

Minutes for October 8, 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>(09)</u>	_____
Gov. Mills	x <u>[Signature]</u>	_____
Gov. Robertson	x <u>R</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 Wednesday, October 8, 1958. The Board met in the Special Library at
10:00 a.m.

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

Mr. Kenyon, Assistant Secretary
Mr. Riefler, Assistant to the Chairman
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. Noyes, Adviser, Division of Research and
Statistics
Mr. Koch, Associate Adviser, Division of Research
and Statistics
Mr. Solomon, Assistant General Counsel
Mr. Hooff, Assistant Counsel

Discount rates. Unanimous approval was given to a telegram to
the Federal Reserve Bank of Minneapolis approving the establishment
without change by that Bank on October 7, 1958, of the rates on discounts
and advances in its existing schedule.

Suggestion for change in Regulation Q. The City National Bank of
Rockford, Rockford, Illinois, had suggested that Regulation Q be revised
to allow a grace period of 10 calendar days at the beginning of any month
in the computation of the rate of interest paid on savings deposits. At
present the Regulation allows a grace period of 10 business days only in
a month commencing a quarterly or a semiannual interest period, with a
five-day grace period in other months. However, as pointed out in a
memorandum from Mr. Hackley dated October 7, 1958, which had been dis-
tributed to the Board, Regulation Q allows a 10-day grace period in any

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month if a member bank is not paying the maximum rate of interest permitted by the Board. Submitted with the memorandum was a proposed letter to the City National Bank which would bring out this fact and would state that a further liberalization of the grace periods allowed by Regulation Q was not believed necessary at this time. The memorandum indicated, however, that if the Board, after discussion of the matter, should feel that the suggestion for a revision of the Regulation merited further consideration, the next step would be to request the views and comments of the Federal Reserve Banks, the Federal Deposit Insurance Corporation, and the Comptroller of the Currency.

Mr. Masters, who was called upon by the Board to open the discussion, expressed the view that the change suggested by the member bank had merit because such a revision would be in the interest of uniformity and better public understanding. Also, it would enable member banks to advertise on an equal basis with savings and loan associations.

Mr. Hackley stated that the question was not considered by the Legal Division to be a particularly important one. Apparently, he said, the Rockford bank had raised the question primarily because it felt that a straight 10-day grace period would permit a simpler explanation of interest computation to its customers. He noted that this appeared to be the first suggestion of its kind to have been made since 1952, when the Board gave consideration to a straight 10-day grace period before adopting the amendments which placed Regulation Q in its present form. At that

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time the Board perhaps was influenced to some extent by the fact that substantially similar provisions had been prescribed earlier in 1952 by the New York State banking authorities, who later (in 1957) lifted all ceilings on the rate of interest payable on savings deposits. Nevertheless, in the view of the Legal Division it would not be desirable or necessary to amend Regulation Q to permit more liberal grace periods until there was more evidence that the matter was of general importance.

Mr. Hackley also said that in the Rockford case the member bank might not be aware that the provisions of Regulation Q relating to grace periods are not applicable except when a bank is paying the maximum permissible rate of interest on savings deposits. While it would of course be simpler and less confusing to have a straight 10-day grace period, as is permissible for savings and loan associations, and while the Board might feel that it would be desirable to place member banks on a parity with the associations in this respect, it should be noted that there are many other differences between the regulations relating to member banks and those relating to savings and loan associations.

Governor Robertson agreed with the Legal Division that the matter was not of great importance. He then proposed certain changes in the draft of reply to the Rockford bank which would have the effect of simply explaining the current provisions of the Regulation and then concluding with the statement that the bank's suggestion would be borne in mind when Regulation Q was next revised.

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Governor Vardaman indicated that his views were somewhat different from those of Governor Robertson. Since, as he saw it, the proposed change with respect to grace periods would have no adverse effect from the standpoint of the liquidity or soundness of member banks, the current provisions appeared to him to constitute simply an annoyance to the banks and a detriment to membership in the Federal Reserve System. He questioned the desirability of advising the Rockford bank that the change would be considered when the Regulation was next revised, stating that he would prefer to have the matter decided promptly. Although he would not care to see the Federal Reserve System become too liberal in its regulations, neither did he like to see the Board's regulations constitute sources of irritation because of intricate provisions relating to relatively unimportant matters.

Governor Robertson responded that he would have no objection to amending Regulation Q in order to accomplish the suggested change. However, he felt that there were other provisions of the Regulation that needed to be amended and he would be somewhat reluctant to make this one change without considering other aspects of the Regulation. He pointed out that there are relatively few banks paying the maximum rate of interest; in fact, he doubted whether the Rockford bank was in such a position.

Following comments by Governor Vardaman to the effect that he would be inclined to favor prompt action on matters of this kind rather than to await general revisions of the Board's regulations, Governor Mills

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expressed the view that the payment of interest on "phantom deposits" is very difficult to justify from the standpoint of logic. After pointing out that the provision for grace periods is in effect a competitive device, he said that he would hesitate to break down the principle any further and that he therefore agreed with the letter proposed by Mr. Hackley, amended to the extent suggested by Governor Robertson. The explanation in the letter, he pointed out, might be sufficient to meet the problem of the Rockford bank, and until there was evidence that the problem was one affecting the operations of many member banks he would prefer to leave the Regulation in its present form.

There ensued a further discussion of the effects of the grace period provisions of Regulation Q on the operations of member banks, after which Governor Balderston said that he was inclined to concur in the views originally expressed by Mr. Masters. He doubted whether the Board was achieving anything of substance by the complicated provisions of its Regulation that could not be accomplished by a simpler form of regulation, and unless something substantial was being accomplished it would be his preference to accommodate the member banks. To him it appeared that the grace period provisions represent a matter of degree, for the payment of interest on "phantom deposits" occurs in any event. Therefore, the question, as he saw it, was how much unsoundness would be involved in liberalizing the Regulation. He added that a savings

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depositor would hardly be likely to take undue advantage of more liberal provisions to increase his interest income.

Governor Mills commented that the practice of allowing days of grace has as its basis the fact that there are some depositors who let several days slide by and then come into the bank with their deposits, with the result that if the days of grace were not allowed they would be deprived of interest for the particular month. If they were so deprived, the depositors would have a grievance that the banks and savings and loan associations presumably like to avoid. Therefore, the problem is in a sense a public relations problem. From the point of view of the System, however, Governor Mills felt that a matter of more substance actually was involved because a straight 10-day grace period would mean in effect paying interest on the basis of a 20-day month.

In further discussion, reference was made to the fact that no check had as yet been made with the Federal Deposit Insurance Corporation regarding the proposed change in Regulation Q. It was also pointed out that no information was available regarding the rate of interest on savings deposits actually paid by the City National Bank of Rockford and that this might have a bearing on the reply to be made by the Board to the member bank.

At the conclusion of the discussion, it was noted that the Board members present appeared to be divided in their views. Accordingly, it was understood that the matter would be deferred for further consideration at a time when other members of the Board could be present and that in the

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meantime the Legal Division would secure information about the rate of interest being paid by the Rockford bank. It was also understood that the Legal Division would check with the Federal Deposit Insurance Corporation to determine whether the Corporation had been in receipt of similar suggestions from nonmember insured banks.

Mr. Hooff then withdrew from the meeting.

Problems relating to Regulations T and U. Governor Robertson reported that in accordance with the understanding at yesterday's meeting he had been in touch with the Office of the Comptroller of the Currency with a view to obtaining information regarding the volume of credit which might go into the stock market as the result of evasion or avoidance of Regulation U provisions. It was also reported that a telegram on this subject had been sent yesterday to the Federal Reserve Banks.

With regard to the question whether a strict withdrawal and substitution rule would in fact have serious effects from an operating standpoint, Mr. Thomas reported that he, Mr. Hackley, and Mr. Young had given further consideration to the suggestion that a member or members of the Board's staff go to New York for exploratory discussions. He said it was the view of this group that it would be difficult for members of the Board's staff to undertake such an investigation on a confidential basis. In outlining a possible alternative procedure, he mentioned that some material on the subject is already available in the Board's files and that the New York Reserve Bank has on its staff an individual (Mr. George McEvoy) who is well informed from a technical standpoint. Mr. McEvoy,

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he suggested, could be brought down to Washington and asked to prepare a memorandum for the Board's consideration based on his own knowledge and the material in the files. Thereafter, consideration might be given to securing some appropriately qualified person from outside the System on a consultant basis to provide expert advice. Another possibility would be to contact the Securities and Exchange Commission to determine whether there were individuals on the Commission's staff qualified to provide helpful information.

General agreement was expressed with the approach outlined by Mr. Thomas. Governor Robertson stated that his particular concern was with gathering facts to prove or disprove the assertion that a strict withdrawal and substitution rule would result in serious operating difficulties. He saw merit in the suggestion that a study in New York City might stir up feeling in a way that would not be justified, and for this reason he was inclined to favor an alternative program along the lines suggested in order to ascertain the facts. At some point, however, he felt that it might well be desirable to ask representatives of the Stock Exchange to present their views to the Board. He deemed it essential that the whole study be pursued without undue delay.

It was then agreed that Governor Balderston would get in touch with First Vice President Treiber of the Federal Reserve Bank of New York to request the services of Mr. McEvoy, that the details of Mr. McEvoy's assignment would then be discussed with him by Messrs. Solomon and Brill,

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and that members of the Board's staff would get in touch with officials of the Securities and Exchange Commission to determine what assistance might be available from that source. It was contemplated that Messrs. Thomas, Young, and Hackley would have a continuing interest in all aspects of the study.

Technical assistance mission to Okinawa. Referring to a matter he had mentioned at the meeting on September 29, 1958, Governor Robertson said it had been found that a representative of the Treasury Department was about to undertake a three-week assignment in Okinawa and that upon his return the Treasury Department representative would offer his views on the type of assistance that would appear appropriate in response to the Department of the Army's request for Federal Reserve cooperation in a study of banking developments in the Ryukyu Islands. This approach to the problem was agreeable to the Department of the Army, Governor Robertson said.

Denver Branch building site. Governor Balderston reported that the Board had received a letter of protest from a Denver businessmen's association concerning the proposed site for the new Denver Branch building, that the letter had been relayed by wire to Chairman Hall of the Kansas City Reserve Bank preparatory to meetings of the building committee and the Board of Directors scheduled for today and tomorrow, respectively, and that the Kansas City Bank was having the Vice President in charge of its Denver Branch contact the member banks in Denver to determine their views on the matter in the light of representations which had now been made.

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Branch applications of The Michigan Bank. Governor Vardaman referred to the branch applications of The Michigan Bank, Detroit, Michigan, which were discussed with representatives of the member bank at a recent meeting, and stated that Counsel for the bank raised a question yesterday concerning the status of the matter.

Mr. Masters stated that the presentation of this matter to the Board had been delayed because the Division of Examinations was attempting to get certain information from the Federal Reserve Banks bearing upon another question raised by The Michigan Bank; namely, a possible change in one of the conditions of membership imposed upon the member bank. Mr. Masters said that the two matters were separable and that the Division would endeavor to place before the Board shortly a recommendation relating to the question of the additional branches.

Examination of the Continental Bank and Trust Company and its affiliated banks. Mr. Masters reported that in accordance with the action of the Board on August 18, 1958, a simultaneous examination of the Continental Bank and Trust Company, Salt Lake City, Utah, and affiliated banks, including certain nonmember noninsured banks, was started on Monday, October 6, and that the simultaneous examination appeared to be proceeding smoothly.

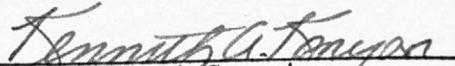
The meeting then adjourned.

Secretary's Notes: With the approval of Governor Shepardson, a letter was sent today to the Civil Service Commission providing certain requested information on employees of the Board of Governors subject to the Civil Service Retirement Act as of September 30, 1958.

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Pursuant to the action taken by the Board yesterday the letter of which a copy is attached as Item No. 1, relating to obtaining the services of S. W. Jensch, Hearing Examiner, was sent today to the Atomic Energy Commission over the Vice Chairman's signature.


Assistant Secretary

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

Item No. 1
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ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 8, 1958

The Honorable
John A. McCone, Chairman,
United States Atomic Energy Commission,
Washington 25, D. C.

Dear Mr. McCone:

It is understood that informal arrangements have been made looking toward the loan of the services of your Mr. S. W. Jensch, Hearing Examiner, GS-15, to preside at a hearing ordered by the Board of Governors to be held under the Bank Holding Company Act of 1956. Therefore, the Board of Governors officially requests that Mr. Jensch be detailed to the Board for a six-month period beginning October 15, 1958, to preside at this hearing, it being understood that the Atomic Energy Commission is to be reimbursed only for the time in which Mr. Jensch is actually engaged in connection with the said hearing. While a six-month period is suggested for the detail, it is contemplated that the hearing will be completed before the expiration of that period.

The Board of Governors will reimburse the Atomic Energy Commission for Mr. Jensch's salary, on the above-described basis, that is, when actually employed, and for any travel expenses involved.

It will be appreciated if you will confirm this reimbursable detail in order that the necessary arrangements can be made with the Civil Service Commission in connection with obtaining Mr. Jensch's services.

Sincerely yours,

(Signed) C. C. Balderston

C. Canby Balderston,
Vice Chairman.