Minutes for March 4, 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 WMM	
Gov. Szymczak	x	
Gov. Mills	x	
Gov. Robertson	x R	
Gov. Balderston	x CCB	
Gov. Shepardson	x	

Minutes of the Board of Governors of the Federal Reserve System on Wednesday, March 4, 1959. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thomas, Economic Adviser to the Board
Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank Operations
Mr. Molony, Special Assistant to the Board
Mr. Noyes, Adviser, Division of Research and Statistics
Mr. Robinson, Adviser, Division of Research and Statistics
Mr. Solomon, Assistant General Counsel
Mr. Nelson, Assistant Director, Division of Examinations
Mr. Goodman, Assistant Director, Division of Examinations
Mr. Benner, Assistant Director, Division of Examinations
Mr. Smith, Assistant Director, Division of Examinations
Mr. Conkling, Assistant Director, Division of Bank Operations
Mr. Hill, Assistant to the Secretary
Mr. Hald, Economist, Division of Research and Statistics

Discount rates. Unanimous approval was given to a telegram to the Federal Reserve Bank of Atlanta approving the establishment without change by that Bank on March 2, 1959, of the rates on discounts and advances in its existing schedule.

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

	Item No.
Letter to The Chase Manhattan Bank, New York City, authorizing the establishment of a branch in Panama in temporary quarters pending the availability of permanent quarters. (For transmittal through the Federal Reserve Bank of New York)	1
Letter to The Home State Bank of South Milwaukee, South Milwaukee, Wisconsin, waiving the requirement of six months' notice of withdrawal from membership in the Federal Reserve System. (For transmittal through the Federal Reserve Bank of Chicago)	2
Letter to the St. Cloud National Bank, St. Cloud, Minnesota, approving its application to exercise fiduciary powers. (For transmittal through the Federal Reserve Bank of Minneapolis)	3
Letter to the Federal Reserve Bank of San Francisco interposing no objection to an expenditure of approximately $19,700 to convert elevator equipment in the Seattle Branch building to self-service operation.	4

Maximum rates on time and savings deposits (Item No. 5). In a letter dated January 26, 1959, The Chase Manhattan Bank, New York, New York, which last fall suggested a liberalization of the maximum rates of interest payable on time and savings deposits under Regulation Q, proposed a new schedule of maximum permissible rates involving even greater liberalization. Under the new proposal, the ceiling for time deposits maturing in six months or more and for savings deposits would both be increased from 3 per cent to 3-1/2 per cent. The member bank also suggested the development of a formula approach whereby the maximum rate at which new deposits could be accepted would be related to moving average Treasury bill rates. In a letter dated February 18, 1959, the Federal Reserve Bank of New York submitted an analysis of the Chase Manhattan proposal and recommended, for reasons stated, a revision of the time deposit rate schedule to provide a maximum rate of 4 per cent on deposits maturing in 90 days or more and a maximum rate of 1 per cent on deposits maturing in 30 to 89 days. The present maximum of 3 per cent would continue for savings deposits. Both Chase Manhattan and the Reserve Bank suggested a degree of urgency in the matter, one principal factor appearing to be the competitive loss of short-term funds to Canada, partly from time deposit accounts in money market banks. The Reserve Bank proposed that any announcement of higher maximum rates for time deposits be accompanied by an explanation to the effect that the ceilings were being set well above current market rates in order to allow full expression of market forces and the play of competition for the category of bank deposits most clearly identified with the money market.

A memorandum from Mr. Young, distributed to the Board under date of March 3, 1959, summarized both the Chase and the New York Reserve Bank proposals and presented the staff view that no action to change the existing maximum rates was needed at this time. The memorandum raised the question whether higher rate ceilings on time deposits under Regulation Q should appropriately be used in an effort to hold volatile foreign money in the United States market against the competition of higher rates elsewhere as long as the maxima were in keeping with the domestic structure of money rates. While domestic money rates were admittedly close to the existing regulatory structure, the need for more latitude was not thought to have been proved, and it was noted that the Treasury financing problem would be complicated if higher permissible rates on time deposits should result in higher money rates generally. Furthermore, the earnings of the commercial banking system as a whole would not be able to carry much higher interest rates on deposits unless investment liquidity were materially reduced. Finally, the increase in the savings deposit rate included in the Chase recommendation would be embarrassing to the United States savings bond program.

In commenting on the memorandum, Mr. Robinson pointed out that money rates were higher when the Board increased the maximum rate to 3 per cent than at present. Moreover, adoption of either the Chase or the Reserve Bank proposal, particularly the latter, would involve something of a change in regulatory philosophy. The Reserve Bank plan, by establishing a single maximum rate for time deposits with maturities of 90 days and longer, would allow the payment of a rate up to 4 per cent on about 98 per cent of foreign-owned time deposits held by large New York City banks as of a recent date, thus raising the question whether such a plan would be consistent with the statutory requirement that the Board prescribe different maximum rates for time deposits having different maturities. While there might be some argument for opening up more "air space" to permit the holding of volatile foreign deposits on the theory that the large banks engaged in that business were able to take care of themselves, the Reserve Bank plan would in effect amount to establishing one rule for such banks and another for the smaller banks principally concerned with savings deposits. Also, while it might be argued that banks needed more latitude in order to attract savings in competition with available yields on tax-exempt securities, it was hard to see how they could profitably pay a rate higher than 3 per cent in view of existing market rates.

In a further discussion of regulatory philosophy, Mr. Thomas questioned the principle implied in the Chase and the Reserve Bank's proposals that commercial banks should be permitted to compete for and pay interest on volatile funds. If so, it might be said that they should be permitted to pay interest on demand deposits. It might also be said that time deposits of this character should carry a higher reserve requirement than other time deposits and that the supervisory authorities should require the maintenance of a higher degree of liquidity against such deposits.

Governor Mills expressed agreement with the staff recommendation but suggested that there were theoretical and philosophical considerations in this area deserving of study. He thought a decision was necessary at some time as to whether there was a clear division between what a commercial bank was organized to provide as a medium for savings and what it should be in a position to provide as an instrument for investment. In his judgment, a commercial bank was not intended to be a vehicle for offering instruments of an investment character; instead, its function should be that of a facility for the accumulation of savings. Another consideration was that the statute underlying Regulation Q tended to involve the Federal Reserve in a degree of paternalism and regulatory protection over member banks so they would not become involved in competitive practices such as to subvert the quality of their assets. Going one step further, the question was one of the extent of the Board's responsibility for preventing practices that might produce a trend toward monopoly. If a wide latitude in the rates of interest that could be paid on savings deposits were permitted, banks located outside the metropolitan areas might be tempted to pay higher interest rates, for if they did not pay such rates a tendency could develop for community savings to flow to the larger centers. Thus, over the course of time one could foresee elimination of the smaller banks that now provide a community service and an important vehicle for the accumulation of savings.

After Governors Shepardson and Szymczak expressed agreement with the staff view, Governor Balderston likewise expressed agreement, particularly since any increase in the time deposit rates paid by domestic commercial banks might only result in higher rates elsewhere, including Canada. However, he concurred in Governor Mills' observation that the principles embodied in the statutes ought to be reexamined from time to time, since it was quite possible that the banking structure had changed since the date of adoption of those statutes. Perhaps instinctively, he felt that the New York banks were not sufficiently encouraged to pull their weight in the financing of world trade. While this might be attributable to the existence of more lucrative opportunites at home, he questioned whether the current pattern of Governmental regulation was working out to the fullest advantage of the banking institutions and the nation. Therefore, although difficult administrative problems would be encountered in separating savings and time deposits for regulatory purposes, it would seem advisable to reexamine the entire subject.

After Mr. Robinson indicated that within the staff, too, questions existed in this area, Chairman Martin suggested that when time permitted it would be desirable for the staff to prepare for the Board's consideration a study evaluating the whole regulatory framework.

Following further discussion of various aspects of the matter, including reports that had appeared in the press concerning the Chase Manhattan request, it was agreed unanimously that no change should be made at the present time in the maximum permissible rates of interest prescribed in the supplement to Regulation Q. It was understood that a letter reflecting this decision would be sent to the Federal Reserve Bank of New York, that Mr. Molony would reply to any inquiries on the subject in terms of the decision reached by the Board, and that he and

Mr. Sherman would get in touch with the staff of the New York Reserve Bank with a view to coordinating the basis of response to inquiries. A copy of the letter sent pursuant to this action is attached as Item No. 5.

All of the members of the staff except Messrs. Sherman, Kenyon, Hackley, Farrell, Smith, and Hill then withdrew and Messrs. Connell, Controller, and Kakalec, Budget and Planning Assistant, Office of the Controller, entered the meeting.

Performance under 1958 Board budget. A report on performance under the Board's budget for 1958, prepared by the Office of the Controller, had been distributed to the Board under date of February 17, 1959. The report indicated that the Board's expenses for 1958 amounted to $5,972,931, a sum $362,463 less than the $6,335,394 budgeted. The decision to rent rather than purchase electronic computing equipment was the principal reason for the net underexpenditure.

After commenting on various aspects of the report, Mr. Connell recommended approval of those budget account overexpenditures not heretofore approved by the Board, most of which had not become apparent until December expense reports were prepared in January 1959.

Thereupon, the Board accepted the budget performance report and approved the overexpenditures in certain account classifications to which Mr. Connell had referred.

Comparison of miscellaneous expenses for 1957 and 1958. As requested during discussion of the Price Waterhouse audit report at the meeting on February 26, 1959, the Controller had prepared under date of March 2, 1959, a detailed comparative statement of miscellaneous Board expenses for the years 1957 and 1958.

After a short discussion of the information contained therein, the report was noted without objection.

Messrs. Connell and Kakalec then withdrew from the meeting.

Report of examination of the Federal Reserve Bank of New York. There had been circulated to the Board, with the customary supporting memoranda from the Division of Examinations, the report of examination of the Federal Reserve Bank of New York as of November 7, 1958.

At the Board's request, Mr. Smith reviewed various matters developed during the examination, making particular reference to those items which were the subject of special comment in the Examination Division's summary memorandum of February 16, 1959.

During the discussion that followed, Governor Mills raised a question in connection with the costs of the Nassau County Clearing House Association, Inc., part of which are absorbed by the New York Reserve Bank, and it was understood that current information on this subject would be developed for the Board by the Division of Bank Operations.

Reference then was made by Governor Robertson to the difference between the sale price and the book value of the premises formerly occupied by the Buffalo Branch. After some discussion of the circumstances involved in the sale of the property, it was agreed to ask the Federal Reserve Bank to provide a complete statement on the matter for the Board's records.

The meeting then adjourned.

Secretary's Note: On March 3, 1959, Governor Shepardson approved on behalf of the Board the following items:

Memoranda from appropriate individuals concerned recommending the following actions affecting the Board's staff:

Salary increases, effective March 8, 1959

Name and title	Division	Basic annual salary From	To
	Office of the Secretary		
Katherine E. Olson, Records Clerk		$3,850	$3,945
	Research and Statistics		
Virginia C. Gunter, Statistical Assistant		4,490	4,640
William J. Smith, Jr., Economist		7,270	7,510
Georgine Winslett, Clerk-Typist		1,843	1,890 1/
	Bank Operations		
Seymour Golodner, Analyst		5,730	5,985
Judith J. McGrain, Secretary 2/		3,850	4,040
	Examinations		
Alex J. Harris, Jr., Assistant Federal Reserve Examiner		5,130	5,280
John A. Lovejoy, Assistant Federal Reserve Examiner		6,135	6,285

1/ Half-time basis.

2/ Change in title from Clerk-Stenographer to Secretary.

Salary increases, effective March 8, 1959 (continued)

Name and title	Division	Basic annual salary From	To
	Examinations		
Andrew N. Thompson, Supervisory Review Examiner		$13,070	$13,370
Robert N. Westmoreland, Jr., Assistant Federal Reserve Examiner		5,430	5,580
	Office of the Controller		
Jean S. Glascock, Secretary		5,130	5,280

Transfer, effective March 8, 1959

Nancy A. Milner, from the position of Clerk-Stenographer in the Division of Personnel Administration to the position of Statistical Clerk in the Division of Research and Statistics, with no change in her basic annual salary at the rate of $3,850.

Letter to the Federal Reserve Bank of Richmond (attached Item No. 6) approving the appointment of Jack H. Wyatt as assistant examiner.

Secretary

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

Item No. 1
3/4/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 4, 1959.

Mr. Charles Cain, Jr.,
Executive Vice President,
The Chase Manhattan Bank,
New York 15, New York.

Dear Mr. Cain:

Reference is made to the Board's letter of January 21, 1959, authorizing your bank to establish an additional branch in the city of Panama, to be located at the corner of Via Espana and Aquilino de la Guardia Street, Panama, Republic of Panama.

In accordance with the request in your letter of January 22, 1959, and on the basis of the information furnished, the Board of Governors authorizes the establishment of the branch in temporary quarters at the corner of Avenida Manuel Espinosa and Avenida Eusebio A. Morales, pending completion of quarters at the permanent location.

Please advise the Board of Governors in writing, through the Federal Reserve Bank of New York, when the branch is established and opened for business in temporary quarters and also when the branch is moved to the permanent location. It is understood that no change will be made in the permanent location of the branch without the prior approval of the Board of Governors.

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
3/4/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 4, 1959.

Board of Directors,
The Home State Bank of South Milwaukee,
South Milwaukee, Wisconsin.

Gentlemen:

The Federal Reserve Bank of Chicago has forwarded to the Board of Governors your letter of February 11, 1959, and the accompanying copy of a resolution signifying your intention to withdraw from membership in the Federal Reserve System and requesting waiver of the six months' notice of such withdrawal.

In accordance with your request, the Board of Governors waives the requirement of six months' notice of withdrawal. Upon surrender, to the Federal Reserve Bank of Chicago, of the Federal Reserve Bank stock issued to your institution such stock will be cancelled and appropriate refund will be made thereon. Under the provisions of Section 10(c) of the Board's Regulation H, as amended effective September 1, 1952, your institution may accomplish termination of its membership at any time within eight months from the date the notice of intention to withdraw from membership was given.

It is requested that the certificate of membership be sent to the Federal Reserve Bank of Chicago.

It is notedthat your bank has been advised regarding the continuance of insurance of deposits by the Federal Deposit Insurance Corporation.

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
3/4/59

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

March 4, 1959.

Board of Directors,
St. Cloud National Bank,
St. Cloud, Minnesota.

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 Minnesota, 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 St. Cloud National Bank is now authorized to exercise will be forwarded to you in due course.

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
3/4/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 4, 1959.

Mr. H. N. Mangels, President,
Federal Reserve Bank of San Francisco,
San Francisco 20, California.

Dear Mr. Mangels:

This refers to your letter of February 18, 1959, concerning the proposed conversion of the elevator equipment in the Seattle branch building to self-service operation, as approved by the Seattle and San Francisco directors.

It is noted from your letter that the recommended change should result in improved service and an estimated savings of approximately $9,000 in operating expenses per year.

The Board will interpose no objection to the expenditure of approximately $19,700 for this improvement, as outlined in your letter.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 5
3/4/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 4, 1959

Mr. Alfred Hayes, President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Hayes:

In a letter dated January 26, 1959, a copy of which was sent to the Board by your Bank on January 29, The Chase Manhattan Bank urged early upward revision in the maximum rates of interest payable by member banks of the Federal Reserve System on time and savings deposits. In your letter of February 18, you analyze these proposals and suggest an alternative set of rules which would prescribe a maximum rate of 4 per cent on time deposits maturing in 90 days or more and of 1 per cent on time deposits maturing in 30 to 89 days. Your suggestion would continue the present maximum rate of 3 per cent for savings deposits.

After full consideration of the views expressed in these letters, the Board has reached the conclusion that no change should be made at the present time in the maximum permissible rates of interest prescribed in the supplement to Regulation Q, Payment of Interest on Deposits.

The Board will appreciate your informing The Chase Manhattan Bank of this decision.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 6
3/4/59

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

March 3, 1959.

CONFIDENTIAL (F.R.)

Mr. N. L. Armistead, Vice President,
Federal Reserve Bank of Richmond,
Richmond 13, Virginia.

Dear Mr. Armistead:

In accordance with the request contained in your letter of February 25, 1959, as supplemented by your wire of February 27, the Board approves the appointment of Jack H. Wyatt as an assistant examiner for the Federal Reserve Bank of Richmond. Please advise as to the date the appointment is made effective.

It is noted that Mr. Wyatt is indebted to State-Planters Bank of Commerce and Trusts, Richmond, Virginia, a State member bank, in the amount of $166.66, repayable in monthly instalments of $33.33, and that Mr. Wyatt plans to liquidate the loan by April 23, 1959. Accordingly, the Board's approval of the appointment of Mr. Wyatt is given with the understanding that he will not participate in any examination of State-Planters Bank of Commerce and Trusts until his indebtedness has been liquidated.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.