

Minutes for December 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>M</u>	_____
Gov. Szymczak	x <u>[Signature]</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 Monday, December 8, 1958. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Szymczak
Mr. Mills
Mr. Robertson
Mr. Shepardson

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser to the Board
Mr. Leonard, Director, Division of Bank Operations
Mr. Hackley, General Counsel
Mr. Masters, Director, Division of Examinations
Mr. Shay, Legislative Counsel
Mr. Farrell, Associate Director, Division of Bank Operations
Mr. Noyes, Adviser, Division of Research and Statistics
Mr. Solomon, Assistant General Counsel
Mr. Hexter, Assistant General Counsel
Mr. Nelson, Assistant Director, Division of Examinations
Mr. Kiley, Chief, Reserve Bank Operations Section, Division of Bank Operations
Mr. Young, Assistant Counsel
Mr. Holahan, Supervisory Review Examiner, Division of Examinations

Discount rates. Unanimous approval was given to telegrams to the Federal Reserve Banks of New York, Philadelphia, and St. Louis approving the establishment without change by those Banks on December 4, 1958, of the rates on discounts and advances in their existing schedules.

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Items circulated or distributed to the Board. The following items, which had been circulated or distributed 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 Federation Bank and Trust Company, New York City, granting an extension of time within which to establish a branch in Jamaica, New York. (For transmittal through the Federal Reserve Bank of New York)	1
Letter to the Union Trust Company of the District of Columbia, Washington, D. C., advising that Board approval would not be required for the proposed purchase of banking assets and assumption of certain liabilities of The Munsey Trust Company. (With a copy to the Federal Reserve Bank of Richmond)	2
Letter to the Farmers and Merchants Bank of Summersville, Summersville, West Virginia, approving an investment in bank premises. (For transmittal through the Federal Reserve Bank of Richmond)	3
Letter to the Security Trust Company, Wheeling, West Virginia, approving an investment in bank premises. (For transmittal through the Federal Reserve Bank of Cleveland)	4
Letter to The First National Bank of Jasper, Jasper, Alabama, approving its application for fiduciary powers. (For transmittal through the Federal Reserve Bank of Atlanta)	5
Letter to the American Trust Company, San Francisco, California, granting an extension of time within which to establish a branch at Sansome and Market Streets. (For transmittal through the Federal Reserve Bank of San Francisco)	6
Letter to the Presidents of all Federal Reserve Banks regarding the status of certain Federal funds transactions under the Bank Holding Company Act.	7

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	<u>Item No.</u>
Letter to the Federal Reserve Bank of Atlanta approving the appointment of Raymond L. Foushee as Alternate Federal Reserve Agent's Representative.	8
Letter to the House Committee on Government Operations reporting on H. R. 13782, a bill "To amend the Employment Act of 1946 to make relative stability of prices an explicit aim of Federal economic policy." (With a copy to the Bureau of the Budget)	9
Letter to the Budget Bureau regarding a draft bill submitted by the Treasury Department "To provide for payment by the Federal Reserve Banks of the cost of constructing a depository for the storage of Federal Reserve notes."	10
Letter to the First National Bank in Yonkers, Yonkers, New York, regarding the applicability of the provisions of section 22(g) of the Federal Reserve Act and Regulation O to loans made to directors of member banks who are acting as members of the Discount Committee. (With a copy to the Federal Reserve Bank of New York)	11

The foregoing Item No. 9 was approved following discussion in the light of questions raised by Governor Mills, who observed that H.R. 13782 would not only amend the Employment Act of 1946 so to add to the declaration of policy language emphasizing and making explicit the importance of stabilizing the level of prices but also would require the Economic Report of the President to deal with "current and foreseeable trends in price levels prevailing in the economy and the steps, if any, which have been taken to counter inflationary or deflationary pressures arising within the economy." Further, the bill would add language to the provisions of section 4 of the Act relating to the qualifications and duties of the Council of Economic Advisers. In raising the question whether the inclusion of these other provisions in the bill would cause the

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Board to want to qualify its report, Governor Mills referred to a bill introduced earlier by Congressman Reuss which would have required the President to include in his Economic Report recommendations on monetary and credit policy. The Board had expressed doubt as to the wisdom of such provisions.

It was noted that the last paragraph of the proposed letter was phrased in terms of endorsing a carefully worded amendment to the directive contained in the Employment Act of 1946, which suggested that the Board would be left free to deal in testimony, if called upon, with amendments to other sections of the Act. This appearing to be the more feasible course, it was decided to send the letter in the form in which it had been drafted for the Board's consideration.

In connection with Item No. 10, Governor Robertson commented that, although it might be considered safer to have legislation authorizing the construction of a depository on the Fort Riley Military Reservation with Federal Reserve funds, the project probably could have been accomplished without legislation and considerable delay had already been involved. Chairman Martin concurred in the views expressed by Governor Robertson.

Messrs. Shay and Young then withdrew.

Application of The Michigan Bank. On August 20, 1958, the Board approved the establishment of two branches applied for by The Michigan Bank, Detroit, Michigan, provided the capital structure

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of the applicant bank was increased not less than \$1,000,000 by the sale of additional common stock. The bank had proposed to obtain that amount of capital through the sale of preferred stock, and its representatives appeared before the Board on two occasions, most recently on November 24, to present their views. Prior to the November 24 meeting, memoranda relating to the use of preferred stock as a means of providing capital for commercial banks had been prepared for the Board's use by the Division of Examinations, the Legal Division, and the Division of Research and Statistics. Copies of these memoranda, dated November 18, November 19, and November 21, respectively, have been placed in the Board's files. Under date of December 2, 1958, there were distributed to the Board copies of a memorandum from Mr. Masters reviewing the branch applications of The Michigan Bank and recommending that the Board's original action on the matter be reaffirmed. Mr. Masters indicated that he was persuaded by the arguments in the aforementioned memoranda from the Examination and Research Divisions which pointed up several relatively undesirable features associated with the preferred stock issue proposed by The Michigan Bank and which emphasized the substantial proportion of the bank's capital structure that would be represented by preferred stock. He indicated that he was also influenced strongly by important precedential effects of this case if the Board condoned the use of preferred stock in the form and amount proposed.

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At the request of the Board, Mr. Masters reviewed the original recommendation of the Division of Examinations concerning the applications, the reasons therefor, subsequent consideration of the matter by the Board, and the reasons which had now led him to concur in the view of others within the Division that the Board's decision in the matter should be reaffirmed. He went on to refer to some possible inconsistency in the decision, in that within the rather recent past the Board had approved branches for several banks that had outstanding either preferred stock or debentures or a combination of both. On the other hand, the decision would be consistent with the Board's long-standing general policy against condoning the use of preferred stock by State member banks except in an emergency.

Governor Mills stated that the position taken by the Board in The Michigan Bank case was one to which he had been opposed because he was not able to discover statutory authority extensive enough to prohibit the inclusion of preferred stock in a bank's capital structure. To him, this was a problem that should be brought to the attention of the Congress with a view to obtaining remedial legislation. He was completely in sympathy with the view that preferred stock is an undesirable component of a member bank's capital structure except under emergency conditions, but he was in no wise persuaded that the position taken by the Board in this case might not be regarded, under present statutory authority, as arbitrary and capricious.

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Asked for comments on the legal aspects of the case, Mr. Hackley referred to the Legal Division's memorandum of November 19, 1958, in which reference was made to the arguments of Counsel for The Michigan Bank, as set forth in correspondence, and the grounds were stated on which the Legal Division felt that the Board's authority could be legally sustained. However, he said, the legal authority was certainly subject to question and one could not be sure that the action would be sustained. The principal ground would be that the Board, in approving branches, had authority to consider both the public interest and the financial condition of the applying bank. The nature of the bank's capital structure, as well as the amount, would appear to have a bearing on its financial condition.

Chairman Martin inquired as to the staff's views about the validity of points made by the representatives of The Michigan Bank on November 24 concerning the unusual situation of that bank arising from the rapid growth of its savings deposits. Mr. Masters replied that he thought there was some validity to those arguments, but they were not sufficient to change the staff recommendation.

There followed discussion of cases where the Board had approved branches for banks having outstanding preferred stock or debentures, from which it developed that in each case the composition of the bank's capital structure was an outgrowth of the sale of preferred stock to the Reconstruction Finance Corporation.

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Chairman Martin then made a statement in which he expressed views regarding the careful consideration that should be given by the Board to cases in the bank supervisory field in order to be sure that its decisions were sound from the standpoint of the public interest and free from the appearance of undue harassment. He urged the importance of thinking in terms of objectives and referred to the problem involved in deciding whether to proceed through the courts or through requests for remedial legislation in areas where the Board's statutory authority was not entirely clear.

Governor Robertson stated that he regarded this case as important enough to justify litigation, if litigation should result from the Board's decision, because favorable action would constitute a precedent that would lead to the use of preferred stock on a wide-scale basis. In order to determine the views of the other supervisory agencies regarding this problem, he had gotten in touch with the Comptroller of the Currency and the Federal Deposit Insurance Corporation. The Comptroller, he found, continued to take the position that preferred stock should be used by banks only in an emergency where it was necessary to augment capital. Since the situation of The Michigan Bank did not appear to involve an emergency, the Comptroller agreed with the position the Board had taken. The Federal Deposit Insurance Corporation advised that it had before it a similar case, also in the State of Michigan, and that, like the Board, it was taking the position that it

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would approve the branches applied for only if the applicant bank augmented its capital by the sale of common stock.

Governor Robertson continued by saying that he concurred in the final recommendation of the Division of Examinations, as stated in Mr. Masters' memorandum of December 2, 1958. He felt that the bank probably needed, in fact, more than \$1 million additional capital because of the continued growth of its deposits since the branch applications were first considered by the Board. However, he would be satisfied simply to reaffirm the original decision.

As to the legal aspects, Governor Robertson said that the position taken by the Board was one taken by all of the Federal supervisory agencies over a long period and that this administrative practice no doubt would be taken into account by the courts. At the proper time, he felt that the preferred stock problem should come up in the form of requested legislation, but until that time arrived he would adhere to the same position as in the past.

Governor Mills stated that where the Federal Reserve admonished a bank not to increase its capital through the issuance of preferred stock and the bank failed to heed that admonition, he felt that the bank was making a very serious mistake. However, he did not think that a decision by the bank to go ahead in the face of the admonition would warrant straining the statute in an attempt to prevent the bank from doing so. In such event, there would be reason to go to the Congress,

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cite the specific case, explain the reasons for opposing preferred capital except in an emergency, and point out that the Board lacked the authority to enforce an entirely reasonable and appropriate supervisory position.

In response to a question by Chairman Martin, Governor Mills affirmed that in terms of general principle he was opposed to the use of preferred stock by banks except in an emergency.

The Chairman then stated that he had reached the conclusion that this case was one where the Board would be warranted in adhering to its position at the risk of the time and effort involved in possible litigation because the problem was one that appeared to strike at the heart of banking. The embarrassment that might be caused by taking a position different from that of the Comptroller of the Currency and the Federal Deposit Insurance Corporation also weighed in his thinking. Whereas in certain other cases he felt that the Board might have taken a position without being entirely clear as to the cause for which it was fighting, in this case the point seemed more clear. Perhaps, he said, the Board should reaffirm its position and also go to the Congress for clarification of statutory authority.

Governor Shepardson indicated that his feelings were much along the lines of those stated by the Chairman. While in one or two cases he had thought that the Board might be straining at a situation unduly, in this case a policy of long standing was involved. In view

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of the interest of the other supervisory agencies in the problem and the fact that a similar case was currently before one of them, he felt that it would be unwise to depart from the position of long standing at this time. Therefore, although he agreed with the Chairman's comments about the undesirability of getting into unnecessary litigation, he would be inclined to reaffirm the decision in this case.

Governor Szymczak expressed agreement.

Thereupon, it was agreed to reaffirm the decision made on August 20, 1958, with respect to the branch applications of The Michigan Bank, with the understanding that Governor Mills continued to oppose the Board's original decision for the reasons he had stated at this meeting and on earlier occasions.

Problem banks. Governor Robertson referred to recent developments with respect to the Pan American Bank, Miami, Florida, and the Bank of Belmont Shore, Long Beach, California, and suggested that it would be desirable for the Board to have a report on these developments. After Governor Robertson had summarized briefly the problems of the Bank of Belmont Shore, it was understood that Mr. Masters would make a more extensive report to the Board concerning this bank at tomorrow's meeting, at which time he would also report on the Pan American Bank.

Messrs. Thomas, Hexter, and Nelson then withdrew from the meeting.

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Safekeeping facilities (Item No. 12). In view of questions raised by individual Federal Reserve Banks, the Board requested the Conference of Presidents in a letter dated September 19, 1957, to review the entire subject of safekeeping facilities of the Reserve Banks. Subsequently, a report was presented to the Presidents' Conference by the Subcommittee on Cash, Leased Wire, and Sundry Operations. This report was accepted by the Conference and at the joint meeting of the Board and the Presidents on February 11, 1958, it was indicated that the Board would give the matter further consideration and advise the Presidents of its views.

A memorandum from the Division of Bank Operations dated November 28, 1958, which had been distributed to the Board, reviewed Board letters setting forth policies with respect to various types of safekeeping, discussions at meetings of the Presidents' Conference in September 1957, and February 1958, and various points covered in the report of the Subcommittee on Cash, Leased Wire, and Sundry Operations. The memorandum noted that, with certain minor exceptions, the acceptance by the Presidents' Conference of the Subcommittee report suggested basically a reaffirmation of decisions reached upon earlier occasions by the Conference and the Board. It was proposed that it would be desirable to formulate a current statement of policy with respect to safekeeping and related activities that could be agreed upon by the Board and the Presidents, and that the Subcommittee report

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provided a basis therefor. Submitted with the memorandum was a draft of letter to the Chairman of the Presidents' Conference setting forth a proposed statement of policy and requesting the comments of the Presidents.

Following explanatory comments by Mr. Farrell, agreement was expressed with a suggestion that there be omitted from the letter a paragraph which would have stated that securities owned by suspended member banks might be accepted for safekeeping until the receiver had an opportunity to make other arrangements. The basis for the deletion was that this paragraph would have very limited applicability.

With regard to the two questions that had been received from individual Reserve Banks, Mr. Farrell commented that the proposed statement of general policy would answer in the negative the question raised by President Allen of the Federal Reserve Bank of Chicago concerning the propriety of holding bonds of the International Bank for Reconstruction and Development owned by the State of Wisconsin.

The other question had been raised by President Johns of the Federal Reserve Bank of St. Louis, who expressed doubt concerning the propriety of accepting for safekeeping securities in which third parties have an interest; for example, securities pledged by member banks as collateral for deposits of public funds.

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The proposed statement of policy would provide that securities in which third parties have an interest should not be accepted from member banks for safekeeping except (1) securities pledged as collateral to secure deposits of public funds, and (2) securities deposited with a public official to qualify member banks to exercise trust powers. Provision also would be made for the handling of exceptional cases at the discretion of the individual Reserve Banks.

There followed discussion of portions of the memorandum dealing with the question raised by Mr. Johns during which Mr. Hackley referred to occasions in the past when the Board had been advised by its legal staff that there was no specific statutory authority for the practice of holding for member banks securities in which third parties have an interest. He brought out, however, that the practice had been followed for many years and that it seemed doubtful whether anyone would challenge the authority of the Federal Reserve Banks in this respect. Mr. Hackley added that the statutes contain no specific provisions authorizing the Reserve Banks to provide safekeeping facilities for any party. Where securities owned by member banks are held for them, he felt that there would be a line of reasoning to justify providing the service. There might be more of a question in cases where securities in which third parties have an interest are held for member banks.

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Mr. Farrell observed that Mr. Johns was contending in effect that the decision should depend on legal authority rather than whether a service was being performed. By accepting the Subcommittee report, the other Presidents had in effect voted against the contention of Mr. Johns, and the proposed letter would confirm the position taken by the other Presidents.

Thereupon, unanimous approval was given to a letter to the Chairman of the Presidents' Conference in the form attached as Item No. 12.

During the foregoing discussion Mr. Fauver, Assistant Secretary, entered the room, and at its conclusion Messrs. Leonard, Noyes, Farrell, and Kiley withdrew.

Availability of information from examination reports (Item No. 13). Reference was made to a telegram received this morning from the President of the Federal Reserve Bank of San Francisco which stated that the Internal Revenue Service had requested that there be made available to its representatives reports of examination of the Continental Bank and Trust Company, Salt Lake City, Utah, for the years 1955, 1956, and 1957, in connection with an audit of the bank's affairs being made by that agency. The request was occasioned by the refusal of the bank's president to make the reports available on the basis that they were the property of the Board of Governors and contents thereof were not to be disclosed by the bank, as

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indicated by the language printed on the cover of Form F.R. 410. Mr. Mangels recommended that the request be granted. A proposed reply distributed prior to this meeting would authorize the Reserve Bank to make the reports available to the Internal Revenue Service to the extent necessary to provide representatives of that agency with information required in the performance of their functions, subject to certain specified restrictions on the use of the information.

Mr. Hackley reported telephone conversations with General Counsel for the San Francisco Reserve Bank last Friday in which the latter indicated that he thought it would be desirable for the Board to authorize Continental Bank and Trust Company to make the reports available. Mr. Hackley then cited provisions of the law and the Board's Rules of Organization which left no question from a legal standpoint as to the Board's right to authorize making the reports available to representatives of the Internal Revenue Service. From the standpoint of policy, he referred to similar questions that had arisen in the past, including one instance in 1947 in connection with an investigation by the Treasury of the affairs of a customer of a member bank. The policy adopted by the Board at that time was that certain information from the reports of examination would be made available if the request was in writing, with the understanding that the request should contain an indication of reasons and that the information furnished would be used only to

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develop leads, no reference would be made to the source, and the information would not be used in court or similar proceedings.

In further comments, Mr. Hackley referred to occasions where the Board had authorized the furnishing of information from examination reports through the Federal Reserve Bank concerned. In those instances, there had been an indication that the Board considered such a procedure desirable because the reports would remain under the control of the Reserve Banks.

Mr. Masters commented that member banks no doubt frequently make information from examination reports available to the Internal Revenue Service in connection with audits. Under normal circumstances, therefore, he felt that it would be preferable to advise a member bank raising any such question that it had authority to make the information available. Mr. Hackley commented that the Internal Reserve Service, by following certain legal procedures, could compel the furnishing of the examination reports.

There followed further discussion as to whether the authorization to make the reports available should go to the member bank or to the Reserve Bank. Arguments were presented on both sides, and Governor Robertson suggested a possible procedure under which the Reserve Bank would be authorized to make the reports available if the member bank did not choose to furnish the information.

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Governor Mills expressed doubt whether the Federal Reserve System should provide investigatory information to other Federal agencies except if that information were subpoenaed. For a long time, he said, he had been seriously concerned about the practice of making information available to the Justice Department without a court order, and he would be distressed about an extension of that procedure to cases of the kind now before the Board, particularly in a case where the furnishing of information to the Internal Revenue Service without the knowledge and consent of the member bank resulted in a proceeding against the bank. It occurred to him that it would be preferable to advise Continental that it had authority and permission to place the reports in question at the disposal of the Internal Revenue Service. He further commented that he could see a distinction between furnishing information relating to an investigation of the member bank's affairs and furnishing information relating to the affairs of a member bank's customer. If, in this case, Continental refused a request from Internal Revenue Service and that agency should apply direct to the Board, he felt that Continental should be apprised of the circumstances and told that the Board had no choice but to authorize release of the information to the Internal Revenue Service as a Federal agency entitled to it.

The Chairman then stated that the end result was clear. All of the Board members were in agreement that if the member bank would not supply the information, the Federal Reserve Bank would

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have to supply it. The problem, therefore, was one of procedure.

Certain difficulties were suggested in sending a wire direct to Continental, including the need for specific language in order to avoid any misunderstanding. Accordingly, it was suggested that it might be possible to accommodate the various views expressed at this meeting if a telegram were sent to the San Francisco Reserve Bank stating that both that Bank and Continental were authorized to make available to the Internal Revenue Service information contained in the examination reports to the extent necessary for the performance of the agency's functions, and with certain understandings concerning the use of the information. This suggestion contemplated that the Reserve Bank would be asked to advise Continental accordingly.

At the conclusion of the discussion, agreement was expressed with the suggested procedure. A copy of the telegram sent to the San Francisco Reserve Bank pursuant to this action is attached as Item No. 13.

The meeting then adjourned.

Secretary's Notes:

Pursuant to the recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson approved on behalf of the Board on December 5, 1958, the following items affecting the Board's staff:

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Transfer and salary increase

Robert L. Hill, from the position of Technical Assistant in the Division of Bank Operations to the position of Assistant to the Secretary in the Office of the Secretary, with an increase in his basic annual salary from \$7,030 to \$7,750, effective the date he assumes his new duties.

Transfer

E. Ralph Massey, from the position of Technical Assistant to the position of Chief, Reserve Bank Operations Section, in the Division of Bank Operations, with no change in his basic annual salary at the rate of \$9,890, effective January 1, 1959.

Pursuant to the recommendation contained in a memorandum from Mr. Connell, Controller, dated December 1, 1958, Governor Shepardson also approved on behalf of the Board on December 5, 1958, payment of a bill in the amount of \$5,086.80 submitted by the Federal Reserve Bank of New York to cover the cost of a special printing of the bank examination report form. On March 17, 1958, the Board had approved reimbursement to the New York Bank for this work, but in the amount of \$4,330.

Governor Shepardson today approved on behalf of the Board the following items:

Memoranda dated November 7, 1958, from Mr. Kelleher, Director, Division of Administrative Services, recommending the following transfers within that Division:

James R. Carnahan, from the position of Guard to the position of Supply Clerk, with no change in his basic annual salary at the rate of \$3,540, effective the date he assumes his new duties.

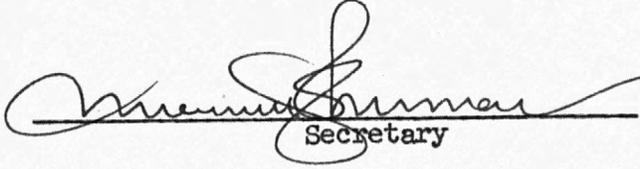
Bishop Hart, from the position of Supply Clerk to the position of Operator, Duplicating Devices, with no change in his basic annual salary at the rate of \$4,065, effective the date he assumes his new duties.

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Letter to the Federal Reserve Bank of St. Louis (attached Item No. 14) approving the appointment of Edward J. Burda and Bobbie Leroy McDonald as examiners.

Letter to the Federal Reserve Bank of Dallas (attached Item No. 15) approving the appointment of James F. Caughlin as assistant examiner.


Secretary

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

Item No. 1
12/8/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 8, 1958

Board of Directors,
Federation Bank and Trust Company,
New York 19, New York.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors extends until October 22, 1959, the time within which Federation Bank and Trust Company may establish a branch at 168-48 Hillside Avenue, Jamaica, Borough of Queens, New York, New York, under authority contained in the Board's letter of January 22, 1958.

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
12/8/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 8, 1958



Mr. J. D. Bowersock,
Executive Vice-President,
Union Trust Company of the
District of Columbia,
Washington 5, D. C.

Dear Mr. Bowersock:

This refers to your letter of November 20, 1958 in which you state that pursuant to section 18(c) of the Federal Deposit Insurance Act, approval has been granted by the Comptroller of the Currency to the proposed purchase of banking assets and the assumption of certain liabilities by your bank of The Munsey Trust Company, Washington, D. C. In connection with the proposed transaction you ask us to confirm your understanding that approval of the Board is not necessary under the Bank Holding Company Act of 1956.

It is the Board's understanding that over 66 per cent of the capital stock of Union Trust Company is owned by Capitol Securities Corporation (Washington, D. C.); that Capitol Securities Corporation in turn is wholly owned by The Morris Plan Corporation (New York, New York) which is a wholly-owned subsidiary of Financial General Corporation (New York, New York); that over 67 per cent of the capital stock of Financial General Corporation is owned by The Equity Corporation (New York, New York); that The Equity Corporation, Financial General Corporation, and The Morris Plan Corporation are not bank holding companies by virtue of section 2(a)(B) of the Bank Holding Company Act relating to companies, and their affiliated companies, which were registered (prior to May 15, 1955) under the Investment Company Act of 1940; that since Capitol Securities Corporation owns 25 per cent or more of the shares of only one bank, it also is not a bank holding company under the Act.

On the basis of the foregoing it is the Board's opinion that its approval of the proposed transaction is not required under the Bank Holding Company Act.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 3
12/8/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 8, 1958

Board of Directors,
Farmers and Merchants Bank of Summersville,
Summersville, West Virginia.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Richmond, the Board of Governors of the Federal Reserve System approves, under the provisions of Section 24A of the Federal Reserve Act, the additional investment in bank premises by Farmers and Merchants Bank of Summersville, Summersville, West Virginia of not to exceed \$115,000, for the purpose of remodeling present banking quarters.

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
12/8/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 8, 1958



Board of Directors,
Security Trust Company,
Wheeling, West Virginia.

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 of \$850,000 in bank premises by Security Trust Company for the purpose of constructing a new building. It is understood that an affiliate is to be organized for the purpose of holding and operating the bank premises and the bank will own all of its capital stock. It is further understood that the affiliate plans to borrow \$350,000 to help finance construction of the building.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 5
12/8/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 8, 1958



Board of Directors,
The First National Bank of Jasper,
Jasper, Alabama.

Gentlemen:

The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers and grants you authority to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the State of Alabama, the exercise of all such rights to be subject to the provisions of Section 11(k) of the Federal Reserve Act and Regulation F of the Board of Governors of the Federal Reserve System.

A formal certificate indicating the fiduciary powers which The First National Bank of Jasper is now authorized to exercise will be forwarded to you in due course.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 6
12/8/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



December 8, 1958

Board of Directors,
American Trust Company,
San Francisco 20, California.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of San Francisco, the Board of Governors extends until December 14, 1959, the time within which American Trust Company may establish a branch at the intersection of Sansome and Market Streets, San Francisco, California, under authority contained in the Board's letter of December 14, 1956.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

S-1682

Item No. 7
12/8/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD
December 8, 1958.



Dear Sir:

A Federal Reserve Bank recently asked the Board whether "sales" of Federal funds, at current rates of interest, between bank subsidiaries of a holding company would constitute loans or extensions of credit within the purview of section 6(a)(4) of the Bank Holding Company Act, which forbids a bank

"to make any loan, discount or extension of credit to a bank holding company of which it is a subsidiary or to any other subsidiary of such bank holding company."

For many years the Federal Reserve System and other bank supervisory authorities have regarded such inter-bank transfers of Federal Reserve credit as loans (see 1930 Fed. Res. Bulletin 81; F.R.L.S. #3641), and the Board found no reason to infer that these transactions have a different status under the Holding Company Act. Accordingly, the inquiring Reserve Bank was informed that, in the Board's opinion, a sale of Federal funds would constitute a prohibited "loan" or "extension of credit" under section 6(a)(4).

The Board also expressed the view that sales of Federal funds are not exempted from the prohibitions of section 6(a) by the following provision of the last paragraph of that subsection:

"Noninterest-bearing deposits to the credit of a bank shall not be deemed to be a loan or advance to the bank of deposit. . . ."

The 1930 ruling, cited above, clearly indicates that funds so transferred are not deposits in the "purchasing" bank. Accordingly, the quoted exception would not exempt Federal-funds transactions even if such transactions were on a noninterest-bearing basis.

Very truly yours,

Merritt Sherman,
Secretary.

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

Item No. 8
12/8/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 8, 1958

Mr. Walter M. Mitchell,
Federal Reserve Agent,
Federal Reserve Bank of Atlanta,
Atlanta 3, Georgia.

Dear Mr. Mitchell:

In accordance with the request contained in your letter of November 24, 1958, the Board of Governors approves the appointment of Mr. Raymond L. Foushee as Alternate Federal Reserve Agent's Representative at the Birmingham Branch to succeed Mr. Hugh Moreland, Jr.

This approval is given with the understanding that Mr. Foushee will be solely responsible to the Federal Reserve Agent and the Board of Governors for the proper performance of his duties, except that, during the absence or disability of the Federal Reserve Agent or a vacancy in that office, his responsibility will be to the Assistant Federal Reserve Agent and the Board of Governors.

When not engaged in the performance of his duties as Alternate Federal Reserve Agent's Representative Mr. Foushee may, with the approval of the Federal Reserve Agent and the President, perform such work for the Bank as will not be inconsistent with his duties as Alternate Federal Reserve Agent's Representative.

It will be appreciated if Mr. Foushee is fully informed of the importance of his responsibilities as a member of the staff of the Federal Reserve Agent and the need for maintenance of independence from the operations of the Bank in the discharge of these responsibilities.

Mr. Foushee should execute the usual Oath of Office which is to be forwarded to the Board of Governors. Your advice with respect to the effective date of Mr. Foushee's appointment also will be appreciated.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 9
12/8/58

OFFICE OF THE CHAIRMAN



December 8, 1958

The Honorable William L. Dawson,
Chairman, Committee on Government Operations,
House of Representatives,
1501 House Office Building,
Washington, D. C.

My dear Mr. Chairman:

This refers to your request for a report on H. R. 13782, a bill "To amend the Employment Act of 1946 to make relative stability of prices an explicit aim of Federal economic policy."

The bill would amend the Employment Act of 1946 by adding language thereto which would emphasize and make explicit the importance of stabilizing the level of prices. Specifically, additional language would occur in the declaration of policy in section 2 of the Act, in section 3(a) concerning the items to be covered in the Economic Report of the President, and in section 4 concerning the qualifications and duties of the Council of Economic Advisers.

The bill H. R. 13782 is similar to the bill H. R. 13154 which was the subject of the Board's report to you of July 10, 1958, and the bill S. 2824 to which reference was made in the Board's report to you of June 27, 1958, on H. R. 12785.

As pointed out in our report to you of July 10, 1958, when I appeared before the Committee on Finance of the United States Senate on August 13, 1957, I stated in part:

"If the will is there, and it is demonstrated convincingly to the American people, the cost of living can be stabilized, interest rates will relax, and a sufficient volume of savings will be encouraged to provide for the economic growth needed in this generation and the next.

"This Committee and the Congress can contribute greatly to that end by declaring resolutely--so that all the world will know--that stabilization of the cost of living is a primary aim of Federal economic policy.

"The goal of price stability, now implicit in the Employment Act, can be made explicit by a straightforward declaration and directive to all agencies of the Government that anti-inflationary actions are to be taken promptly whenever the cost of living begins to rise."

The Board's view continues to be that while careful consideration should be given to the wording of the directive suggested in the statement quoted above, the Board would favor an amendment to the law which would make it explicit that national economic policy is also concerned with preserving the purchasing power of the dollar.

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. 10
12/8/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 8, 1958

Mr. Phillip S. Hughes,
Assistant Director for
Legislative Reference,
Bureau of the Budget,
Washington 25, D. C.

Dear Mr. Hughes:

This is in response to your Legislative Referral Memorandum of November 20, 1958, requesting the Board's views with respect to a draft bill, submitted by the Treasury Department, "To provide for payment by the Federal Reserve Banks of the cost of constructing a depository for the storage of Federal Reserve Notes."

The Board of Governors participated in the study that led to the submission of this proposal by the Treasury Department and, in the opinion of the Board, the proposal presents a practical arrangement for providing the necessary and well-located additional facilities for storage of emergency supplies of currency. The Board also considers appropriate the provision of the bill that the cost of construction shall be paid by the Federal Reserve Banks.

The Board of Governors urges enactment of the proposed bill.

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. 11
12/8/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 8, 1958

Mr. Joseph P. Finnegan,
Chairman of the Board,
First National Bank in Yonkers,
Yonkers, New York.

Dear Mr. Finnegan:

This refers to correspondence had with your Bank late in 1957 and early in 1958 regarding the applicability of the provisions of section 22(g) of the Federal Reserve Act and Regulation O of the Board of Governors to loans made to directors of member banks who are acting at the time as members of the Discount Committee.

In the Board's letter of January 10, 1958 it was stated that the term "executive officer" does not include a director who may be a member of the Executive or Discount Committee unless, of course, he is also an officer of the bank. At the same time the Board stated that these directors might be considered as executive officers because of certain other services and duties performed by them which might involve participation in the operating management of the bank otherwise than in the capacity of directors.

This is to advise that, on the basis of information which the Board has received regarding the services presently performed by Mr. G. A. Brenner, as "Chairman of Examining Committee", Mr. Henry Herz, as "Director in Charge of Safe Deposit Department", and Mr. William J. Sherry, as "Director in Charge of Real Estate", the Board would not consider any of them to be executive officers because of such services.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

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

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Item No. 12
12/8/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 8, 1958



Mr. J. A. Erickson, Chairman,
Conference of Presidents,
c/o Federal Reserve Bank of Boston,
Boston 6, Massachusetts.

Dear Mr. Erickson:

In a letter dated September 19, 1957, the Board requested the Conference of Presidents to review the entire subject of the safekeeping facilities of the Federal Reserve Banks. This request grew out of two questions previously received from individual Banks: one asking whether it was appropriate for the Reserve Bank to hold in safekeeping for a State instrumentality bonds of the International Bank for Reconstruction and Development; and the other concerning securities pledged by member banks as collateral for deposits of public funds, and asking whether it might be desirable, as a general policy, to refuse to accept any securities in which third parties have an interest.

Subsequently, the Subcommittee on Cash, Leased Wire and Sundry Operations compiled current information on the safekeeping services rendered by each Federal Reserve Bank and branch, and in a report dated January 23, 1958 presented this information to the Conference of Presidents. The report was accepted by the Conference, and was discussed with the Board at the joint meeting of the Board and the Presidents on February 11, 1958.

The Board notes that the views expressed in the Subcommittee report represent basically a reaffirmation of decisions reached upon earlier occasions by the Presidents' Conference and the Board, and that the Presidents' Conference accepted the report of the Subcommittee with the understanding that each Reserve Bank would review its safekeeping practices in the light of the material presented in the report.

To: Mr. Erickson

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Accordingly, it would seem that a current statement of general policy with regard to safekeeping and related practices might be agreed upon along the following lines.

Holdings for Member Banks

1. Securities owned by country member banks may be accepted for safekeeping without restriction.
2. Securities owned by member banks in Reserve Bank cities may be accepted for safekeeping if such member banks do not have adequate vault protection.
3. Government securities owned by member banks in Reserve Bank cities which do have adequate vault facilities may be accepted for safekeeping or held in "collateral account" (even if not actually pledged as security for borrowings or deposits) provided the safekeeping service is for limited periods and contributes to the efficient and economical operations of the Reserve Banks.
4. The amount of securities held as collateral for Treasury Tax and Loan Accounts should have some reasonable relationship to the actual depositary balances over a period of time.
5. The amount of securities held for member banks in Reserve Bank cities in anticipation of use as collateral against future borrowing should have some reasonable limit determined in the light of current experience with borrowings by such banks.
6. Securities in which third parties have an interest should not be accepted from member banks for safekeeping except (1) securities pledged as collateral by member banks to secure deposits of public funds, and (2) securities deposited with a public official to qualify member banks to exercise trust powers, but with the understanding that this policy be interpreted to provide recognition of the fact that there may be exceptional cases in addition to those specifically mentioned which should be handled at the discretion of the individual Reserve Bank.

To: Mr. Erickson

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States and Political Subdivisions

Government securities which are the property of States or political subdivisions thereof may be accepted for safekeeping where such service appears desirable; but, in order not to overload the vault facilities of the Reserve Banks, there should be no general invitation to States and political subdivisions to deposit their securities for safekeeping.

The Board would appreciate having the comments of the Conference of Presidents with regard to the foregoing suggested policy statement in the light of the review of safekeeping practices which was agreed upon by the Conference last February.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

TELEGRAM
LEASED WIRE SERVICE

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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 13
12/8/58

December 8, 1958.

Mangels - San Francisco

Reurtel December 5, 1958, your Bank and Continental Bank and Trust Company, Salt Lake City, Utah, are authorized, pursuant to section 7(b) of Board's Rules of Organization, to make available to representatives of Bureau of Internal Revenue information contained in examination reports of Continental Bank and Trust Company, Salt Lake City, Utah, for years 1955, 1956, and 1957, to extent necessary to provide such representatives with information necessary in performance of their functions in connection with audit of affairs of such bank, but with understanding (1) that such representatives shall not make such information available to public, (2) that it will be used only in developing leads, (3) that no reference will be made to source, and (4) that information will not be used in court or similar proceedings. Please so inform Continental Bank and Trust Company.

(signed) Merritt Sherman

Sherman.

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

Item No. 14
12/8/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 8, 1958

Mr. Geo. E. Kroner, Vice President,
Federal Reserve Bank of St. Louis,
St. Louis 66, Missouri.

Dear Mr. Kroner:

In accordance with the request contained
in your letter of December 2, 1958, the Board
approves the appointments of Edward J. Burda and
Bobbie Leroy McDonald as examiners for the Federal
Reserve Bank of St. Louis.

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. 15
12/8/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 8, 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 December 4, 1958, the Board approves the appointment of Mr. James F. Caughlin as an assistant examiner for the Federal Reserve Bank of Dallas, effective today.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

