

Minutes for July 28, 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>M</u>	<u>[Signature]</u>
Gov. Szymczak	<u>[Signature]</u>	x <u>[Signature]</u>
Gov. Vardaman	x <u>[Signature]</u>	<u> </u>
Gov. Mills	x <u>[Signature]</u>	<u> </u>
Gov. Robertson	x <u>[Signature]</u>	<u> </u>
Gov. Balderston	x <u>CCB</u>	<u> </u>
Gov. Shepardson	x <u>[Signature]</u>	<u> </u>

Minutes of the Board of Governors of the Federal Reserve System
on Monday, July 28, 1958. The Board met in the Board Room at 10:00 a.m.

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

Mr. Kenyon, Assistant Secretary
Mr. Fauver, Assistant Secretary
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser to the Board
Mr. Molony, Special Assistant to the Board
Messrs. Young, Robinson, and Koch, Miss Burr
and Miss Stockwell, and Messrs. Eckert,
Flehsig, Kalachek, Keir, Paul Smith,
Trueblood, Wood, and Yager of the Division
of Research and Statistics
Messrs. Marget, Hersey, Sammons, Bangs, Wood,
Gemmill, and Reynolds of the Division of
International Finance

Economic review. The review by the Division of International Finance indicated that although there were some foreign areas with pronounced economic difficulties, including shortages of foreign exchange reserves, the general picture abroad was not one, in the absence of further political turbulence in the Middle East, which would suggest a general deterioration such as to affect significantly the economic situation in the United States.

The summary of domestic developments by the Division of Research and Statistics revealed, in a number of fields, further evidence of a rather convincing nature that the recession had bottomed out and that an upswing in the economy was in process.

7/28/58

-2-

All of the members of the staff except Messrs. Kenyon, Fauver, Riefler, Young, Eckert, and Molony then withdrew. At this point, also, Messrs. Leonard, Johnson, Masters, Connell, Solomon, Conkling, and Kakalec joined the meeting.

Request for extension of time to publish report (Item No. 1). As recommended in a memorandum from Mr. Conkling dated July 22, 1958, which had been distributed to the Board, unanimous approval was given to a telegram to the Federal Reserve Bank of Dallas authorizing it to grant River Oaks State Bank, Houston, Texas, an extension until August 18, 1958, to publish its report of a holding company affiliate, the American Health Studios, Inc. A copy is attached under Item No. 1.

Application of The Wolfe City National Bank. There had been circulated to the members of the Board a file containing the favorable recommendations of the Dallas Reserve Bank and the Division of Examinations with respect to an application from The Wolfe City National Bank, Wolfe City, Texas, for fiduciary powers. Governor Balderston had attached a note stating that he would be inclined to wait until the bank demonstrated that, with better weather, it could improve its situation. Governor Robertson indicated that he would deny the application because the bank was in no position to undertake the responsibilities and risks involved in exercising fiduciary powers.

In discussion Governor Balderston expressed concern about the favorable impression that might be given to the community through granting

7/28/58

-3-

the application when actually the applicant bank was experiencing certain difficulties, partially due to adverse weather conditions in the area last year.

Governor Shepardson commented that the area had been deteriorating for a number of years, with small farms, fertility down, and erosion high. There was a movement of population out of the area, he said, and the general picture was not encouraging. All things considered, he viewed this as a doubtful case.

Mr. Masters then stated that the case was recognized as borderline but that it seemed a little difficult to support denial. The bank's troubles were somewhat the fault of weather conditions and its asset problems would not appear to have too great a bearing on whether it could discharge fiduciary appointments successfully. The management seemed about as good as typically found in a small bank and good legal counsel would be available. In making the application, the bank desired to compete with other banks in the general area by affording a broad range of banking and trust services. Further, it did not appear that any great volume of trust business would be available and the business accepted was not likely to be of a difficult character. In those circumstances, the Division had concluded that the application could be approved.

In further discussion of the applicant bank and its community, Governor Robertson pointed out that the proposed legal counsel resided in another community, the bank's management was rated only fair, the volume

7/28/58

-4-

of potential trust business was not large, and none of the bank's personnel had trust experience. Also, it was stated in the memorandum from the Division of Examinations that the reaction of the Comptroller's Office was adverse.

Governor Mills said that he would accept Mr. Masters' reasoning, although he recognized the borderline nature of the application. This, he said, was another one of the applications coming before the Board frequently which present the same kind of general problem, and to turn down the request would deny a community local trust service. Unless, therefore, there were criticisms that he had failed to discover, he would be inclined to approve the application.

Governor Vardaman indicated that he could not see great distinctions between this application and many others approved by the Board over the years. If it was the policy of the Board to encourage unit banking, he felt that the Board could not deny unit banks the right to exercise trust powers and thereby handicap their operations. He then referred to the liberal practice of the Board over a long period in granting trust powers to smaller banks, not always equipped with trust talent, and said this put a burden upon the bank examination function to see that the powers thus granted were not abused. This entailed some risks, but under the policy followed by the Board for many years he could find no strong reason for rejecting the Wolfe City application.

7/28/58

-5-

Chairman Martin said that he saw some merit in Governor Vardaman's position on the basis of precedent, but he added that in the field of bank supervision it is necessary to take a stand at some point. The question in his mind was whether the Board would be doing a favor to this institution by granting its application or whether favorable action would really do harm to the bank. If the matter had to come to a vote today, he continued, he would have to cast his vote with the three members of the Board who had expressed reservations, for he felt that it was prudent to deny an application whenever there was a strong feeling within the Board from the standpoint of safety and supervisory risks.

In further discussion Mr. Masters commented that the reservations expressed informally by the Comptroller's Office reflected the generally negative attitude of that Office toward trust power applications from small banks. On the other hand, Board policy had long favored granting trust powers to small banks even though the applications could not always stand up as well under scrutiny as those of larger institutions.

Chairman Martin then commented that the size of the applicant bank should not be determining. In every instance, the benefit of the doubt should be given to the small bank that is rendering satisfactory service and making progress. In this case, however, the bank's record was such as to raise questions in the minds of several of the members of the Board.

It being noted that the recommendation of the Dallas Reserve Bank had been favorable, it was then agreed to refer the matter back to that Bank

7/28/58

-6-

with a clear indication that the Board was considering turning down the application. In that light, the Reserve Bank could determine whether it wished to make further representations in support of the application.

Improved statistics on bank credit and the money supply (Item No. 2). In a memorandum dated July 22, 1958, which had been distributed to the Board, Messrs. Thomas, Leonard, and Young presented for consideration certain proposals for improving the quality and speeding up the availability of data needed for the analysis of current monetary and credit developments, particularly the data on total bank credit and the money supply. These recommendations had been approved for implementation at a recent meeting of the System Research Advisory Committee and the Subcommittee on Research of the Presidents' Conference. It was suggested that the proposals be submitted to the Reserve Banks for review and comment, and at an appropriate time be discussed with the Budget Bureau, prior to formal submission of a definite program.

Following comments by Messrs. Eckert and Conkling concerning the proposals, unanimous approval was given to the letter to the Presidents of the Federal Reserve Banks of which a copy is attached under Item No. 2.

Messrs. Riefler, Young, and Eckert then withdrew.

Approval of budget overexpenditures. In a memorandum dated July 18, 1958, which had been circulated to the members of the Board, Mr. Connell suggested an amendment to the Board's Statement of Budgetary Principles and Procedure, adopted September 16, 1953, which would give the Controller

7/28/58

-7-

authority to approve division overexpenditures in any nonpersonal services budget account up to \$2,500, rather than up to 10 per cent of the approved budget for such classification, provided the division's total budget for nonpersonal services was not exceeded.

Following comments by Mr. Connell and by Governor Shepardson, who concurred in the proposal, the suggested amendment was approved unanimously.

Messrs. Connell and Kakalec then withdrew.

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 the minutes under the respective item numbers indicated, were approved unanimously:

	<u>Item No.</u>
Letter to the Comptroller of the Currency recommending approval of the application of Citizens Union Bank & Trust Company, Lexington, Kentucky, to convert into a national banking association.	3
Letter to the Federal Reserve Bank of Cleveland approving continuation of the payment of salary at the present rate to Clarence J. Goudreau, Assistant Federal Reserve Agent, through the end of 1958.	4
Letter to the Federal Reserve Bank of Chicago approving the payment of salary to carpenters and electricians at specified annual rates.	5

Prior to approval of the foregoing Item No. 4, Mr. Johnson explained the circumstances surrounding the transfer of Mr. Goudreau from his former position to that of Assistant Federal Reserve Agent and mentioned the possibility that Mr. Goudreau's present salary would be brought within the

7/28/58

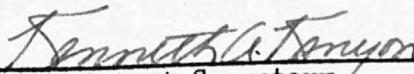
-8-

approved range in the event of a general salary structure adjustment at the Cleveland Reserve Bank. In the absence of such an adjustment, he said, it appeared that the Reserve Bank should take steps to correct the above-grade salary rate within a six-month period.

The meeting then adjourned.

Secretary's Notes: In the light of information furnished in a memorandum from the Division of Bank Operations dated July 16, 1958, Governor Shepardson, acting on behalf of the Board, authorized on July 25, 1958, giving Mr. David B. McCalmont, Assistant Professor of Economics at Franklin and Marshall College, access to certain unpublished data from the Board's files for use in writing a doctoral dissertation on "Federal Reserve System Policies in aid of Balanced Relationships between the Gold Certificate Reserves of the individual Reserve Banks." This authorization was granted on the basis that it was not a precedent and that each such request would be examined on its own merits.

Pursuant to the request made in a memorandum dated July 28, 1958, Governor Shepardson today granted permission to Harold F. Stone, Analyst in the Division of Bank Operations, to engage in the sale of real estate for an authorized broker as an outside part-time activity.


Assistant Secretary

T E L E G R A M
LEASED WIRE SERVICEBOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTONItem No. 1
7/28/58

July 28, 1958

Pondrom - Dallas

Reurlet July 14 advising that River Oaks State Bank, Houston, Texas, has requested an additional extension to August 18, 1958 to prepare and publish its report of a holding company affiliate.

The Board concurs in your recommendation and grants requested extension. Please advise the member bank accordingly.

(Signed) Kenneth A. Kenyon

KENYON

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

Item No. 2
7/28/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 28, 1958

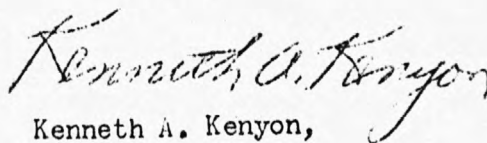
Dear Sir:

The Ad Hoc Subcommittee on Improvement of Weekly Member Bank Data, appointed last year by the Chairman of the System Committee on Current Reporting Series, recently submitted a report containing a number of recommendations for needed improvement in our current statistics on banking. This report was reviewed and some of its recommendations approved for implementation at a joint meeting on June 17 of the System Research Advisory Committee and the Subcommittee on Research of the Presidents' Conference Committee on Research and Statistics.

Two of the Subcommittee's recommendations appear susceptible to immediate action. One of these is to speed up the availability of commercial bank data released in the monthly report on "Assets and Liabilities of All Banks in the United States" (Board of Governors Release G. 7). The other is to inaugurate a new midmonth report paralleling the end-of-month report of principal assets and liabilities of all member banks. In addition, to improve estimates of the money supply, Board staff have recommended that member banks be requested to report U. S. Government demand deposits and vault cash on their reports of deposits for reserve computation purposes. The specific proposals under consideration, together with explanatory background information, are covered in the enclosed memorandum.

These proposed changes would make the data more useful for System policy decisions. The Board would appreciate having your comments or suggestions regarding these proposals before it takes them up for formal action.

Very truly yours,



Kenneth A. Kenyon,
Assistant Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

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

Item No. 3
7/28/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 28, 1958

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

Attention Mr. Hollis S. Haggard,
Chief National Bank Examiner.

Dear Mr. Comptroller:

Reference is made to a letter from your office dated June 12, 1958, enclosing copies of an application of Citizens Union Bank & Trust Company, Lexington, Kentucky, to convert into a national banking association and requesting a recommendation as to whether or not the application should be approved.

An investigation of this application made by a representative of the Federal Reserve Bank of Cleveland discloses favorable findings with respect to the financial history of the bank, adequacy of the capital structure, its future earnings prospects, character of management, and services to the community. Accordingly, the Board of Governors recommends approval of the application of Citizens Union Bank & Trust Company to convert into a national banking association.

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 25, D. C.

Item No. 4
7/28/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 28, 1958

CONFIDENTIAL (FR)

Mr. W. D. Fulton, President,
Federal Reserve Bank of Cleveland,
Cleveland 1, Ohio.

Dear Mr. Fulton:

In view of the circumstances outlined in your letter of June 30, 1958, the Board of Governors approves the continuation of the payment of salary to Mr. Clarence J. Goudreau, at his present rate of \$7,644 per annum, for the period July 1, 1958 through December 31, 1958, while serving as Assistant Federal Reserve Agent.

It is noted that this salary will exceed by \$416 the maximum of the grade to which the position is assigned. In approving the payment of salary in excess of the grade maximum, the Board understands that the Bank will take steps to bring Mr. Goudreau's salary within appropriate grade limits before the expiration of the period indicated.

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. 5
7/28/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 28, 1958

CONFIDENTIAL (FR)

Mr. H. J. Newman, Vice President,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Newman:

The Board of Governors approves the payment of salary by the Federal Reserve Bank of Chicago to the incumbents of the positions listed below at the rates shown, retroactive to June 1, 1958, in accordance with the request contained in your letter of July 7, 1958.

<u>Title</u>	<u>Annual Salary</u>
Head Carpenter	\$7,592.00
Carpenter	6,832.80
Head Electrician	8,028.80
Electrician	7,225.92

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.