

Minutes for October 10, 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>
Gov. Szymczak	_____	x <u>(S)</u>
Gov. Vardaman	x <u>(V)</u>	_____
Gov. Mills	_____	x <u>(M)</u>
Gov. Robertson	x <u>(R)</u>	_____
Gov. Balderston	x <u>(CB)</u>	_____
Gov. Shepardson	x <u>(S)</u>	_____

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

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Fauver, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Molony, Special Assistant to the Board
Mr. Hooff, Assistant Counsel
Mr. Poundstone, Federal Reserve Examiner,
Division of Examinations

Resignation of Governor Vardaman. Governor Vardaman reported for purposes of the official record that he had submitted to the President of the United States his resignation from the Board of Governors of the Federal Reserve System effective December 1, 1958. He stated that the Board's Secretary had been furnished photostatic copies of his letter to the President dated October 1, 1958, and the President's letter dated October 7, 1958, accepting the resignation.

Governor Vardaman also stated that he would discuss with the Board later certain questions of procedure, including the appropriate disposition of the files accumulated in his office.

Governor Balderston stated to Governor Vardaman that the Board wished for him the best of health and success in his future endeavors.

Mr. Thurston then withdrew from the meeting.

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Proposed change in Regulation Q (Item No. 1). At the meeting on Wednesday, October 8, preliminary consideration was given to a suggestion from the City National Bank of Rockford, Rockford, Illinois, that the provisions of Regulation Q be amended 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. In view of differences of opinion among the members of the Board present, action on the matter was deferred and it was understood that prior to further discussion the Legal Division would determine the rate of interest actually being paid by the Rockford bank and also whether any similar suggestions had been received by the Federal Deposit Insurance Corporation. In a memorandum dated October 9, 1958, which was distributed before this meeting, Mr. Hooff reported having been advised by the Office of the Comptroller of the Currency that the Rockford bank was paying only 1-1/2 per cent interest on savings accounts at the time of the last examination, which was made in January 1958. He also stated that counsel for the Federal Deposit Insurance Corporation was aware of no suggestion by nonmember insured banks that the grace period allowed on savings accounts be modified. In the light of the information that had been received concerning the rate of interest paid by the Rockford bank, Mr. Hooff suggested an addition to the proposed letter to the member bank which would clarify the fact that a member bank paying interest not in excess of two per cent per annum may accept savings deposits through the 10th day of any month without resort to the grace period allowed by Regulation Q.

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Mr. Hackley stated that in originally presenting the matter to the Board the Legal Division had proceeded in accordance with the view that this was a relatively minor matter and that, although the suggestion might have some merit, the Board perhaps would not wish to consider amending its regulation without evidence that such an amendment was necessary. On the other hand, he said, the Legal Division would see no objection, if the Board so desired, to obtaining the views of the Federal Reserve Banks, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation with regard to a possible amendment to Regulation Q.

After Governor Balderston had summarized the discussion at the Board meeting on October 8, Governor Shepardson said that in reading the memoranda from the Legal Division it occurred to him that the present provisions of Regulation Q constitute something of an irritating technicality. He failed to see what harm would be done by simplifying those provisions.

In the ensuing discussion, during which Governor Vardaman commented that he was concerned more about the principle involved than about the situation at the Rockford bank, Governor Robertson said that he had no feeling against adopting an amendment of the kind suggested even though the matter did not seem particularly important. He noted, however, that the present provisions of Regulation Q pose no problem for the Rockford bank and that the number of institutions paying the maximum permissible rate of interest is relatively small. Before any change was made in the Regulation, he felt that the Board should explore the

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possibility of adverse factors in the manner suggested by Mr. Hackley and that the Board might also wish to ascertain the views of the banking fraternity.

Following a comment by Governor Vardaman that he had not intended to suggest precipitate action but only that the usual procedures be instituted, Governor Shepardson again expressed the view that simplification of the present language of Regulation Q apparently could be justified in the interest of easing administrative problems. He felt that the Board's decision should not be based on the views of a few member banks but rather on what would constitute a sound and logical rule.

There followed some discussion of the advice that should be communicated to the City National Bank of Rockford at the conclusion of which it was agreed unanimously that the Legal Division would clarify the provisions of Regulation Q for the Rockford bank by means of a telephone conversation, that the oral advice would be confirmed by a letter to the member bank, and that copies of the letter would be sent to the Federal Reserve Bank of Chicago and to the Office of the Comptroller of the Currency for their information. A copy of the letter sent pursuant to this action is attached as Item No. 1.

It was also agreed unanimously that steps would be instituted to seek the views of the Federal Reserve Banks, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation with regard to a possible change in the provisions of Regulation Q with respect to grace periods.

Mr. Hooff then withdrew from the meeting.

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Discount rates. Unanimous approval was given to telegrams to the following Federal Reserve Banks approving the establishment without change by those Banks on the dates indicated of the rates on discounts and advances in their existing schedules:

San Francisco	October 8, 1958
New York	October 9, 1958
Cleveland	October 9, 1958
Richmond	October 9, 1958
Atlanta	October 9, 1958
St. Louis	October 9, 1958
Kansas City	October 9, 1958
Dallas	October 9, 1958

Branches of Banca d'America e d'Italia (Item No. 2). The Board approved unanimously, for transmittal through the Federal Reserve Bank of New York, a letter to Bank of America, New York, granting extensions of the time within which Banca d'America e d'Italia may establish agencies in Genoa and Naples. The file on this matter had been circulated to the members of the Board and a copy of the approved letter is attached as Item No. 2.

Mr. Poundstone withdrew from the meeting at this point.

Request from Committee for Economic Development (Item No. 3).

Governor Balderston presented for the Board's consideration a request from a representative of the Committee for Economic Development that arrangements be made for a visit to the Board's offices by members of the Committee's recently established Commission on Money and Credit. The request had been made originally in the form of a letter to Chairman Martin, and in a subsequent telephone conversation between Governor

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Balderston and a member of the Committee's staff a visit on November 12, 1958, at 2:30 p.m. had been suggested. It appeared that the Commission had held an organizational meeting, that a second meeting had been arranged, and that the Commission deemed it appropriate to pay informal visits to the Board as well as to the Treasury before proceeding further with its program.

Following a statement by Governor Balderston concerning his telephone conversation, the matter was discussed by the Board from the standpoint of the understandings that should be explicit in making the arrangements for such a meeting; namely, that the Board would not be in a position to discuss the nature or character of the Commission's research program or what other institutions should be studied and that questions of substance concerning monetary policy should await the formulation of the Commission's program so that they might be discussed after appropriate analysis and consideration of each point on the Commission's agenda.

Governor Robertson then suggested the general wording of a letter of invitation which would embody these understandings, and there was agreement that the letter should be couched in such terms.

A copy of the letter sent to the Committee for Economic Development over the Vice Chairman's signature pursuant to this action is attached as Item No. 3.

The meeting then adjourned.

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Secretary's Notes:

On October 9, 1958, Governor Robertson, acting in the absence of Governor Shepardson, approved on behalf of the Board a letter to the Federal Reserve Bank of Dallas (attached Item No. 4) approving the appointment of George E. Butts, Jr., as assistant examiner.

Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson today approved on behalf of the Board the following items affecting the Board's staff:

Appointments

Jacqueline Ann McDaniel as Statistical Clerk in the Division of Bank Operations, with basic annual salary at the rate of \$3,495, effective the date she assumes her duties.

Richard B. Friedman as Assistant Federal Reserve Examiner in the Division of Examinations, with basic annual salary at the rate of \$5,430, effective the date he assumes his duties.

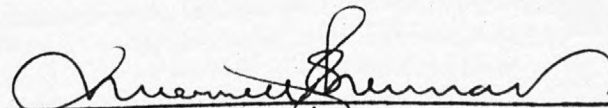
Mildred Jean Small as Disbursing Clerk in the Office of the Controller, with basic annual salary at the rate of \$3,755, effective the date she assumes her duties.

Salary increase

Fredrick L. Frost, Messenger, Board Members' Offices, from \$3,920 to \$4,015 per annum, effective October 19, 1958.

Change in effective date of salary increase

Merritt Sherman, Secretary of the Board, from \$15,950 to \$17,500 per annum effective today rather than at the beginning of the first payroll period subsequent to his assuming his duties as Secretary. (Amendment of Board action on June 5, 1958.)


Secretary

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

Item No. 1
10/10/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 10, 1958



Mr. Charles Summerfield, President,
City National Bank of Rockford,
Broadway at Seventh,
Rockford, Illinois.

Dear Mr. Summerfield:

This refers to your letter of September 4, 1958, addressed to Mr. G. W. Garwood, Deputy Comptroller of the Currency, and to your letter of October 4, 1958, to the Board, suggesting that Regulation Q be revised to permit member banks a grace period of 10 calendar days at the beginning of any calendar month so that savings deposits made within that period would be entitled to interest from the first of the month.

There is nothing now in the Board's Regulation Q which would preclude a member bank from computing interest from the first day of a calendar month on any savings deposit made within the first ten calendar days of that month provided the interest actually paid does not exceed an amount which would result in a payment of interest at a rate exceeding 3 per cent from the time the deposit is in the bank.

Section 3(d) of the Regulation permits a member bank to pay interest "at the applicable maximum rate" calculated from the first day of the month on a savings deposit received during the first 10 business days of any month commencing a quarterly or semiannual interest period or during the first 5 business days of any other month. In effect this provision permits payment of a rate slightly in excess of the maximum prescribed by the Board in the circumstances stated. However, if the bank is paying less than the 3 per cent maximum rate and if the calculation of interest from the first day of the month on a deposit thereafter received would not cause the amount actually paid to exceed

Mr. Charles Summerfield

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3 per cent per annum, the provision of the Regulation would not prohibit calculation in that manner; in such a case the provision would not be applicable. For example, if your bank is paying interest on savings deposits at a rate not in excess of 2 per cent per annum, you may, without regard to the grace periods allowed by Regulation Q, pay interest from the first day of any month on savings deposits received through the tenth business day of that month.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

cc: Office of the Comptroller of the Currency
Federal Reserve Bank of Chicago

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

Item No. 2
10/10/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 10, 1958

Mr. Russell G. Smith, Executive Vice President,
Bank of America,
40 Wall Street,
New York, New York.

Dear Mr. Smith:

This will acknowledge your letters of September 18, 1958, and Mr. Ralph's letter of September 30, 1958, transmitted through the Federal Reserve Bank of New York, referring to the establishment by Banca d'America e d'Italia, Milan, Italy, of four agencies in Italy to be located in Naples, Genoa (two agencies), and Milan, pursuant to the consent granted in the Board's letter of April 2, 1958.

It is understood that the Milan-Zona Sempione agency opened on July 25, 1958.

In reference to the Genoa-Zona Marassi agency and the Naples-Zona Monteoliveto agency, on the basis of the information furnished, the Board extends to October 31, 1958, and December 31, 1958, respectively, the time within which the agencies may be established and opened for business.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 3
10/10/58

OFFICE OF THE VICE CHAIRMAN

October 10, 1958.



Mr. Robert Lenhart,
Secretary,
Committee for Economic Development,
1000 Connecticut Avenue, N. W.,
Washington, D. C.

Dear Mr. Lenhart:

In response to your telephone inquiry of Wednesday afternoon, the Board of Governors will be happy to meet with the Commission on Money and Credit at 2:30 on Wednesday afternoon, November 12. At that time, our Board will wish to make it clear that it welcomes any conscientious study of monetary policy--past, present and future--because in the formulation of such policy it always desires the benefit of the views and criticisms of others. Of course our Board would not be in a position to discuss the nature or character of your research or what other institutions should be studied because that is strictly the prerogative of your Commission. Moreover, questions of substance concerning monetary policy should await the formulation of your program so they can be discussed after appropriate analysis and consideration of each point on your agenda.

Sincerely yours,

(Signed) C. C. Balderston

C. Canby Balderston,
Vice Chairman.

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

Item No. 4
10/10/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 9, 1958

Mr. L. G. Pondrom, Vice President,
Federal Reserve Bank of Dallas,
Dallas 2, Texas.

Dear Mr. Pondrom:

In accordance with the request contained in your letter of October 3, 1958, the Board approves the appointment of George E. Butts, Jr., as an assistant examiner for the Federal Reserve Bank of Dallas. Please advise the Board if the appointment is not made effective October 13, as planned.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.