

Minutes for July 22, 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 _____ | _____ |
| Gov. Vardaman | x <u>W</u> | _____ |
| Gov. Mills | x _____ | _____ |
| Gov. Robertson | x _____ | _____ |
| Gov. Balderston | x <u>CRB</u> | _____ |
| Gov. Shepardson | x <u>UNO</u> | _____ |

Minutes of the Board of Governors of the Federal Reserve System
on Tuesday, July 22, 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. Kenyon, Assistant Secretary
Mr. Fauver, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser to the Board
Mr. Leonard, Director, Division of Bank Operations
Mr. Young, Director, Division of Research and
Statistics
Mr. Masters, Director, Division of Examinations
Mr. Molony, Special Assistant to the Board
Mr. Farrell, Associate Director, Division of Bank
Operations
Mr. Solomon, Assistant General Counsel
Mr. Hostrup, Assistant Director, Division of
Examinations
Mr. Goodman, Assistant Director, Division of Examinations

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 Federal Reserve Bank of Chicago regarding investments by the Ann Arbor Bank, Ann Arbor, Michigan, in revenue bonds issued by the Board of Education of the State of Michigan. | 1 |
| Letter to the Federal Reserve Bank of San Francisco deferring action on a request that Guam be designated as being in or of the Twelfth Federal Reserve District for purposes of Regulations G and J. | 2 |

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Item No.

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Letter to the Comptroller of the Currency recommending approval of an application to organize a national bank at Manistee, Michigan. (With a copy to the Federal Reserve Bank of Chicago)

Discount rates. Unanimous approval was given to a telegram to the Federal Reserve Bank of Atlanta approving the establishment without change by that Bank on July 21, 1958, of the rates on discounts and advances in its existing schedule.

Application from Marine Midland Trust Company of Southern New York.

There had been circulated to the members of the Board a file relating to the application of Marine Midland Trust Company of Southern New York, Elmira, New York, for permission to establish a branch at 245 Broad Street, Waverly, New York, incident to a proposed merger with The Citizens National Bank of Waverly. In this case the Board's approval of the merger was not required under the provisions of section 18(c) of the Federal Deposit Insurance Act; on the branch application, the recommendations of the Federal Reserve Bank of New York and the Board's Division of Examinations were favorable.

Governor Mills referred to the inclusion in the Board's recent report to Congress concerning the Bank Holding Company Act of a recommendation for amendment of the Act which would have the effect of bringing within the purview of that statute absorption of independent banks, by merger or otherwise, by banks that are part of a holding company system. He also mentioned the detailed consideration which had been given by the

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Board to cases coming before it in the past involving expansion of the Marine Midland group. In these circumstances, it was his opinion that the analysis furnished to the Board concerning the current branch application was insufficient to permit reaching a considered judgment in the matter.

In further comments, Governor Mills referred to a file now in circulation to the Board relating to an application for the approval of branches incident to a proposed merger of a Marine Midland subsidiary bank in Nyack, New York, with an independent bank in Pearl River, and he indicated that his comments with respect to the insufficiency of the analysis concerning the case before the Board today were equally applicable to the Nyack case. Governor Mills also noted from the file concerning the application to establish a branch in Waverly that The Citizens National Bank had been offered for sale and that there were three bids, of which that by the Marine Midland Trust Company was the highest. He raised the question whether the Board should have information concerning the nature of the other two bids before reaching a decision, particularly if either or both of those offers would permit the continuation of an independent banking operation in Waverly.

There followed some discussion of the facts of the case during which reference was made to the agreement entered into by the Board with Marine Midland Corporation in 1951 pursuant to which it was understood that Marine Midland would provide advance information on an informal basis

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concerning plans for expansion. It was noted that this arrangement resulted from the Board's serious concern about expansion of the Marine Midland group in certain areas of the State of New York.

Secretary's Note: This arrangement was terminated by the Board's letter of November 9, 1955.

At the conclusion of the discussion, the application of the Marine Midland Trust Company of Southern New York was referred back to the Division of Examinations for submission of additional information.

Application for approval and reservation of a name for a proposed Edge Act financing corporation. Parties affiliated with the Chemical Corn Exchange Bank of New York City had submitted to the Board through the Federal Reserve Bank of New York an application for approval and reservation of a name for a corporation proposed to be organized under section 25(a) of the Federal Reserve Act which, after organization, would be owned by the member bank. The name originally selected ("Chemical International, Ltd.") did not indicate the nature of the business contemplated, as required by section 3(b) of Regulation K, and it appeared to be similar to the name of, and to identify the corporation with, the parent institution in violation of section 10(c)(2). These points were discussed with the parties concerned by the Federal Reserve Bank of New York, following which the application was amended to substitute the name "Chemical International Finance, Ltd."

In a memorandum from Messrs. Goodman and Solomon dated July 7, 1958, which had been circulated to the members of the Board, it was stated that the name now proposed for the Edge Act corporation seemed to meet the

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requirement of section 3(b) of Regulation K. With respect to section 10(c)(2), Counsel for the applicants stated that inclusion of the word "finance" precluded confusion of the proposed title with the name of, or identification of the proposed corporation with, a bank. He further suggested that "Chemical International Finance, Ltd." fully preserved the identity of the proposed corporation as distinguished from the parent bank. Nevertheless, it was believed by the Board's staff that the use of the proposed name would identify the financing corporation with the parent bank within the meaning of section 10(c)(2). It was pointed out that the Board could, of course, waive this provision of Regulation K and approve the requested name; or that the Board could amend Regulation K to delete the requirement that "no financing corporation hereafter organized shall have a name which is similar to the name of, or identifies the corporation with, any bank in the United States with which such financing corporation is affiliated."

Following comments by Mr. Goodman based on the memorandum that had been submitted to the Board, Governor Balderston stated that he would be inclined toward amendment of Regulation K to eliminate the restrictions on the name of an Edge Act financing corporation now contained in section 10(c)(2). He said that it was rather naive to think that those dealing with such a corporation would do so without knowledge of its ownership.

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Governor Balderston's views were seconded by Governor Vardaman, who noted that he had expressed himself to the same effect previously. It was his view that, if anything, an Edge Act financing corporation should be required to carry a name that would identify it with its parent institution.

Chairman Martin then called upon Mr. Goodman for a statement regarding the origin of the present provisions of Regulation K, and the latter replied that they grew out of one of the recommendations of the Special Committee on Foreign Operations of American Banks (the so-called Neal Committee), which suggested that nonbanking subsidiaries of banks should not be identified by name with the parent institution. In recommending a wide scope of operations for such nonbanking subsidiaries, the Committee also recommended limiting definitely the liability of the parent bank for the affairs of the subsidiary. The Committee desired particularly to make it clear to the purchaser of any obligation of the subsidiary that such obligation depended for repayment entirely on the assets of the subsidiary.

Mr. Solomon commented that a decision on the part of the Board to amend Regulation K would raise a question of procedure; that is, whether the Board would want to follow the usual process prescribed in the Administrative Procedure Act of publishing the proposed amendment and obtaining comments thereon, or whether the Board would wish to go

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ahead and make the amendment on the theory that publication of it was unnecessary. It could probably be argued, he said, that an amendment of this kind would not be harmful to anyone's interests and that advance publication therefore was not necessary.

Governor Vardaman then stated that an alternative to amending Regulation K at this time would be to waive the applicable provisions in this instance and then proceed in accordance with the processes prescribed in the Administrative Procedure Act.

Governor Szymczak pointed out that the Board had already established something of a precedent by approving the name "Chase International Investment Corporation" when The Chase Bank transferred to the status of a financing corporation. In that case, of course, there was an Edge Act corporation already in existence. If the Board should approve the name for which approval was now requested, he felt that it probably would want to give consideration to amending Regulation K.

Governor Mills stated that his reasoning followed that of Governor Szymczak. The Board having established something of a precedent, he felt it would be only fair to approve the requested name in this instance. A waiver, he suggested, would permit the Board to obtain further experience under the Regulation, as presently worded, before deciding upon an amendment to it.

Governor Robertson stated that he would not be inclined to approve and reserve a title for any proposed Edge Act corporation for an indefinite

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period. All that was necessary, he felt, was to give an assurance to the organizers that for a prescribed period no other parties would be permitted to use the requested name. It was his suggestion that in this case the interested parties might be advised that the Board had under consideration a proposal to change the provisions of Regulation K.

In further discussion, Governor Shepardson said he was inclined to think that there might be merit to the position of Governor Balderston. He called attention, however, to the extensive study and debate that preceded the adoption of the revised Regulation K and to the reasons, as previously cited by Mr. Goodman, for the recommendation that resulted in the inclusion of the language now found in section 10(c)(2). Therefore, it appeared to him that before taking action to amend the Regulation in the manner suggested the Board might want to review fully the arguments favoring retention of the present provisions of the Regulation.

After further consideration of possible alternatives, agreement was expressed with the suggestion that action be deferred until the meeting tomorrow, at which time Mr. Goodman would review more fully for the Board the background of the present provisions of Regulation K relating to the name of an Edge Act financing corporation.

During the foregoing discussion Mr. Hostrup withdrew from the meeting, and at its conclusion Mr. Goodman withdrew.

Response to telegrams from Congressman Patman (Item No. 4). In accordance with the understanding at the meeting of the Board yesterday,

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there had been distributed to the members of the Board a draft of a proposed letter to Congressman Patman of Texas acknowledging his telegrams of July 9 and July 18, 1958, concerning the Government securities market.

Question was raised by Governor Vardaman whether, at an appropriate time, a more comprehensive reply should be made to Mr. Patman's first telegram, it being his thought that such a reply might deal with the general philosophy of System open market operations in other than unusual circumstances such as had prevailed recently. In an ensuing discussion, Governor Vardaman agreed with a statement by Chairman Martin that at the moment an acknowledgment of the kind that had been drafted for the Board's consideration was satisfactory.

Accordingly, unanimous approval was given to the letter to Congressman Patman of which a copy is attached under Item No. 4.

Question raised by Senator Neuberger (Item No. 5). Under date of July 14, 1958, Senator Neuberger of Oregon wrote to the Secretary of the Treasury suggesting a study of Federal Reserve district lines in the light of current conditions, and particularly that the Twelfth Federal Reserve District be divided and a new district established which would include the States of Alaska, Oregon, Washington, and Idaho, as well as the State of Montana, with headquarters either in Portland or Seattle. The letter had been handed to Chairman Martin by the Secretary of the Treasury and a proposed reply to Senator Neuberger had been distributed to the members of the Board prior to this meeting.

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Chairman Martin stated that Senator Neuberger called him on the telephone yesterday regarding the matter. Mr. Neuberger stated that he considered the matter important and expressed the hope that the Board would consider the suggestion carefully. The Chairman said he told Senator Neuberger that the Board currently had under consideration a review of Federal Reserve district lines. He pointed out to the Senator that it would be necessary to obtain Congressional action to change the present number of Federal Reserve districts and that he felt the Board probably would want to await an indication of Congressional action on the pending Hawaiian statehood measure before reaching any decisions. He indicated to the Senator that he would keep him informed of developments.

After consideration of the proposed reply, during which certain changes were suggested, the Chairman turned to Mr. Farrell, who had been requested at a recent meeting of the Board to consider how a study of Federal Reserve district lines might best be organized.

Mr. Farrell stated that, as the Board was aware, a decision to go into the question of redistricting on an over-all basis would be a momentous one, to which the Board no doubt would want to give very careful consideration, for it would mean going back more than 40 years and taking a fresh look at what was done when the Federal Reserve districts were originally established. While the reasons for making such a study were rather obvious; namely, that the original decisions may not have been the best ones and that conditions might have changed over the years to such an

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extent as to indicate the need for reviewing the situation, the effect might be to provoke repercussions even more severe than when the original decisions were made because the study would reopen old wounds that had healed to some extent with the passage of time. Mr. Farrell noted that the records with respect to proposals which had been made to change Federal Reserve Bank and branch territories afforded evidence that there are no clear-cut industrial or business areas which provide a logical basis for drawing district lines. In the circumstances, there were certain to be objections to any decisions that might be reached. Furthermore, any decision to make a change in the number of Federal Reserve districts, either upward or downward, would require amendment of the Federal Reserve Act, and hearings on such a recommendation might broaden into a more fundamental review of the whole statute. In further comments, Mr. Farrell mentioned that the possibility of a separate Federal Reserve district to serve the Northwestern section of the United States was recognized during the original consideration of district lines. He also enumerated the six criteria which were used in determining the Federal Reserve districts.

With regard to the organization of a study, Mr. Farrell said that one alternative would be for the Board to undertake a study through its staff, while another possibility would be to outline the scope of the study and then employ some party or parties to conduct it. Still another possibility would be to turn the matter over to a carefully selected outside agent.

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Chairman Martin then pointed out that the immediate problem before the Board was to reply to Senator Neuberger's letter and said that the type of reply that had been prepared seemed to him generally satisfactory, assuming that the changes suggested at this meeting would be incorporated. Then, at a later date when Mr. Farrell had a memorandum available for the Board's consideration, the Board could decide what further steps it wished to take.

Thereupon, unanimous approval was given to a letter to Senator Neuberger in the form attached under Item No. 5.

There ensued an informal discussion of Treasury financing problems and developments in the Government securities market, following which the meeting adjourned.

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

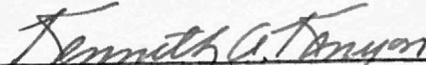
Memoranda from appropriate individuals concerned recommending increases in the basic annual salaries of the following persons on the Board's staff in the amounts indicated, effective July 27, 1958:

| <u>Name and title</u> | <u>Division</u> | <u>Basic annual salary</u> | |
|---------------------------------------------------------------------------|-----------------|----------------------------|-----------|
| | | <u>From</u> | <u>To</u> |
| <u>Office of the Secretary</u> | | | |
| Mildred E. Pilger, Supervisor, Administrative, Subject, and FOMC Files | | \$6,585 | \$6,735 |
| Elizabeth P. Vanni, Minutes Clerk | | 4,230 | 4,325 |
| <u>Research and Statistics</u> | | | |
| David C. Crockett, Economist | | 7,270 | 7,510 |
| <u>Examinations</u> | | | |
| Oda R. Johnson, Secretary | | 4,790 | 4,940 |
| James H. Joyce, Assistant Federal Reserve Examiner | | 4,490 | 4,640 |

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Letter to the Federal Reserve Bank of Kansas City approving the appointment of Wade H. McDowell as examiner. A copy of the letter is attached as Item No. 6.


Assistant Secretary

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

Item No. 1
7/22/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 22, 1958

Mr. W. R. Diercks, Vice President,
Federal Reserve Bank of Chicago,
230 South LaSalle Street,
Chicago 90, Illinois.

Dear Mr. Diercks:

This refers to your letters of April 22 and 25, 1958, enclosing correspondence between you and Mr. Reichert, President of the Ann Arbor Bank, Ann Arbor, Michigan, with respect to a possible violation of section 5136 of the Revised Statutes occasioned by investments in various revenue issues of the Board of Education of the State of Michigan.

Mr. Reichert's letter of April 18, 1958, quotes the provisions of a typical bond which names the State Board of Education as the "obligor" but states that "no recourse shall be had for the payment of principal or interest". However, it is also stated that the "liability of the obligor, as a body corporate, shall be limited to the net income, as defined in the trust agreement". Therefore, it is apparent that the State Board of Education is obligated at least to the extent of applying the net income as so defined, to the payment of the principal and interest, which is the extent of the obligation ordinarily undertaken in connection with revenue bonds.

Section 5136 of the Revised Statutes provides that the total amount of the investment securities (excluding general obligations of political bodies) of any one obligor or maker held by a national bank for its own account may not exceed 10 per cent of the bank's capital stock and surplus fund, and this provision is applicable also to member State banks. There is no provision excluding securities of an obligor or maker who has only a limited obligation thereon. Since the State Board of Education is the obligor or maker on various issues of revenue obligations, the bank's holdings of all such securities must be added together in determining whether its 10 per cent limit has been exceeded.

Mr. W. R. Diercks

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The Ann Arbor Bank requested an opinion of the Comptroller of the Currency on this question, and there is enclosed a copy of Mr. Gidney's letter of June 26, 1958, in response to that request. In this connection, your attention is called to Paragraph 440B of the Digest of Opinions of the Comptroller of the Currency, which deals with the general subject.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

Enclosure

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

Item No. 2
7/22/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 22, 1958

Mr. H. N. Mangels, President,
Federal Reserve Bank of San Francisco,
San Francisco 20, California.

Dear Mr. Mangels:

This refers to your letter of July 2, 1958, regarding the request made by Bank of America N. T. & S. A. that the Board of Governors designate Guam as being in or of the Twelfth Federal Reserve District for purposes of Regulation G and Regulation J. It is noted that your Bank would be agreeable to the proposed action and that if such action were taken it is contemplated that a maximum two-day deferment scheduled for Guam cash items would be established although actual collection time would be longer, but with the expectation that your Bank would discuss with Bank of America in San Francisco the possibility of its making payment for cash letters two days after dispatch by your Bank.

Your letter states that the matter is not urgent and that action thereon could be deferred until it is necessary to reprint Regulations G and J upon the admission of Alaska as a State. In view of the circumstances, action upon the request will be deferred for a time, which will permit the matter to be explored to some extent at the meeting of the Subcommittee on Collections to be held early next month.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.



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

Item No. 3
7/22/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 22, 1958



Comptroller of the Currency,
Treasury Department,
Washington 25, D. C.

Attention Mr. W. M. Taylor,
Deputy Comptroller of the Currency.

Dear Mr. Comptroller:

Reference is made to a letter from your office dated February 3, 1958, enclosing copies of an application to organize a national bank at Manistee, Michigan, and requesting a recommendation as to whether or not the application should be approved.

Information contained in a report of investigation of the application made by an examiner for the Federal Reserve Bank of Chicago discloses generally satisfactory findings with respect to the factors usually considered in connection with such proposals, except as to the adequacy of the proposed capital structure. At the time of the investigation, the organizers agreed to provide a capital structure for the bank of \$300,000. However, in view of the anticipated volume of business and the contemplated investment in fixed assets by the proposed bank, our informant is of the opinion that a minimum capital structure of \$350,000 should be required. The Board of Governors recommends approval of the application provided arrangements are made for a capital structure satisfactory to your office.

The Board's Division of Examinations will be glad to discuss any aspects of this case with representatives of your office if you so desire.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 4
7/22/58

OFFICE OF THE CHAIRMAN

July 22, 1958.

The Honorable Wright Patman,
House of Representatives,
Washington 25, D. C.

Dear Mr. Patman:

Your telegram of July 18, commenting on the action taken by the Federal Open Market Committee earlier in the day, has been received. Copies of the message, as well as copies of your telegram of last week, have been furnished to the members of the Board and Committee for their information.

Sincerely,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 5
7/22/58

OFFICE OF THE CHAIRMAN

July 22, 1958

The Honorable Richard L. Neuberger,
United States Senate,
Washington 25, D. C.

Dear Senator Neuberger:

As you requested, your letter of July 14, 1958, to Secretary Anderson, was transmitted to the Board of Governors for reply.

The question you present is under study in accordance with the Alaskan Statehood bill which, as you know, provides that "when the State of Alaska is hereafter admitted to the Union the Federal Reserve districts shall be readjusted by the Board of Governors of the Federal Reserve System in such manner as to include such State."

Your letter suggests that the Twelfth Federal Reserve District, with headquarters at San Francisco, be divided into two districts, and that consideration be given to the inclusion of Alaska, Oregon, Washington, Idaho and Montana in a separate district with headquarters located either in Portland or Seattle.

As you are aware from the extract from the Federal Reserve Act which accompanied your letter, the Federal Reserve districts "may be readjusted and new districts may from time to time be created by the Board of Governors of the Federal Reserve System, not to exceed twelve in all." Accordingly, in order to effectuate the proposal as outlined in your letter it would be necessary to obtain the approval of the Congress.

The Board will, of course, as you request, give consideration to your suggestion. It is probable that we shall defer a recommendation to Congress, as I suggested in our telephone conversation yesterday, until it becomes clearer what action the Congress decides to take in regard to the pending Hawaiian Statehood measure.

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
7/22/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 22, 1958

Mr. D. W. Woolley, Vice President,
Federal Reserve Bank of Kansas City,
Kansas City 6, Missouri.

Dear Mr. Woolley:

In accordance with the request contained in your letter of July 16, 1958, the Board approves the appointment of Wade H. McDowell as an examiner for the Federal Reserve Bank of Kansas City.

It is noted that Mr. McDowell is indebted to Bank of Louisburg, Louisburg, Kansas, a nonmember bank, in the amount of \$130. Accordingly, the Board's approval is given with the understanding that Mr. McDowell will not participate in any examination of that bank until the indebtedness has been liquidated.

Please advise the Board as to the salary rate and the effective date of the appointment if it is not August 1, 1958, as planned.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.