

Minutes for February 25, 1959.

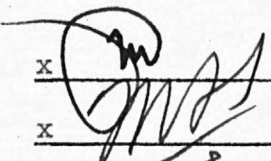
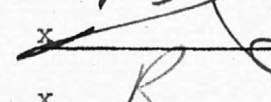
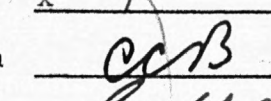
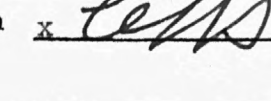
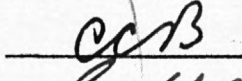
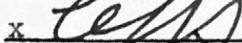
To: Members of the Board

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 	_____
Gov. Szymczak	x 	_____
Gov. Mills	x 	_____
Gov. Robertson	x 	_____
Gov. Balderston		x _____
Gov. Shepardson	x 	_____

Minutes of the Board of Governors of the Federal Reserve System
on Wednesday, February 25, 1959. 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. Johnson, Director, Division of Personnel
Administration
Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank Operations
Mr. Shay, Legislative Counsel
Mr. Solomon, Assistant General Counsel
Mr. Hostrup, Assistant Director, Division of
Examinations
Mr. Nelson, Assistant Director, Division of
Examinations
Mr. Daniels, Assistant Director, Division of
Bank Operations
Mr. Hill, Assistant to the Secretary

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 February 24, 1959, of the rate on discounts and
advances in its existing schedule.

Items circulated or distributed to the Board. The following
items which had been circulated or distributed to the Board and copies
of which are attached to these minutes under the respective item numbers
indicated, were approved unanimously:

Item No.
1

Letter to The Oystermen's Bank and Trust Company,
Sayville, New York, granting an extension of time
within which to establish a branch in Oakdale. (For
transmittal through the Federal Reserve Bank of New York)

2/25/59

Item No.

- Letter to Wilmington Trust Company, Wilmington, Delaware, consenting to its merger with the Seaford Trust Company, Seaford, Delaware, approving the establishment of a branch in Seaford, and approving an additional investment in bank premises. (For transmittal through the Federal Reserve Bank of Philadelphia) 2
- Letter to Bank of Whittier, Whittier, California, approving the establishment of a branch in East Whittier. (For transmittal through the Federal Reserve Bank of San Francisco) 3
- Letter to First Security Corporation, Salt Lake City, Utah, granting an extension of time within which to comply with the provisions of section 4(a)(2) of the Bank Holding Company Act. (For transmittal through the Federal Reserve Bank of San Francisco) 4
- Letter to the Securities and Exchange Commission requesting comments on a draft of letter to the Federal Reserve Bank of Dallas concerning the proposed organization of a corporation to handle short sales of unregistered securities. 5
- Letter to the Federal Reserve Bank of Minneapolis interposing no objection to an expenditure of approximately \$117,000 in connection with proposed remodeling of the third and tenth floors of the head office building. 6
- Letter to the House Committee on Government Operations with respect to H.R. 17, H.R. 1225, H.R. 2772, H.R. 3317, and H.J. Res. 238, proposals to amend the Employment Act of 1946 so as to make explicit the importance of a stable level of prices. (With a copy to the Bureau of the Budget) 7

Messrs. Farrell, Daniels, and Hostrup then withdrew from the meeting.

2/25/59

-3-

Branch application of City Bank (Item No. 8). Governor Robertson referred to receipt by the Board of a letter from Vice President Diercks of the Federal Reserve Bank of Chicago regarding the application of City Bank, Detroit, Michigan, to establish a branch in Dearborn Township, Michigan, which was denied by the Board on February 6, 1959. In the light of developments reported in an enclosed memorandum from President Allen concerning a telephone conversation with Mr. R. E. Reichert, Chairman of the Board of City Bank, the Reserve Bank recommended that the Board give favorable consideration to this application provided Chairman Reichert and President John H. French, Jr., furnished a commitment that they, at the City Bank's annual meeting in January 1960, would use their best efforts to obtain authority to increase the bank's capital by no less than \$1,000,000 through the sale of additional common stock.

The Secretary then read the memorandum from President Allen, following which Governor Robertson stated that he felt the Board should not act upon the application without a letter of commitment from the management of City Bank. He then suggested that a letter be sent to the Federal Reserve Bank of Chicago stating that the Board would be willing to reconsider the application, if requested by the member bank, on the basis of such a commitment.

2/25/59

-4-

Thereupon, unanimous approval was given to a letter to the Chicago Reserve Bank to such effect. A copy of the letter sent pursuant to this action is attached as Item No. 8.

Mr. Young, Director, Division of Research and Statistics, joined the meeting at this point.

Hearing on administered prices. Chairman Martin said that a member of the staff of the Senate Subcommittee on Antitrust and Monopoly had called his office yesterday to inquire whether he would testify at the hearings on administered prices to be held March 10 through March 13. In his absence, his secretary read the letter addressed to Senator Kefauver, approved at yesterday's Board meeting, advising that the Chairman would be unable to testify. The staff representative then asked if it would be possible for Mr. Young to testify in place of the Chairman and stated that a letter over the signature of Senator Kefauver would be forthcoming if desired.

Chairman Martin said that in the circumstances he thought it probably would be desirable for Mr. Young to appear, particularly since Mr. Young's letter to Senator Proxmire on the subject of administered prices had been printed in the Congressional Record.

During the discussion which followed, consideration was given to (1) the subject of the hearings in relation to the Board's responsibility for monetary policy, (2) what position, if any, the Board should take with respect to the problem of administered prices, and (3) the general tenor of the testimony that might be given by Mr. Young.

2/25/59

At the conclusion of the discussion, it was agreed that a letter from the Subcommittee regarding the appearance of Mr. Young should be requested and that the response to such a letter would be favorable. It was understood that Mr. Young would give further consideration to the nature of his testimony and that the Board would plan to discuss the testimony with Mr. Young prior to the date of his appearance before the Subcommittee.

Messrs. Young and Shay then withdrew from the meeting.

Continental Bank and Trust Company. Governor Shepardson referred to the discussion at the Board meeting on February 19, 1959, with respect to the examination of The Continental Bank and Trust Company, Salt Lake City, Utah, made as of October 6, 1958, and raised the question whether it would be desirable for representatives of the Federal Reserve Bank of San Francisco, and possibly a representative of the Board's Division of Examinations, to have a meeting with the directors of Continental in order to make certain that the directors were fully informed regarding the matters covered in the report of examination. While he realized that the directors of the subject bank were considered subservient to the president and that a meeting with them might not be productive, he suggested that the directors should be fully apprised of their responsibilities. In this connection, he noted that on several occasions following examinations of Continental there had been meetings with the directors but that no such meeting had been held after either of the two most recent examinations.

2/25/59

-6-

After some discussion of this question, during which it was suggested that the Federal Deposit Insurance Corporation might be invited to participate, Governor Mills said that his own preference would be to wait until the Report and Recommended Decision of the Hearing Examiner on the section 9 proceeding against Continental became available, for the Board was in mid-stream on this proceeding and he would have reservations about involving the Board in a section 30 problem at this particular time. He went on to say that the section 9 proceeding was one involving inadequacy of capital and a demand to supply additional capital which would give protection against the character of credit and investment transactions engaged in by the management of Continental. It seemed to him that it would be best to settle first the issue as to whether the Board could compel the bank to introduce additional capital. Until such time, he questioned the advisability of going beyond the rather common practice whereby appropriate officers of the Reserve Bank would review the examination report in an objective way with the bank's directors. To carry any such review to the point of suggesting that the institution was in a failing condition or that the Cosgriff family loans were poorer than substandard in classification and should be immediately corrected seemed to him to constitute venturing on "thin ice". The record of the section 9 proceeding reflected a wide divergence of opinion on the part of those who testified as to whether the types of loans made by Continental were so definitely poor in quality as to warrant a section 30 proceeding. Certainly, the transactions engaged in by Continental were questionable as a matter of sound

2/25/59

banking practice, but they were not illegal.

Governor Robertson said that he had not looked at the most recent report of examination, only the summary memorandum prepared by the Division of Examinations. However, he felt that if the Board waited until the Hearing Examiner's Report and Recommended Decision came in and failed to exercise whatever supervision was called for by the facts developed through the examination it might be in a very poor position to take any supervisory action later without being charged with persecution. When Continental was admitted to membership as a State bank, one of the conditions was that the loans to the Cosgriff family would be taken out of the bank, but such loans were reported at the last examination. Therefore, it was his view, based solely on the Division memorandum, that it would be advisable for representatives of the Reserve Bank to hold a meeting with the board of directors of Continental and discuss every item in the report of examination so that the record might be clear on that point. An alternative might be to send a letter to each member of the board of directors over the signature of the Secretary of the Board of Governors reviewing the report of examination, calling attention to items criticized therein, and pointing out that loans to the Cosgriff family by nonaffiliated banks appear to be based on deposits by Continental in those banks. He would also notify the Federal Deposit Insurance Corporation and give the Corporation an opportunity to sit in on any conference with the board of directors.

2/25/59

-8-

Mr. Benner, Assistant Director, Division of Examinations, entered the room at this point.

Governor Shepardson made it clear that he had not changed his position as to the inadvisability of initiating a section 30 proceeding pending receipt of the Hearing Examiner's Recommended Decision and that the question he had raised today related solely to holding a meeting with the directors of Continental to review the report of examination.

There followed a discussion of possible alternative procedures, after which it was agreed to advise the Federal Reserve Bank of San Francisco of the Board's view that it would be desirable for appropriate representatives of the Reserve Bank to review the report of examination at a formal meeting of the board of directors of The Continental Bank and Trust Company in Salt Lake City.

Messrs. Hackley, Solomon, Nelson, and Benner then withdrew from the meeting.

Hospital-surgical-medical coverage for retired Board employees.

Pursuant to the discussion at the meeting on January 30, 1959, there had been circulated to the Board a memorandum from the Division of Personnel Administration dated February 6, 1959, concerning a proposal whereby the Board would pay a portion of the cost of hospital-surgical-medical coverage for its retired employees and their families. The memorandum recommended that the Board absorb one-third of the cost of such coverage for employees retiring under the Board Plan or the Civil Service Retirement System and for certain categories of employees retiring under the

2/25/59

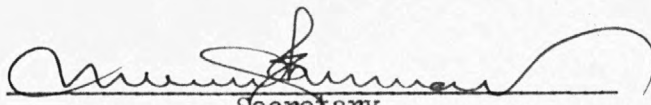
-9-

Bank Plan. The cost of covering the 46 retirees of the Board currently holding hospital-surgical-medical coverage would be approximately \$1,100 per annum; the cost would be about \$1,900 per annum if all 75 retirees eligible under this proposal, including employees who did not have hospitalization at the time of retirement, should elect the coverage. Also, there might be some increase in the future due to a growing number of retirees or an increase in the cost of group hospitalization.

Following a summary of the proposal by Mr. Johnson, Governor Shepardson recalled that this matter had come up at the time a similar proposal covering Reserve Bank retirees was considered and approved by the Board. Because arrangements had been completed only recently to offer group hospitalization to Board employees retiring under the Civil Service Retirement System as well as the Retirement System of the Federal Reserve Banks, no provision had been made in the 1959 budget for this expense. In view of the circumstances, however, he would recommend that the Board authorize the addition of this item to the current budget.

Thereupon, unanimous approval was given to the proposal and to the addition of this item of expense to the 1959 budget, with the understanding that the absorption of a portion of the cost of the coverage would not apply in the case of a member of the Board of Governors who might become eligible for such coverage.

The meeting then adjourned.


Secretary

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

Item No. 1
2/25/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



February 25, 1959.

Board of Directors,
The Oystermen's Bank and Trust Company,
Sayville, New York.

Gentlemen:

In accordance with the request submitted through the Federal Reserve Bank of New York, the Board of Governors extends to June 2, 1959, the time within which The Oystermen's Bank and Trust Company may, under authority granted in the Board's letter of July 21, 1958, establish a branch on the north side of Montauk Highway, approximately 800 feet west of Locust Avenue in the unincorporated village of Oakdale, Suffolk County, New York.

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
2/25/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 25, 1959.



Board of Directors,
Wilmington Trust Company,
Wilmington, Delaware.

Gentlemen:

The Board of Governors of the Federal Reserve System hereby gives its written consent, under the provisions of Section 18(c) of the Federal Deposit Insurance Act, to the merger of Seaford Trust Company, Seaford, Delaware, with and into Wilmington Trust Company, Wilmington, Delaware, and approves the establishment by the latter bank of a branch at N. E. Corner High and Arch Streets, Seaford, Delaware, incident to the merger. This consent is given provided:

- (a) The merger is effected substantially in accordance with the Agreement of Merger dated December 18, 1958;
- (b) Shares of stock acquired from dissenting shareholders are disposed of within six months after date of acquisition;
- (c) The merger and establishment of the branch are effected within six months from the date of this letter; and
- (d) That formal approval of State authorities is effective at the time the branch is established.

The Board of Governors also approves, under the provisions of Section 24A of the Federal Reserve Act, an additional investment in banking premises not to exceed \$77,000.

Board of Directors

- 2 -

It is reported that the investments of Seaford Trust Company include certain corporate stocks including stock of the Wilmington Trust Company. It is understood the stock of your bank will not be acquired incident to this merger.

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
2/25/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 25, 1959.

Board of Directors,
Bank of Whittier,
Whittier, California.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of San Francisco, the Board of Governors approves the establishment of a branch by Bank of Whittier, Whittier, California, in the vicinity of Whittier Boulevard and Colima Road, East Whittier, California, provided the branch is established within six months from the date of this letter.

It is understood that capital funds are to be increased at least \$150,000 through the sale of additional stock as required by the State Banking Department.

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
2/25/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 25, 1959.



Mr. George S. Eccles, President,
First Security Corporation,
79 South Main Street,
Salt Lake City, Utah.

Dear Mr. Eccles:

This refers to First Security Corporation's application for an extension, from March 1, 1959, to March 1, 1960, of (a) the period within which it must comply with the provisions of section 4(a)(2) of the Bank Holding Company Act of 1956, and (b) the period of time specified in section 1101(e)(2)(B) of the Internal Revenue Code of 1954 (as amended by section 10(a) of the Act).

In accordance with the aforementioned provisions of the Act and the Internal Revenue Code, the Board has granted an extension to September 1, 1959. Although some additional data are necessary prior to the Board's consideration of the issuance of a certification pursuant to section 1101(c)(3)(C) of the Internal Revenue Code, it does not appear that this will involve much delay, and therefore, in view of the fact that First Security Corporation is ready to proceed with its plan of divestiture and reorganization upon issuance of such certification, the Board has granted the extension only to September 1, 1959.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 5
2/25/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



February 25, 1959.

Securities and Exchange Commission,
425 Second Street, N. W.,
Washington, D. C.

Gentlemen:

On January 30, 1959, we wrote to you enclosing a copy of material submitted to the Federal Reserve Bank of Dallas, Texas, and by that Bank to the Board, concerning the proposed organization of a corporation to lend unregistered securities for the purpose of carrying out short transactions, together with a copy of a reply on behalf of the Board which expressed the tentative opinion (1) that the corporation would be a dealer transacting business through the medium of members of national securities exchanges, and (2) that the corporation's proposal to borrow and to lend unregistered securities for this purpose without giving or requiring a cash deposit would violate section 6(h) of Regulation T.

You replied on February 4, 1959, stating that on the basis of an outline of the proposal previously submitted to you, you were inclined to the opinion that the corporation would be a broker-dealer subject to registration under Section 15 of the Securities Exchange Act. You added that you had no difficulty with the Board's conclusion that section 6(h) of Regulation T requires that a bona fide cash deposit be made against loans of securities, and that if the proposed corporation would neither require nor give a cash deposit its activities would be in violation of the section. You also added that you believed it would be desirable to continue to interpret section 6(h) of Regulation T to require such a deposit against securities which are lent for the purpose of carrying out short sales.

The Board has now received a further communication from the organizer of the proposed corporation, stating that the corporation will undertake to require and to give a cash deposit against securities which it lends or borrows. The Board is inclined to respond to this letter approximately in accordance with the enclosed draft, in the belief that with the modification that there shall be a full cash deposit in each case, kept "marked to the market" in accordance with

Securities and Exchange Commission -2-

usual practice, the proposed method of operation will not violate section 6(h) of Regulation T. We appreciate the views expressed in your letter of February 4, and would be glad to receive any comments you may have in respect to this draft.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosure

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

Item No. 6
2/25/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 25, 1959.

Mr. Frederick L. Deming, President,
Federal Reserve Bank of Minneapolis,
Minneapolis 2, Minnesota.

Dear Mr. Deming:

Reference is made to your letter of January 21, 1959, regarding proposed remodeling of the third and tenth floors of your head office building, at an estimated cost of \$117,000, as approved by your Board of Directors.

It is noted from your letter that the remodeling of the third floor was not provided for in full in the 1959 budget, since it had been planned to move the Research Department and Library to the second floor as part of the rehabilitation project for that area.

The Board will interpose no objection to the expenditure of approximately \$117,000 for the program as described in your letter of January 21, 1959.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.





BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 7
2/25/59

OFFICE OF THE CHAIRMAN

February 25, 1959.

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 requests for reports on H. R. 17, H. R. 1225, H. R. 2772, H. R. 3317, and H. J. Res. 238, which are proposals to amend the Employment Act of 1946 so as to make explicit the importance of a stable level of prices.

While all of these bills are not identical with one another, their objectives are the same, and H. R. 17 and H. R. 2772 are identical with the bill, H. R. 13782, which was introduced in the 85th Congress and which was the subject of the Board's report to you on December 8, 1958.

As pointed out in our report to you of December 8, 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 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. 8
2/25/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 25, 1959.



Mr. W. R. Diercks, Vice President,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Diercks:

Reference is made to your letter of February 19, 1959, enclosing a memorandum from President Allen with respect to his telephone conversation with Mr. Reichert, chairman of the board of City Bank, Detroit, Michigan, concerning its application for permission to establish a branch at Evergreen Road and Ann Arbor Trail, Dearborn Township, Michigan. On February 6, 1959, the Board of Governors declined to approve the establishment of this branch because the present capital structure of the bank was believed to be inadequate in relation to the volume of its business and insufficient to support the proposed expansion. It appears that in order to obtain approval of the establishment of this branch the chairman of the board and president of the City Bank would be willing to use their best efforts to obtain stockholder authority at the annual meeting in January 1960 to increase the bank's capital, and that you would recommend approval of the establishment of the branch if a commitment is obtained to increase capital no less than \$1,000,000 by the sale of additional common stock.

The Board has indicated its willingness to reconsider a request from the City Bank for permission to establish this branch based upon a commitment as outlined in your letter.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.