

Minutes of the Board of Governors of the Federal Reserve System
on Monday, March 16, 1959. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Fauver, Assistant Secretary
Mr. Shay, Legislative Counsel
Mr. Noyes, Adviser, Division of Research and
Statistics
Mr. Solomon, Assistant General Counsel
Mr. Hostrup, Assistant Director, Division of
Examinations
Mr. Nelson, Assistant Director, Division of
Examinations
Mr. Fisher, Economist, Division of Research
and Statistics

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:

	<u>Item No.</u>
Letter to The Hackensack Trust Company, Hackensack, New Jersey, approving the establishment of a branch in South Hackensack Township. (For transmittal through the Federal Reserve Bank of New York)	1
Letter to the Federal Reserve Bank of San Francisco concurring in the view that a proposed change in location of the Newport Beach branch of California Bank, Los Angeles, California, would not require Board approval.	2
Letter to the Comptroller of the Currency recommending favorably on an application to organize a national bank at Orange, Texas. (With a copy to the Federal Reserve Bank of Dallas)	3

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Item No.

Letter to the Comptroller of the Currency recommending favorably on an application to organize a national bank at Sunnymead, California. (With a copy to the Federal Reserve Bank of San Francisco)

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Comment on draft letter of Federal Home Loan Bank Board (Item No. 5). There had been distributed to the Board copies of a memorandum dated March 13, 1959, from Mr. Young, Director, Division of Research and Statistics, submitting a draft of letter to the Bureau of the Budget in response to the Bureau's request for comment on a letter proposed to be sent by the Federal Home Loan Bank Board to the Senate Housing Subcommittee concerning (1) a proposed amendment to bill S. 57 which would authorize Federal savings and loan associations to make loans, under certain restrictions, to finance the acquisition and development of raw land, primarily for residential usage, and (2) a proposed amendment to bill H. R. 2357 which would authorize such associations to make or purchase participating interests in first liens on one- to four-family homes outside their immediate areas to a greater degree than now permitted.

Following comments in response to a question concerning the function of the Budget Bureau in obtaining the views of interested agencies with respect to letters such as that proposed to be written in this instance by the Federal Home Loan Bank Board, Mr. Fisher reviewed the issues raised by the proposed amendments and brought out that the draft of reply to the Budget Bureau followed the lines of comments made by the Board to that Bureau in 1955 regarding proposed

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loans or investments by Federal savings and loan associations for raw-land acquisition and development, and in 1952 regarding the purchase of FHA- or VA-underwritten loans by such associations without regard to the usual 50-mile geographical restriction.

After a brief discussion, the letter to the Bureau of the Budget, a copy of which is attached as Item No. 5, was approved unanimously.

Mr. Fisher then withdrew from the meeting and Messrs. Young, Director, Division of Research and Statistics, and Molony, Special Assistant to the Board, entered the room.

Proposed letter to Senator Johnson. There had been distributed to the members of the Board copies of a letter and accompanying statement proposed to be sent to Senator Lyndon Johnson of Texas in response to his request for comment on a letter that he had received from a constituent, Mr. H. E. Cutcher of Lockhart, Texas, who referred to a statement by Congressman Patman in the Congressional Record of February 25, 1959. This statement was interpreted by Mr. Cutcher to mean that the Federal Reserve Banks were allowed to "give away billions of dollars of our tax money to the commercial banks for the privilege of letting them pass out some Government money to pay Government bills." Mr. Cutcher indicated that this procedure was very shocking, if true, and requested an explanation. The statement proposed to be sent to Senator Johnson would transmit information which might be helpful to him in responding to his constituent.

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Consideration was given to the type of reply that would be most useful to Senator Johnson and a number of suggestions were made. On the basis of these several suggestions as to approach, it was understood that alternative drafts of a reply to Senator Johnson would be prepared and distributed in order that the matter might be considered further by the Board.

Messrs. Molony, Shay, Hostrup, and Nelson then withdrew from the meeting.

Appraisal of Directors' Day program. With a transmittal memorandum dated March 13, 1959, Mr. Fauver had distributed to the members of the Board copies of a memorandum that he addressed to Governor Shepardson under date of March 11 containing suggestions arising out of the program on February 20, 1959, for new directors of Federal Reserve Banks and branches that might be helpful in the preparation of similar programs in the future.

General agreement was expressed with the program suggestions, and it was understood that they would be borne in mind. The discussion indicated doubt as to the advisability of going further in the entertainment of directors' wives who might accompany their husbands to Washington on such occasions than to arrange for them to tour the Federal Reserve Building. The discussion also indicated that the Board would not look with favor on the preparation of a transcript of the proceedings.

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Program incident to Mr. King's taking the oath of office.

Following a statement by Governor Balderston that Mr. G. Harold King, Jr., had indicated a desire to take his oath of office as a member of the Board of Governors at the Federal Reserve Building on March 25, 1959, there was some discussion as to what procedures incident to the ceremony might be most appropriate. As the result of this discussion, it was agreed to suggest to Mr. King that the swearing-in ceremony be conducted in the Board Room at 3:30 p.m., followed by a reception in the Board's dining rooms for invited guests and members of the Board's staff.

Call for reports of condition. The Secretary reported that a letter dated March 13, 1959, had been received from the Comptroller of the Currency advising that a call would be made upon all national banks on March 17, 1959, for reports of condition as of the close of business Thursday, March 12; and that, in accordance with the usual practice, a telegram had been sent by the Secretary to the Presidents of all Federal Reserve Banks on March 13 requesting that a similar call be made upon State member banks.

The action taken in sending the telegram was ratified by unanimous vote.

All of the members of the staff except Mr. Sherman then withdrew, and Mr. Johnson, Director, Division of Personnel Administration, was called into the room.

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Assumption of cost of lunch for certain guests. Governor Shepardson presented for consideration a memorandum from Mr. Johnson dated March 10, 1959, recommending that, subject to approval by a division head, the Board assume the cost of lunch in the Board's building for guests accompanying Federal Reserve Bank employees who visit the Board's offices. The memorandum noted that the Board had always encouraged visits by Reserve Bank employees and in October 1950 addressed a letter to each Bank inviting employees to visit the Board's offices if time permitted; that Board employees were now permitted to sign cafeteria checks for Reserve Bank employees pursuant to action taken by the Board on September 16, 1937; but that a Board employee must pay for the lunch of a visiting Reserve Bank employees' guest or have the guest pay the bill himself.

After discussion, the recommendation contained in Mr. Johnson's memorandum was approved subject to verification by the Secretary from the minutes that such action was not in conflict with the terms of the Board's letter to the Federal Reserve Banks dated October 2, 1958, concerning Reserve Bank entertainment expenses, or with principles agreed upon by the Board in the relevant discussion.

Secretary's Note: The Secretary subsequently determined from the October 2, 1958, letter and the minutes relevant thereto that no conflict existed.

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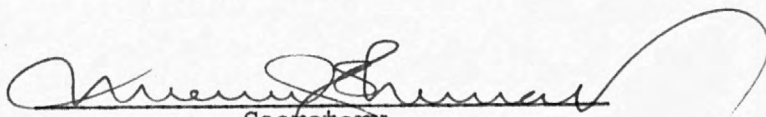
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Invitations extended to Mr. Marget. The Board approved acceptance by Mr. Marget, Director, Division of International Finance, of invitations (1) to prepare a paper for presentation at the 1959 annual meeting of the American Economic Association, to be held in Washington in December, and (2) to make a talk at the 43d annual meeting of the National Industrial Conference Board to be held in New York City on May 21-22, 1959.

The meeting then adjourned.

Secretary's Note: At the meeting on February 19, 1959, it was understood that there would be sent to the Federal Reserve Banks, when in form satisfactory to Governor Shepardson, a letter authorizing them, in certain circumstances, to pay salary to an employee beyond the expiration of 90 days after the employee reached age 65, without specific Board approval. Having been approved by Governor Shepardson, the letter of which a copy is attached as Item No. 6 was sent today to the Presidents of all Federal Reserve Banks.

Governor Shepardson today approved on behalf of the Board a letter to the Federal Reserve Bank of Cleveland (attached Item No. 7) approving the appointment of Thomas Delvin Reinhold as assistant examiner.


Secretary

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

Item No. 1
3/16/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 16, 1959.



Board of Directors,
The Hackensack Trust Company,
Hackensack, New Jersey.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors approves the establishment of a branch on the east side of Huyler Street, 95 feet north of Hoffman Street and 40 feet south of Leuning Street, South Hackensack Township, Bergen County, New Jersey, by The Hackensack Trust Company, Hackensack, New Jersey. This approval is given provided the branch is established within one year from the date of this letter and that formal approval of State authorities is effective at the time the branch is established.

Growth of the capital structure of this bank has failed to keep pace with the increased volume of business experienced by the bank during the past two years. If, within a reasonable time, retained earnings prove insufficient to place capital in an acceptable relationship to the volume of business, augmentation of capital through a sale of stock for cash would appear warranted.

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
3/16/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

MAR 16 1959



Mr. E. R. Millard, Vice President,
Federal Reserve Bank of San Francisco,
San Francisco 20, California.

Dear Mr. Millard:

Reference is made to your letter of March 2, 1959, with respect to the proposal of California Bank, Los Angeles, California, to move its branch office located at 3455 East Coast Highway to a new location at 3147 East Coast Highway, Newport Beach, California, a distance of two and one-half blocks.

From the information submitted, the Board concurs in your opinion that this action constitutes the mere relocation of an existing branch in the immediate neighborhood without affecting the nature of its business or customers served and, therefore, the approval of the Board is not required.

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
3/16/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 16, 1959.

Comptroller of the Currency,
Treasury Department,
Washington 25, D. C.

Attention Mr. G. W. Garwood,
Deputy Comptroller of the Currency.

Dear Mr. Comptroller:

Reference is made to a letter from your office dated November 17, 1958, enclosing copies of an application to organize a national bank at Orange, Texas, and requesting a recommendation as to whether or not the application should be approved.

A report of investigation of the application made by an examiner for the Federal Reserve Bank of Dallas indicates that the organizers have agreed to provide a capital structure of \$375,000 for the bank, instead of \$250,000 as shown in the application. This revised capital structure would appear to be adequate. The future earnings prospects of the bank and general character of the management appear to be satisfactory; and, while there does not appear to be a pressing need for the bank at this time, the future prospects appear sufficient to support successful operation. The Board of Governors recommends favorable consideration of the application.

The Board's Division of Examinations will be glad to discuss any aspects of this case with representatives of your office if you so desire.

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
3/16/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



March 16, 1959.

Comptroller of the Currency,
Treasury Department,
Washington 25, D. C.

Attention Mr. L. A. Jennings,
Deputy Comptroller of the Currency.

Dear Mr. Comptroller:

Reference is made to a letter from your office dated October 10, 1958, enclosing copies of an application to organize a national bank at Sunnymead, California, and requesting a recommendation as to whether or not the application should be approved.

Information contained in a report of investigation of the application made by an examiner for the Federal Reserve Bank of San Francisco indicates that the organizers have agreed to provide a capital structure of \$200,000 for the bank instead of \$140,000 as shown in the application. This revised capital structure is considered adequate. It is reported that the bank could attract sufficient business to realize profitable operations in a reasonable time and that the provision of banking facilities in the area would be in the public interest. It is understood that an application is pending for the establishment of a branch in the area; and, while two banking offices cannot be justified, the local preference is for an independent bank. While the management group of the institution is not considered outstanding, it is believed satisfactory with an experienced banker as managing officer. In this connection it should be mentioned that one of the proposed directors may be precluded from serving due to his association with a brokerage firm. After considering the various factors, the Board of Governors recommends approval of the application.

The Board's Division of Examinations will be glad to discuss any aspects of this case with representatives of your office if you so desire.

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. 5
3/16/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



March 16, 1959.

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

Dear Mr. Hughes:

The Bureau of the Budget has asked for the Federal Reserve Board's views on the proposed draft letter, dated March 4, 1959, from Mr. Albert J. Robertson, Chairman, Federal Home Loan Bank Board, to Mr. James B. Cash, Jr., Staff Director, Subcommittee on Housing, Senate Committee on Banking and Currency. The proposed draft letter sets forth the Federal Home Loan Bank Board's views concerning Section 709 of S. 57, passed by the Senate in February, and Section 801 of H.R. 2357, now pending.

Section 709 of S. 57 would authorize any Federal savings and loan association, whose general reserves, surplus, and undivided profits exceed 5 per cent of its withdrawable accounts, to invest an amount not exceeding at any one time 5 per cent of such withdrawable accounts in loans to finance the acquisition and development of land, located within a radius of 50 miles from its home office, for primarily residential usage, subject to such rules and regulations as the Federal Home Loan Bank Board may prescribe. Except for these restrictions, no limit would be placed on the dollar amount of any single land-development loan.

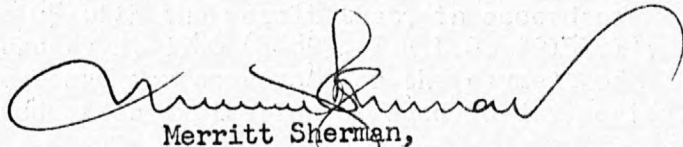
The Federal Reserve Board, in letters to the Bureau of the Budget dated April 5, 1955, and March 17, 1955, commented on somewhat similar proposed legislation, which in addition to substantially the above provisions would have authorized Federal savings and loan associations themselves to invest directly in unimproved real estate. The present proposal is a more modest one and is certainly less objectionable. However, the Board continues to view activities connected with raw-land acquisition and development as essentially speculative in nature. It does not believe that funds entrusted to Federally-chartered and insured thrift institutions, such as Federal savings and

Mr. Phillip S. Hughes

loan associations, for investment should be loaned for this speculative activity.

Section 801 of H.R. 2357 would authorize a Federal savings and loan association to use without regard to the 50-mile restriction an additional 20 per cent of its assets to make or purchase participating interests in first liens on 1- to 4-family homes, except that the aggregate amount that may be invested pursuant to this provision, plus the over-all 20 per cent limitation which already obtains on loans made without regard to the 50-mile limit, may not exceed 30 per cent of an association's assets. Concerning this proposal, the Board wishes to emphasize that Federal savings and loan associations in principle are designed to be local thrift and home financing institutions. The Board feels that their activities should continue to be primarily of a localized nature. On the other hand, geographical differentials in mortgage interest rates persist and mortgage funds do not always flow readily from one region to another. These facts argue for some broadening and increased flexibility with respect to the participation of Federal savings and loan associations in mortgage loans. However, the Board believes that present statutory authority--authorizing Federal associations to purchase FHA-insured or VA-guaranteed mortgage loans in aggregate amounts not exceeding 20 per cent of their assets but without regard to the 50-mile limit--seems sufficient. The Board, moreover, feels that if the proposed amendment were adopted, it could pose additional problems arising from the fact that some participation loans might be made on noninsured or nonguaranteed mortgages on properties located in areas remote from the participating institutions.

Sincerely yours,



Merritt Sherman,
Secretary.

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

Item No. 6
3/16/59
S-1692



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 16, 1959.

Dear Sir:

Circular Letter No. 171 of the Retirement System of the Federal Reserve Banks dated November 14, 1957, described a procedure established by the Retirement Committee for determining the age or date of birth of a member and reported that the Committee had voted at its meeting on October 14-15, 1957, to request the employing Reserve Banks to have all members applying for retirement benefits submit to the Personnel Department of the Bank satisfactory proofs of age. This procedure was to become effective for persons retiring on or after January 1, 1958.

Since that date several Reserve Banks have discovered that dates of birth previously supplied by some employees were in error. In some cases this has resulted in continuing employees in active service for more than 90 days past age 65 with the result that, in accordance with the Board's letter of February 4, 1946 (S-895, F.R.L.S. #9151.1), requests have been made to the Board for approval for the payment of salary for any services rendered after expiration of such 90-day period.

Since the Board understands that all Reserve Banks are presently working on programs to establish ages for retirement purposes, and since in a few additional cases errors in age may be disclosed which will involve salary payments for more than 90 days past age 65, the Board authorizes the payment of salary to this limited group of employees to the earliest possible date for effecting retirement, notwithstanding the Board's letter S-895. No report of such cases need be made to the Board, since this information will be available from Retirement System records.

The Board agrees that the procedure established by the Retirement Committee for verifying ages at time of receiving applications for retirement is desirable, but it is suggested that the Banks take

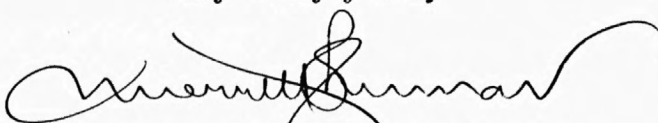
BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
WASHINGTON, D.C.

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steps to establish proofs of age for employees at a somewhat earlier age, say, age 50. This would establish the age sufficiently in advance of retirement in most cases so that instances of payment of salary beyond the limits stated in S-895 virtually would be eliminated.

Very truly yours,



Merritt Sherman,
Secretary.

Mr. J. G. Thompson, Vice President,
Federal Reserve Bank of Cleveland,
Cleveland, Ohio.

Mr. J. G. Thompson

Enclosed for you are two copies of a letter from the Board of Governors of the Federal Reserve System, dated March 12, 1958, which is being referred to the appropriate authority in your institution for their consideration. The letter is being referred to you for your information and for your attention to the fact that the Board of Governors has decided to recommend that the age limit for the payment of salary to employees of the Federal Reserve System be established at age 50.

Very truly yours,

Merritt Sherman

Secretary

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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

Item No. 7
3/16/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 16, 1959

Mr. Paul C. Stetzelberger, Vice President,
Federal Reserve Bank of Cleveland,
Cleveland 1, Ohio.

Dear Mr. Stetzelberger:

In accordance with the request contained in your letter of March 10, 1959, the Board approves the appointment of Thomas Delvin Reinhold as an assistant examiner for the Federal Reserve Bank of Cleveland. Please advise us as to the date on which the appointment is made effective.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.