

Minutes for October 7, 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>[Signature]</u>
Gov. Szymczak	_____	X <u>[Signature]</u>
Gov. Vardaman	X <u>[Signature]</u>	_____
Gov. Mills	X <u>[Signature]</u>	_____
Gov. Robertson	X <u>[Signature]</u>	_____
Gov. Balderston	X <u>CCB</u>	_____
Gov. Shepardson	X <u>[Signature]</u>	_____

Minutes of the Board of Governors of the Federal Reserve System
on Tuesday, October 7, 1958. The Board met in the Special Library at
10:00 a.m.

PRESENT: Mr. Balderston, Vice Chairman 1/
Mr. Vardaman
Mr. Mills
Mr. Robertson
Mr. Shepardson

Mr. Kenyon, Assistant Secretary
Mr. Fauver, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Thomas, Economic Adviser to the Board
Mr. Hackley, General Counsel
Mr. Masters, Director, Division of Examinations
Mr. Molony, Special Assistant to the Board
Mr. Farrell, Associate Director, Division of
Bank Operations
Mr. Conkling, Assistant Director, Division of
Bank Operations
Mr. Noyes, Adviser, Division of Research and
Statistics
Mr. Koch, Associate Adviser, Division of Research
and Statistics
Mr. Solomon, Assistant General Counsel
Mr. Nelson, Assistant Director, Division of
Examinations
Mr. Benner, Assistant Director, Division of
Examinations
Mr. Brill, Chief, Capital Markets Section, Division
of Research and Statistics
Mr. Hooff, Assistant Counsel

Discount rates. Unanimous approval was given to a telegram to
the Federal Reserve Bank of Boston approving the establishment without
change by that Bank on October 6, 1958, of the rates on discounts and
advances in its existing schedule.

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:

1/ Entered meeting at point indicated in minutes.

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Item No.

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| Letter to the Federal Reserve Bank of New York regarding the examination of The First Bank of Boston (International), New York, New York, made as of August 18, 1958. | 1 |
| Letter to The Richland Trust Company, Mansfield, Ohio, approving an additional investment in bank premises. (For transmittal through the Federal Reserve Bank of Cleveland) | 2 |
| Letter to the Federal Reserve Bank of Cleveland expressing the opinion that the maintenance of certain storage vault facilities by The Richland Trust Company, Mansfield, Ohio, would not constitute the operation of a branch. | 3 |

In connection with approval of the letter to the Federal Reserve Bank of New York (Item No. 1) regarding the examination of The First Bank of Boston (International), Governor Mills said that as far as he could observe this Edge Act corporation is being operated in exemplary fashion under strict compliance with the provisions of Regulation K while Bank of America, New York, is more aggressive and far-reaching in the scope of the transactions it handles. In both instances, he pointed out, the Edge Act corporations are in essence agents of their parent banks; in effect, they operate in New York City as the foreign departments of the parent banks. Thus, as brought out by various studies, they are in competition with the foreign departments of New York City banks and also with certain other institutions engaged in similar financing activities. While it might be that the problem was insoluble as long as Edge Act corporations continued in existence, he hoped that some lines of demarcation could be drawn. If such lines could be drawn, he felt that they would have to be related primarily to the question of what is incidental

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to an Edge Act corporation's foreign business. It had always been his concept that such corporations were intended to function as domestic outposts for business to be transacted abroad rather than as domestic corporations drawing business from abroad. In other words, their purpose, as he understood it, was to foster American export trade and they were not intended to be used as vehicles for the financing of import trade. The longer the problem persisted, Governor Mills said, the more difficult it would become. It appeared to him that either the operations of Edge Act corporations would have to be restricted to conform more closely to the original Congressional intent or the Board would be obliged to recommend to the Congress a broad expansion of the statutory authority for otherwise, in his view, the Board was placed in the position constantly of sanctioning deviations from the purposes of the statute.

It was noted that the memorandum requested from the Division of Examinations on the scope of the activities of Bank of America, New York, had now been distributed, that it touched somewhat on the questions raised by Governor Mills, and that consideration of it might afford an appropriate occasion for further discussion of those questions.

Messrs. Nelson and Hooff then withdrew from the meeting.

Margin regulations (Item No. 4). Prior to the meeting there had been distributed to the members of the Board a draft of letter to the Federal Reserve Banks, prepared by Mr. Solomon, discussing possible unreported and unrecognized increases in stock market credit as the result of weaknesses

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in the provisions of Regulation U or inadequate compliance with its provisions and suggesting possible remedial steps. It was contemplated that a somewhat similar letter might be sent to the Comptroller of the Currency and the Federal Deposit Insurance Corporation.

In response to statements by Governors Robertson and Vardaman indicating that before entering into discussion of the letter itself they would like to have a discussion of the seriousness of the problem, Mr. Solomon stated that the suggested letter had been prepared for the Board's consideration on the premise that a problem existed and that he had not attempted to inquire into the magnitude of the problem.

Mr. Thomas stated that the present situation -- the increase in stock market activity, the rise in stock prices, and the movement from bonds into stocks -- presented an atmosphere conducive to acceleration of the speculative boom through increasing use of credit. For people wanting to speculate, there was a great inducement to find various devices for doing so. From persons in the financing field, he had heard stories that this was going on to a very considerable extent; that is, people were said to be finding all kinds of devices for getting into the stock market. A part of this took the form of shifting from liquid assets and it appeared that a substantial amount of money was available from outside the banking system, but anything the banks might be doing would contribute to the problem. The thought behind a letter such as presented to the Board for consideration therefore was to obtain information and at the same time issue a warning

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that the bank supervisory authorities were alive to the possibility of evasion, with an intimation that the rules might be tightened if it were found that a problem existed in this respect.

Governor Vardaman agreed with Mr. Thomas' comments about the general atmosphere of speculation but said he thought it would be desirable to separate the idea of a warning from an effort to get additional information. An alternative approach might be to get the information first and bring such data before the Board for its consideration. At that point, he said, the Board would be in a better position to consider the issuance of a warning letter.

Governor Mills expressed concern about involving the Federal Reserve Banks in a spot-checking operation which could produce an unfavorable reaction. On the one hand, he observed, the Federal Reserve System has regulatory responsibilities, but on the other hand it has a broad responsibility to accommodate the various elements of the financial community as much as possible and to avoid harassing tactics. It appeared to him that the proposals contained in the suggested letter dealt with minutiae and not with the Board's major responsibility in this field; namely, the responsibility for the level of margin requirements. From available statistics, he could not find evidence to suggest a serious problem in the area of nonpurpose loans.

Mr. Koch recalled that in 1955, at the request of the Senate Banking and Currency Committee, which was then engaged in a study of the

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stock market, the Federal Reserve Banks were asked to make a spot survey regarding the use of nonpurpose loans. Such information could be gathered quite promptly, he felt, if it was thought desirable.

Following further discussion of the difficulty involved in obtaining information about the use of nonpurpose loans, Governor Shepardson said that he was concerned about the possible reaction to the collection of information on this subject. Merely checking with leading banks might carry with it an implication that the Board was contemplating action. It was the implication of a threat which concerned him and he wondered whether there was some other way in which information could be obtained.

Mr. Noyes referred to the information obtained on mortgage warehousing operations and suggested the possibility of a somewhat similar series on nonpurpose loans. While this approach would not answer all of the questions, it would give additional insight into how this particular segment of credit was behaving.

After some discussion of this possibility and its limitations, Governor Vardaman inquired whether the bank examiners could shed any light on the subject through discussions with the bank officials in the course of examinations. Mr. Masters replied that he thought quite a bit could be accomplished in this manner but that he did not think this approach would produce quantitative information.

At this point Governor Robertson suggested a two-pronged approach. First, he suggested that the Vice President in charge of Examinations at each Reserve Bank be contacted, and also the Comptroller of the Currency,

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to obtain views on the extent to which the proceeds of nonpurpose loans are being used to finance the purchasing or carrying of registered stocks. This would involve talking with chief and senior examiners but it would not involve going outside the supervisory agencies. It should be possible to obtain reactions of this kind, he thought, within a week or 10 days. Second, while that process was going on, the Board should consider whether the present coverage of the margin regulations was adequate, and particularly whether the withdrawal and substitution rule should be tightened. For this purpose it might be desirable to send members of the staff to New York to study the effect on market operations of a change in the rule. With the accomplishment of these two steps the Board would be in a better position to act, if it so desired, following the Chairman's return.

There ensued some discussion of the nature and effect of a strict withdrawal and substitution rule, following which consideration was given to the proposals advanced by Governor Robertson. At the conclusion of the discussion it was agreed that a communication would be addressed to the President of each of the Reserve Banks asking for the Bank's views regarding the volume of credit going into the stock market as the result of evasion or avoidance of the provisions of Regulation U. These views were to include those of the Vice President in charge of Bank Examinations and the Chief Examiner but were to be furnished without consultation with persons outside the Bank. It was understood that the Office of the Comptroller of the Currency would be contacted by Governor Robertson with

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a view to obtaining similar comments. With regard to the sending of staff members to New York to study the effects of changes in the margin regulations, it was understood that Messrs. Thomas, Hackley, and Young would recommend to the Board which members of the staff should undertake such an assignment.

Secretary's Note: Subsequent to the meeting and in accordance with the above action, there was sent to the President of each of the Reserve Banks a telegram in the form attached to these minutes as Item No. 4.

At this point all of the members of the staff withdrew except Messrs. Hackley, Masters, Solomon, Kenyon, and Fauver.

Firstamerica. Mr. Hackley presented to the Board the results of efforts by the Legal Division to obtain a suitable hearing officer for the hearing ordered by the Board on the application of the Firstamerica Corporation to acquire 80 per cent of the voting stock of the California Bank. The choice had narrowed to two individuals, one an employee of the Department of Commerce, Mr. Herman Tocker, and the other Mr. S. W. Jensch, an employee of the Atomic Energy Commission. Mr. Tocker is not on the Civil Service Register of hearing examiners but Mr. Hackley pointed out that he need not have such status in order to serve as hearing officer in the Firstamerica hearing. Mr. Jensch is on the roster of approved examiners. Both men had received high recommendations from those at the Civil Service Commission with whom contact had been made.

At the conclusion of a discussion, during which Governor Balderston joined the meeting, Mr. Hackley was authorized to conclude arrangements for the retention of Mr. Jensch as hearing examiner for this case subject

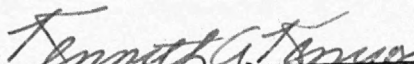
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to certain questions being resolved satisfactorily. If those questions were not resolved satisfactorily, Mr. Hackley was authorized to make arrangements for the retention of Mr. Tocker.

Thereupon the meeting adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board a letter to the Chairman of the Presidents' Conference Subcommittee on Retention and Disposal of Records agreeing to an arrangement for disposal of older copies of the Daily Letter to the Board of Governors held at the Federal Reserve Bank of New York, in reliance upon copies being available in the Board's files.


Assistant Secretary

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

Item No. 1
10/7/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 7, 1958



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

Dear Mr. Wiltse:

This will acknowledge receipt of two copies of the report of examination of The First Bank of Boston (International), New York, New York, made as of August 18, 1958, by Mr. John J. Quinn, in his capacity as a Federal Reserve Examiner.

It is noted that the affairs of the Corporation appear to be conducted in a generally satisfactory manner and, at this time, are considered to be conducted in accordance with the provisions of Regulation K.

It is also noted that certain deposit accounts listed at the previous examination as of August 23, 1957, which were considered to be nonconforming with the requirements of Section 6(b), Regulation K, have been eliminated or otherwise corrected.

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. 2
10/7/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 7, 1958

Board of Directors,
The Richland Trust Company,
Mansfield, Ohio.

Gentlemen:

Pursuant to your request, submitted through the Federal Reserve Bank of Cleveland, the Board of Governors approves, under the provisions of Section 24A of the Federal Reserve Act, an investment in bank premises by The Richland Trust Company which will result in an aggregate investment of \$629,939.52, represented by the capital stock of The Richland Building Corporation carried at \$300,000, and the indebtedness of The Richland Building Corporation and its wholly owned affiliate, the R-T Building Corporation, in the aggregate amount of \$329,939.52.

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
10/7/58



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 7, 1958

Mr. Paul C. Stetzelberger, Vice President,
Federal Reserve Bank of Cleveland,
Cleveland 1, Ohio.

Dear Mr. Stetzelberger:

Reference is made to your letter of August 26, 1958, submitting the application of The Richland Trust Company, Mansfield, Ohio, for permission to establish a branch at 452 West Cook Road, Mansfield, Ohio, to be known as Boulevards Office No. 2.

It is noted that the proposed "branch" will consist of a storage vault 12 X 20 feet underneath the rear portion of the building leased by the bank, through its wholly-owned affiliate, to the U. S. Post Office Department, which is separated from the bank's Boulevard Office at 460 West Cook Road by a parking lot. It is further noted that the property occupied by the branch, the parking lot, and the Post Office Building, is owned by the bank through its affiliate.

The Board has previously held that a facility located on bank-owned property with a 65-foot lot intervening is not a branch, but that if there should be any change in the ownership or use of the intervening space the question would require reconsideration. (Also see FRLS #3561.1.) The request of The Richland Trust Company involves a somewhat similar situation, and the Board does not consider that the proposed vault facilities would constitute a branch.

While the Board of Governors does not look with favor upon the transaction involving the acquisition of the Post Office building, through the bank's wholly-owned affiliate, in view of the fact that the building will be partially used for banking purposes, no objection will be interposed to its retention.

Very truly yours,

Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

T E L E G R A M
LEASED WIRE SERVICE

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 4
10/7/58

October 7, 1958

ERICKSON - BOSTON	LEACH - RICHMOND	DEMING - MINNEAPOLIS
HAYES - NEW YORK	BRYAN - ATLANTA	LEEDY - KANSAS CITY
BOPP - PHILADELPHIA	ALLEN - CHICAGO	IRONS - DALLAS
FULTON - CLEVELAND	JOHNS - ST. LOUIS	MANGELS- SAN FRANCISCO

The Board would be interested to learn the views of your bank as to whether a substantial volume of credit is going into the stock market as a result of evasion or avoidance of Regulation U provisions.

Specifically (1) whether the proceeds of loans by commercial banks secured by stocks have been used to purchase or carry registered stocks despite the filing of a "non-purpose" statement by the borrower, and (2) whether the proceeds of other types of loans, such as unsecured credit lines, are also being used to finance the purchasing and carrying of securities. The views of your Vice President in charge of bank examinations and your Chief Examiner on both these points would be helpful, particularly their impressions concerning bank lending practices and other recent developments in this area. The observations requested should be furnished without consultation with commercial bank officers and should be in Board's hands prior to October 15.

(Signed) Kenneth A. Kenyon

KENYON