiduciary powers. (For transmittal<br>through the Federal Reserve Bank of St. Louis)  | 1               |
| Letter to Central Trust Company, Harrisburg, Pa.,<br>Harrisburg, Pennsylvania, consenting to a proposed<br>merger with Capital Bank and Trust Company, Harrisburg,<br>Pennsylvania, and approving the establishment of a<br>branch incident to the merger. (For transmittal through<br>the Federal Reserve Bank of Philadelphia) | 2               |

6/25/58

-2-

Request from Congressman Sheehan. Pursuant to the understanding at yesterday's meeting, there had been distributed to the members of the Board with a memorandum from Mr. Hackley dated June 24, 1958, a draft of letter to Congressman Sheehan of Illinois regarding his request for the names and locations of companies that would be affected by a definition of bank holding companies based upon 25 per cent control of the stock of one or more banks. The proposed letter would explain that data of this kind furnished to the Senate Banking and Currency Committee in 1955 in connection with hearings on bank holding company legislation were derived in large part from confidential sources, including reports of bank examinations, that the tabulation was at that time little more than a rough estimate, and that it was subject to changes in circumstances since the date of compilation. Therefore, it would be misleading and perhaps unfair to disclose at this time the names of the companies included in the 1955 tabulation.

Governor Robertson stated that he had changed his views on the matter and that he would be inclined to supply the names and locations of the companies included in the 1955 list, since it did not appear to him that any harm would result. In supplying the information he would, of course, point out that the list was incomplete when prepared and was subject to changes since the date of preparation. He would also state that the information was being furnished on the same confidential basis

6/25/58

-3-

as it was furnished to a Subcommittee of the Senate Banking and Currency Committee in 1955.

There ensued a discussion of the reasons which might be given for and against complying with the request during which Governor Vardaman suggested that if it should be decided to furnish the information, advice should be given to the Chairman of the Senate Subcommittee to whom the material was sent in 1955.

In the course of the discussion, Governor Mills stated that in his opinion a decision against acceding to the request would be appropriate. He considered the draft of letter submitted by Mr. Hackley generally acceptable for the purpose. In this connection he expressed the view that an affirmative response would be likely to invite further inquiries and would tend to breach the confidentiality surrounding the use of reports of examination.

Question was raised whether, if the Board sent the 1955 information to Congressman Sheehan, the Congressman might not logically request a list of companies based on current information. To forestall any such further inquiry, Chairman Martin suggested stating in the Board's reply that if and when Congress should give active consideration to any amendment to present law to cover one-bank situations, it would be expected that the Board would undertake to prepare for the information of Congress an up-to-date tabulation of known companies that would be covered by such a definition.



6/25/58

-4-

In order that the Board might consider the matter further, the staff was then requested to prepare a draft of letter to Congressman Sheehan which would transmit the requested information and would be phrased along the lines suggested at this meeting by Governor Robertson and Chairman Martin.

Report on H.R. 12785. On the basis of a revised draft of letter which had been distributed pursuant to the understanding at yesterday's meeting, further consideration was given to the report which should be sent to the Chairman of the House Committee on Government Operations concerning H.R. 12785, a bill which would amend the Employment Act of 1946.

In the light of the discussion it was requested that a further revised draft of letter reflecting suggestions made at this meeting be prepared for consideration at the meeting tomorrow.

Federal Reserve policy. At the request of Chairman Martin, Mr. Thomas had prepared under date of June 11, 1958, a memorandum presenting facts and estimates and discussing various policy considerations relevant to a possible further reduction in reserve requirements. The memorandum, of which copies had been distributed to the members of the Board, was presented as a basis for discussion and not as a recommendation for action. A copy has been placed in the Board's files.

6/25/58

-5-

At the request of the Chairman, Mr. Thomas reviewed subsequent developments having a relationship to the material presented in his memorandum. He pointed out that the Treasury, in offering one long-term and one medium-term bond at the time of the recent financing, had absorbed a lot of funds in the market and that there had been a great deal of speculative buying on the assumption that interest rates were going to stay down, an assumption which in the longer run might not turn out to be correct. Then had come the usual end-of-June demand for liquidity, with corporations paying their taxes, a holiday demand for currency, and other factors. This year, in contrast to previous years, it appeared that much of that demand came right back on the Government securities market, and this had placed the market in a vulnerable technical position. Accordingly, there had been a great deal of selling, some of it reflecting changes in attitude toward the business situation. In summary, a technically vulnerable market had had to bear the brunt of the normal seasonal demand for liquidity.

Pumping more money in at the short end of the market might be helpful to the situation, Mr. Thomas said, and the bills were available for purchase because the dealers' positions had been quite large. The dealers now had a position of around \$700 million in bills, a moderately heavy position in certificates, and a moderately heavy position in bonds maturing after five years. However, while the situation called for some reserves to be supplied, the quantity of such reserves would not have to

6/25/58

-6-

be anything like as much as had been indicated in his June 11 memorandum because reserves in a quantity close to \$600 million had been supplied since that time and they had taken care of quite a bit of the need. On the other hand, required reserves had gone up much more than the estimated increase. Any projection of what was going to happen in the next two weeks would be pure guesswork; the projections of the Board's staff varied considerably from those of the New York Reserve Bank.

Mr. Thomas went on to comment that there were alternative methods available of supplying additional reserves. For example, there would be no trouble in buying Treasury bills. If the banks came under pressure, they would be willing to sell more bills and, as he had said, the dealers now had large positions. Also, it would be possible to make repurchase agreements with dealers, and the repurchase agreement rate could be lowered to induce more dealers to come in, particularly since this was a situation of temporary demand for liquidity. The longer-run picture was that reserves would be needed in the last half of July, but if \$200-300 million of reserves were supplied there would be plenty of reserves around. After that time, there would be no need for reserves to speak of until September or October unless there was a substantial Treasury cash financing in August.

Chairman Martin said that he thought it was important for the Board to review the situation, particularly in the light of the discussion at the Federal Open Market Committee meeting on June 17. His own views,

6/25/58

-7-

as expressed at that time, had not changed but this was a "moving picture" and the Board should have a record indicating that it was aware of the changes that had occurred.

Continuing, Chairman Martin pointed out that the heavy selling of the new Treasury 2-5/8 per cent bonds last Thursday appeared to have been precipitated by a report in the press which suggested the possibility that there had been some change in the objective of Federal Reserve credit policy. It was a problem, he said, of definition--"easy, easier, easiest". Also, since policy had been discussed at the Open Market meeting on the basis of the tone, color, and feel of the market, the Desk had had a very difficult problem. When the long-term Treasury issues broke par and selling broke out in all areas, there had been charges in some quarters of a disorderly market. On Friday, the market stabilized a little, but there was unquestionably a large speculative interest in the new 2-5/8 per cent bonds, variously estimated from \$750 million to \$1.5 billion.

Chairman Martin said that in his own view it would be unfortunate for the System to take any overt action at this time when labor negotiations were in progress, and also because there was already quite an easy money situation. On the other hand, there was a difficult Treasury situation to be considered and the views at the New York Bank with respect to policy, including reserve requirements, reflected some disagreement with the point of view which had prevailed at the Board.



6/25/58

-8-

At this point the Chairman called upon the other members of the Board for their views, beginning with those members who were present at the last Open Market meeting, and Governor Mills made the following statement:

Rapid deterioration in the market for U. S. Treasury bonds suggests that a reduction in reserve requirements as a method of making good an approaching substantial loss of reserves would not be appropriate at this time. On the occasion of the Open Market Committee meeting on June 17, good grounds existed for considering a reduction in reserve requirements.

A continued fall in U. S. Treasury bond prices has unsettled investor confidence and its effects are now spreading to the U. S. Treasury bill market where price heaviness is evident despite easy money market conditions evidenced by a 1/4 of 1 per cent rate ruling for Federal funds on June 24. Commercial bank and corporation window-dressing for June 30 is now imminent and can be expected to have a further dampening effect on the market for Treasury bills.

Under these circumstances, System action to supply reserves over the June 30th statement period should preferably take the form of direct Treasury bill purchases supplemented by the use of repurchase agreements. If necessary, the Manager of the System Open Market Account should accord U. S. Government securities dealers a preferential interest rate on repurchase agreements if the spread between the discount rate and the rate on Federal funds continues to be so wide as to discourage dealer use of repurchase agreements except if favored by a preferential rate. System action in supplying reserves through undertakings in Treasury bills should serve to take the pressure off of that sector of the U. S. Government securities market at the same time that the reserves supplied through these transactions would tend to produce relatively easy money market conditions at a time when general uncertainty about the U. S. Government securities market deserves whatever palliative effect can derive from easy money market conditions.

A fundamental background purpose to a policy of supplying reserves through transactions in U. S. Treasury bills over the

6/25/58

-9-

period of the next week would be to hold a reduction in reserve requirements as a dramatic action to be taken by the Board of Governors in the event that the deterioration in the market for U. S. Treasury bonds should extend into panic proportions. In that event, a reduction in reserve requirements would have the reassuring effect of providing member banks with a surplus of reserves on which to operate against whatever contingencies should develop in the handling of their affairs. Continued purchases of Treasury bills would also be in order during such a period in the event that the Treasury bill market should continue to be soft and required to be rallied by System open market actions.

Inasmuch as additional reserves will need to be supplied in substantial quantities during the next four weeks, any surplus of reserves produced by emergency System policy actions, such as those proposed, would be subject to self-correction within a short time, with which could be coupled Treasury bill sales by the System Open Market Account if necessary. If a panic condition in the U. S. Government securities market should ensue in the very near future requiring System actions to correct a disorderly market, it might conceivably become necessary to give direct support to such specific issues of U. S. Treasury bonds as the new 2-5/8 and 3-1/4 per cent issues, but at prices ruling at the time that such support was rendered. It would also be in keeping with conventional central banking policy to raise the discount rate at the Federal Reserve Banks as a signal that the Federal Reserve System, while making credit readily available, was cognizant of an emergency situation that should properly be recognized by a higher discount rate. Foreign observers could be expected to understand the System's discount rate action as a defensive measure, and its subsidiary effect of bringing up the yield on U. S. Treasury bills should make that avenue of investment more attractive to foreigners, and to the extent that such was the case, a countervailing measure would have been taken to stem further withdrawals of gold.

Governor Robertson stated that as of this moment he saw no reason to change reserve requirements.

Governor Szymczak expressed a different point of view, stating that he would like to see a reduction of reserve requirements for the

6/25/58

-10-

following reasons: (1) because an opportunity was afforded to adjust in the direction of a lower level of reserve requirements, (2) because there was still uncertainty in the economy which might last longer than some, including himself, had contemplated, (3) because of the current need for reserves. Continuing, he said that the whole economic situation, as well as the situation with respect to reserves, exerts an effect on the Government securities market. At present there were some who thought that interest rates were going lower and others who felt that rates were going higher, and that kind of uncertainty tended to produce a situation such as existed at present in the market. He thought that the System should not be pushed into any kind of action that would contemplate supporting any particular Treasury issue. However, he felt that a small reduction in reserve requirements would be timely; if this action supplied too large a quantity of reserves, the feel of the market would indicate whether the Account should be selling some bills. He did not think it was advisable for parties to get into the frame of mind that a set amount of free reserves was necessary, for in such event a change in the level of free reserves tended to produce repercussions in the market.

Summarizing, Governor Szymczak said that he would reduce reserve requirements somewhat at this time and then wait until September or October to determine whether to reduce them further. At the same time, he would be prepared to use open market operations in the reverse

6/25/58

-11-

direction. He would watch the situation carefully, relying upon the Management of the Account to judge the market properly, and he would take offsetting actions through open market operations if necessary. He would not change the discount rate at this time or act on margin requirements but, as he had said, he would do something on reserve requirements.

Governor Vardaman said it was his feeling that a change in reserve requirements at this time would be extremely unfortunate, psychologically and otherwise. He saw no occasion whatsoever for such action as long as there were Treasury bills available and it was possible to supply such reserves as might be required through the purchase of bills. Turning to Governor Mills' statement, he said that he agreed with it although he could not envisage any situation developing in the foreseeable future which would warrant System operations to support any specific Treasury issues. He would not favor a change in the discount rate at this time, and he would not act on margin requirements. Instead, he would remain as at present, supplying ample reserves through open market operations.

Governor Shepardson said that the present situation, with all of its uncertainties, did not seem to him to be a time to make as drastic a move as a change in reserve requirements, particularly when the need for reserves could be met through open market operations. The possible implications of a change in reserve requirements, as set forth in the



6/25/58

-12-

memorandum from Mr. Thomas, provided a further argument for deferring action unless there was a definite need to move in that direction. He would prefer to continue to operate on the basis of a day-to-day appraisal of the situation, and to meet the situation to the extent necessary through the medium of open market operations.

Governor Balderston said that his own general conclusions on monetary policy, reached independently while he was abroad, were almost completely in agreement with the first seven of the points set forth in the statement that had been presented by Governor Mills at the last Open Market Committee meeting. It was his feeling that monetary policy had done all that it should do up to this point, and until conditions became more clear he felt that it was advisable to hold steady. He had been brought to that opinion by the fact that both here and abroad sharp-pencil operators--including individuals and corporation treasurers--as well as bankers had been watching the System's actions closely. Domestically, the wage negotiations were in progress and injury to the economy might result if management should feel that such wage increases as were granted could be passed on in higher prices. Consequently, he would not favor any overt action at this time, and by that he referred to a reduction in reserve requirements, since such action would, in his opinion, be detrimental to psychology both here and abroad. He would prefer to stand pat and use the less conspicuous method of open market operations to supply needed reserves.

6/25/58

-13-

In concluding the discussion, Chairman Martin turned to Mr. Thomas and expressed the view that it was important to keep closely in touch with the Desk regarding developments and not to have a situation where bills could have been purchased and were not bought. He then said he would convey to President Hayes of the Federal Reserve Bank of New York the information that the subject of reserves and reserve requirements had been discussed further by the Board.

Call for condition reports. The Secretary reported that in a letter dated June 24, 1958, the Deputy Comptroller of the Currency had advised that on June 27 a call would be made on national banks for reports of condition as of the close of business June 23, 1958. Therefore, in accordance with the customary practice a telegram had been sent yesterday to the Presidents of all Federal Reserve Banks requesting that a similar call be made upon State member banks.

The action taken in sending the telegram was ratified by unanimous vote.

Extension of direct purchase authority (Item No. 3). The Secretary stated that there had been received yesterday a communication from the Bureau of the Budget requesting the Board's views on enrolled bill H.R. 12586, which would extend for two years from June 30, 1958, the authority of the Federal Reserve Banks to purchase United States obligations directly from the Treasury. He said that a reply had been sent to the Budget Bureau which recommended approval of the bill and was

6/25/58

-14-

couched in the same language as the reports previously made by the Board on this subject to the Senate and House Banking and Currency Committees.

The letter to the Budget Bureau, of which a copy is attached as Item No. 3, was approved and the action taken in sending it was ratified by unanimous vote.

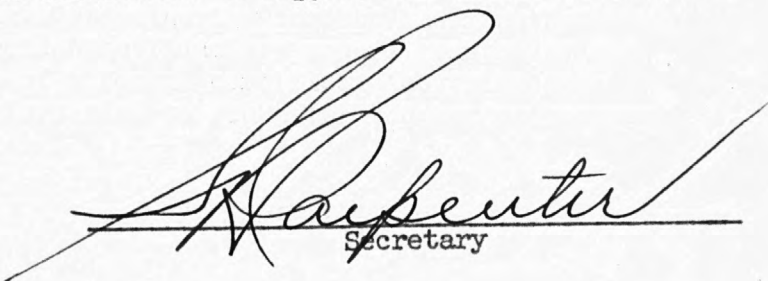
The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board the following items:

Memorandum dated June 23, 1958, from Mr. Young, Director, Division of Research and Statistics, recommending the appointment of Mona Dingle as Chief of the Consumer Credit and Finances Section in that Division, with basic annual salary at the rate of \$12,770 (reflecting the general pay increase), effective the date she assumes her duties.

Memorandum dated June 25, 1958, from Mr. Kelleher, Director, Division of Administrative Services, recommending that the contract for preparation of the site for the Board's electric computer be awarded to Anderson Electric Company, who submitted the low bid of \$57,400.

Letter to the Federal Reserve Bank of New York approving the appointment of five persons as examiners. A copy of the letter is attached as Item No. 4.

  
Secretary

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

Item No. 1  
6/25/58

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

June 25, 1958

Board of Directors,  
The American National Bank of Bowling Green,  
Bowling Green, Kentucky.

Gentlemen:

The Board of Governors of the Federal Reserve System has given consideration to your supplemental application for fiduciary powers in connection with the proposed merger of the Potter-Matlock Bank and Trust Company of Bowling Green, Bowling Green, Kentucky, with your bank. The Board grants you authority, effective if and when the proposed merger is consummated, to act, when not in contravention of State or local law, as executor, administrator, registrar of stocks, 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 Kentucky. The exercise of these powers, in addition to those heretofore granted to act as trustee and registrar of bonds, shall 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.

This letter will serve as authority for The American National Bank of Bowling Green to exercise the fiduciary powers granted by the Board pending the preparation of a formal certificate covering such authorization, which will be forwarded to you after the merger becomes effective.

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  
6/25/58

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

June 25, 1958

Board of Directors,  
Central Trust Company, Harrisburg, Pa.,  
Harrisburg, Pennsylvania.

Gentlemen:

The Board of Governors of the Federal Reserve System hereby gives its written consent, under the provisions of Section 13(c) of the Federal Deposit Insurance Act, to the merger of Capital Bank and Trust Company, Harrisburg, Pennsylvania, with and into Central Trust Company, Harrisburg, Pa., Harrisburg, Pennsylvania, to form Central Trust Capital Bank, Harrisburg, Pennsylvania, and approves establishment of a branch at 1230 N. Third Street, Harrisburg, Pennsylvania, incident to the merger. This consent is given provided:

- a. the merger is effected substantially in accordance with the terms of the Joint Plan of Merger as submitted;
- b. shares of stock acquired from dissenting shareholders are disposed of within six months after date of acquisition;
- c. the branch is established within six months from the date of this letter; and
- d. that formal approval of the State authorities is obtained.

The latest report of examination of the trust department of Capital Bank and Trust Company discloses several objectionable features. The report indicates some laxity in discharging the bank's fiduciary responsibilities, including the failure to settle

Board of Directors

- 2 -

at least one estate as expeditiously as possible, imprudently made real estate loans, and failure to maintain operational activities on an adequate and current basis. Prudent trust administration requires the correction or elimination of such objectionable features at the earliest possible time in order that potential liability to the bank from such sources be minimized or altogether eliminated.

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  
6/25/58

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

June 25, 1958

Mr. Phillip S. Hughes, Assistant Director for  
Legislative Reference,  
Bureau of the Budget,  
Room 253, Executive Office Building,  
Washington 25, D. C.

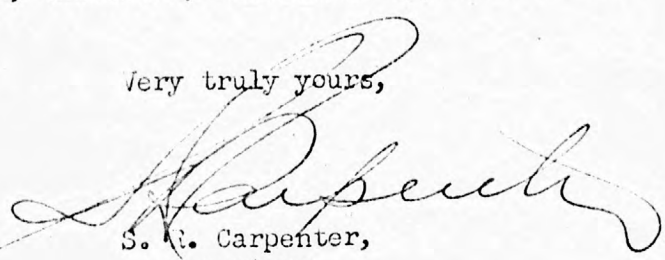
Attention Mrs. Garziglia

Dear Mr. Hughes:

This is in response to your communication of June 24, 1958, for the Board's views on the enrolled bill H.R. 12586, to amend section 14(b) of the Federal Reserve Act, as amended, to extend for two years the authority of the Federal Reserve banks to purchase United States obligations directly from the Treasury. Under existing law, the authority will terminate on June 30, 1958.

The use of this authority by the Federal Reserve enables the Treasury to avoid creating unnecessary financial strains that would otherwise occur if it had to draw heavily on its accounts especially during periods immediately preceding tax payment dates. Temporary Treasury borrowing at such times, followed by prompt repayment from the proceeds of tax payments, provides a smooth operating mechanism, without the abrupt money market fluctuations that would otherwise occur, and thus is helpful in the conduct of Federal Reserve policy. Use of this procedure is reported, as required by law, each year in detail in the Board's annual report. The Board, therefore, recommends approval of the bill.

Very truly yours,

  
S. A. Carpenter,  
Secretary

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

Item No. 4  
6/25/58

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

June 25, 1958

Mr. R. B. Wiltse, Vice President,  
Federal Reserve Bank of New York,  
New York 45, New York.

Dear Mr. Wiltse:

In accordance with the request contained in your letter of June 19, 1958, the Board approves the appointment of the following named individuals as examiners for the Federal Reserve Bank of New York:

Frank A. Anderson  
Joseph M. Halpern  
Harry W. Meier  
Joseph M. O'Connell  
Robert Ritchie

Please advise the Board as to the dates on which the appointments are made effective.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,  
Secretary.