Minutes for March 27, 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
Gov. Szymczak
Gov. Mills
Gov. Robertson
Gov. Balderston
Gov. Shepardson
Gov. King
Minutes of the Board of Governors of the Federal Reserve System
on Friday, March 27, 1959. The Board met in the Board Room at 10:00 a.m.

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

Mr. Kenyon, Assistant Secretary
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser to the Board
Mr. Young, Director, Division of Research and Statistics
Mr. Hackley, General Counsel
Mr. Molony, Special Assistant to the Board
Mr. Shay, Legislative Counsel
Mr. Noyes, Adviser, Division of Research and Statistics
Mr. Benner, Assistant Director, Division of Examinations
Mr. Weiner, Chief, National Income, Labor Force, and Trade Section, Division of Research and Statistics

Discount rates. The establishment without change by the Federal Reserve Banks of New York, Cleveland, Richmond, St. Louis, Minneapolis, Kansas City, and Dallas on March 26, 1959, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to the respective Banks.

Report on H.R. 4870. By letter dated February 25, 1959, the Chairman of the House Committee on Government Operations requested comment on H.R. 4870, a bill "to amend the Employment Act of 1946 to provide for its more effective administration, and to bring to bear an
informed public opinion upon price and wage increases which threaten economic stability." A draft of suggested reply, which had been distributed to the Board before this meeting, pointed out that certain sections of the bill were similar to sections of bills submitted in both the present and the preceding sessions of Congress on which the Board had already commented. In addition, the bill would require the President to include in each year's Economic Report, in quantitative terms, maximum levels of employment, production, and purchasing power, and current and foreseeable trends; it would make provision for public hearings, factual summaries of those hearings, and advisory statements by the Council of Economic Advisers, if deemed desirable, concerning price increases in certain types of industry which appeared to threaten economic stability and concerning wage increases declared by the employer to be a cause of price increase; and it would provide that if the Federal agency directly responsible for the execution of monetary and credit policies disagreed with such recommendations as might be made by the President in his Economic Report, the President must report such disagreement to the Congress with a statement from the disagreeing agency of its reasons. Certain other provisions of H.R. 4870 relating to monetary and credit policies were included in H.R. 12785, introduced in the 85th Congress, on which the Board reported in a letter to the House Committee on Government Operations dated June 27, 1958. In regard to those provisions
and the new provision mentioned above relating to monetary and credit policies, the draft of proposed reply quoted extensively from the letter of June 27, 1958.

The provisions of H.R. 4870 were reviewed by the Board in detail, along with the corresponding portions of the draft of reply, and a number of suggestions for changes in the reply were made, ranging from some of an editorial nature to some having to do with the substance of the Board's comments. A principal suggestion was that quoted material from testimony and previous Board reports be deleted and the letter cast in terms of a fresh approach.

At the conclusion of the discussion it was understood that a revised draft of reply reflecting the comments made at this meeting would be prepared for the Board's consideration.

Messrs. Noyes and Weiner then withdrew from the meeting.

Limitations on loans by national banks. The Bureau of the Budget had requested the Board's views on a draft bill, submitted by the Treasury Department on behalf of the Comptroller of the Currency, which would amend section 5200 of the Revised Statutes, as amended, with respect to the maximum loan limitations of a national bank. Most of the provisions of this proposal were along the lines of recommendations made by the Comptroller when the Financial Institutions Act was being drafted in
1956 which were included in the Act as it passed the Senate. However, one of the most important parts of the draft bill reflected a provision of the Financial Institutions Act inserted at the suggestion of the committee of bankers that advised the Senate Banking and Currency Committee with regard to the recommendations made by the Federal supervisory agencies.

A memorandum from Mr. Hexter dated March 19, 1959, which had been distributed to the Board, submitted (1) a memorandum analyzing the provisions of the proposed bill and enumerating a number of problems that might require consideration, and (2) a draft of reply to the Budget Bureau with which copies of the aforementioned memorandum would be enclosed.

Inasmuch as some of the members of the Board had not had an opportunity to review Mr. Hexter's analytical memorandum thoroughly, there was no substantive discussion of it. However, agreement was expressed with the suggestion that Mr. Hexter send a copy of the memorandum to the Comptroller's Office in order that the views of that Office might be available before the Board discussed the matters referred to therein. In addition, Mr. Hexter was requested to get in touch with the Budget Bureau by telephone and state that the Board's comments on the proposed bill would be somewhat delayed. In this connection, it
was understood that he would feel free to advise the Bureau of the fact that certain questions concerning the draft bill were being referred to the Office of the Comptroller of the Currency for consideration. If it should be found that the Budget Bureau would like to have the Board's comments without any check having been made with the Comptroller's Office, it was understood that Mr. Hexter would report back to the Board.

Messrs. Shay and Hexter then withdrew and Mr. Holahan, Supervisory Review Examiner, Division of Examinations, entered the room.

Continental Bank and Trust Company (Item No. 1). Pursuant to the Board's suggestion, Assistant Vice President Galvin and Chief Examiner Ahlf of the Federal Reserve Bank of San Francisco had attended a meeting of the board of directors of The Continental Bank and Trust Company, Salt Lake City, Utah, on March 17, 1959, and reviewed with the directors the report of examination of that bank made as of the close of business October 6, 1958. A memorandum of that meeting had been transmitted to the Board's offices and copies were submitted to the Board with a memorandum from the Division of Examinations distributed under date of March 26, 1959. This memorandum reported that additional information had been developed bearing upon the unsecured loans by Continental to the mother and wife of President Cosgriff, including the fact that large amounts of the best assets of those borrowers were hypothecated
at nonaffiliated banks. It was recommended by the Division of Examinations that a letter be sent to the San Francisco Reserve Bank suggesting that Continental be advised by letter that the loans in question should be removed or placed in bankable condition forthwith. It was also recommended that if the loans were not substantially eliminated or strengthened to the point where they were beyond criticism by the time of the next examination of Continental, consideration be given at that time to the issuance of a section 30 warning to President Cosgriff.

Following comments by Mr. Benner regarding the recommendations of the Division of Examinations, Mr. Hackley said that the sending of the proposed letter appeared to be largely a matter of supervisory policy. As to the issuance of a section 30 warning, he concurred in the recommendation that further consideration be deferred, particularly in the light of indications that one of the criticized loans might be removed and the other substantially reduced. Therefore, he would like to reserve judgment on the legal basis for a section 30 warning.

After Governor Mills expressed agreement with the recommendations, particularly in regard to deferring consideration of the issuance of a section 30 warning until after the next examination of Continental, Governor Robertson said that he had no comment. Governor Shepardson then raised for consideration the question whether the proposed letter should take cognizance of a statement
reportedly made by Mr. Cosgriff to Messrs. Galvin and Ahlf to the effect
that the unsecured loans to Mr. Cosgriff's wife and mother were going to
be removed from the bank shortly or, in one case, at least reduced sub-
stantially. On this point, Mr. Benner read pertinent portions of the
memorandum of the meeting with Continental's directors. He brought
out that there was no assurance that the promise would be fulfilled
and said the Division of Examinations therefore considered it desirable
for the San Francisco Reserve Bank to write to Continental and request
that the loans be removed or backed by appropriate collateral. Governor
Mills commented that reliance could be placed on President Mangels'
familiarity with the situation; if the Reserve Bank was being asked to
present a demand that already had been acted upon, it might be presumed
that Mr. Mangels would get in touch with the Board.

After it had been stated, in response to a question by Governor
King, that Mr. Cosgriff and members of his family owned about 61 per cent
of the stock of Continental, Governor Balderston inquired whether it was
the consensus of the Board to send a letter to President Mangels in the
form of the draft, and this was clearly the consensus.

In a further comment Governor Mills expressed the hope that a
demand of this sort would induce Mr. Cosgriff to liquidate some of his
holdings, for it appeared that at present he was so far extended both
in bank holdings and in the use of personal and family credit that in
the event of adversity some of the affiliated Cosgriff banks might be
affected. Therefore, if Mr. Cosgriff could be induced to contract his
resources, it seemed to him that this would be in the public interest and in accord with the Board's supervisory responsibilities.

Governor Balderston said that he shared Governor Mills' concern.

Thereupon, the letter to President Mangels was approved, Governor King not voting. A copy is attached as Item No. 1.

Inquiries in connection with prize contest. Governor Balderston referred to a prize contest currently being conducted which involved estimating the number of silver dollars in a picture showing certain loose and bagged coin. It was understood that information furnished to the contestants included a statement to the effect that the bags were such as shipped out by a Federal Reserve Bank, and this had led to inquiries with regard to the number of coins that might be contained in such a bag. In some cases, the letters had been phrased in a manner intended to conceal the true purpose of the inquiry. Governor Balderston noted that one such letter received by a member of Congress from a constituent had been referred to the Board.

There followed a brief discussion of the matter during which the view was expressed that the reply to such letters need go no further than to indicate that bags shipped by Federal Reserve Banks might contain varying quantities of coin depending upon orders received from member banks.

All of the members of the staff then withdrew and the Board went into executive session.
Meeting with labor representatives (Item No. 2). Governor Balderston later informed the Secretary's Office that as the result of discussion in executive session he had sent to the President of the American Federation of Labor and Congress of Industrial Organizations the letter of which a copy is attached as Item No. 2.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board the following items:

Memorandum dated March 23, 1959, from Miss Wolcott, Secretary to Governor Balderston, requesting permission to continue certain rental arrangements as an outside business activity.

Memoranda from appropriate individuals concerned recommending increases in the basic annual salaries of the following persons on the Board's staff, effective April 5, 1959:

<table>
<thead>
<tr>
<th>Name and title</th>
<th>Division</th>
<th>Basic annual salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zoe Gratsias, Secretary</td>
<td>Office of the Secretary</td>
<td>$ 4,790 $ 4,940</td>
</tr>
<tr>
<td>Jean Crosby, Secretary</td>
<td>Legal</td>
<td>5,730 5,880</td>
</tr>
<tr>
<td>John E. Hogan, Legal Assistant</td>
<td></td>
<td>6,285 6,435</td>
</tr>
<tr>
<td>Davita C. Leister, Secretary</td>
<td>Research and Statistics</td>
<td>4,040 4,190</td>
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<tr>
<td>Helen A. Lupton, Assistant Chief Draftsman</td>
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<td>6,220 6,370</td>
</tr>
<tr>
<td>Paul F. Smith, Economist</td>
<td></td>
<td>10,610 10,850</td>
</tr>
<tr>
<td>Bettie P. Tuttle, Secretary</td>
<td></td>
<td>4,490 4,640</td>
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Salary increases, effective April 5, 1959

<table>
<thead>
<tr>
<th>Name and title</th>
<th>Division</th>
<th>Basic annual salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cyril J. Bowman, Assistant Federal Reserve Examiner</td>
<td>Examinations</td>
<td>$6,135 - $6,285</td>
</tr>
<tr>
<td>Edward W. Healey, Assistant Federal Reserve Examiner</td>
<td></td>
<td>5,130 - 5,280</td>
</tr>
<tr>
<td>Daisy L. Polk, Stenographer</td>
<td></td>
<td>3,850 - 3,945</td>
</tr>
<tr>
<td>Jeanette E. Devlin, Personnel Records Clerk</td>
<td>Personnel Administration</td>
<td>4,790 - 4,940</td>
</tr>
<tr>
<td>Charles P. Brown, Messenger</td>
<td>Administrative Services</td>
<td>2,960 - 3,055</td>
</tr>
<tr>
<td>William Edward Hardy, Messenger</td>
<td></td>
<td>3,720 - 3,815</td>
</tr>
<tr>
<td>James R. Jordan, Mail Clerk</td>
<td></td>
<td>3,730 - 3,825</td>
</tr>
<tr>
<td>Donald W. Moon, Purchasing Assistant</td>
<td></td>
<td>5,920 - 6,070</td>
</tr>
</tbody>
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Memorandum dated March 18, 1959, from Mr. Kelleher, Director, Division of Administrative Services, recommending acceptance of the resignation of Lois E. Miller, Assistant Manager of the Board's Cafeteria, effective May 29, 1959.

Letter to the Federal Reserve Bank of Richmond (attached Item No. 3) approving the designation of Vernon T. Braswell as special assistant examiner.

Letter to the Federal Reserve Bank of Dallas (attached Item No. 4) approving the appointment of Howard Don Gill as assistant examiner.

Memorandum dated March 26, 1959, from Mr. Johnson, Security Officer, recommending that the procedure approved by the Board on April 17, 1958, for a trial period of one year under which pre-employment full-field security investigations are made of applicants selected to fill sensitive positions above Grade FR-5 be extended for an additional year.
Mr. H. N. Mangels, President,
Federal Reserve Bank of San Francisco,
San Francisco 20, California.

Dear Mr. Mangels:

A copy of the memorandum regarding the meeting of Assistant Vice President Galvin and Chief Examiner Ahlf with the board of directors of Continental Bank and Trust Company, Salt Lake City, Utah, on February 17, 1959, has been reviewed by the Board of Governors.

The Board is disturbed to find that the large, long-standing, unsecured loans to the mother and wife of President Cosgriff, classified substandard in the October 6, 1958, examination report, have been reduced by only $18,000 and are still being carried on an unsecured basis, although both borrowers have many of their best assets hypothecated with nonaffiliated banks.

It is suggested that you advise Continental Bank by letter that the loans in question should forthwith be removed or placed in a condition beyond adverse criticism and that advice to this effect should be forwarded to you when the correction is brought about.

The Board would like to receive a copy of the member bank's response as soon as it is available.

Very truly yours,

Kenneth A. Kenyon,
Assistant Secretary.
Mr. George Meany,
President,
American Federation of Labor and Congress of Industrial Organizations,
815 Sixteenth Street, N. W.,
Washington 6, D. C.

Dear Mr. Meany:

This reply to your cordial letter of March 10 has been delayed by the hospitalization of Chairman Martin because I felt that he would wish to be present at a meeting with your group. Until yesterday he was not in shape to discuss future plans. He was happy to learn of your suggestion and expressed a desire to participate personally. I find, however, that he will be in Europe from about May 1 to May 25.

I understand your Council is meeting in Washington during the middle of May. Accordingly, I am not sure whether a meeting after Chairman Martin's return on May 25 would fit in with the busy schedule of yourself and your fellow officers. If not, we would be glad to meet with you prior to May 25 on a date that is mutually convenient. Perhaps you could join us here for lunch and an informal discussion afterward about the very real problems that face our nation, its people and its economy.

In the meantime, Mr. Ralph A. Young will keep in touch with Mr. Stanley H. Ruttenberg.

Sincerely yours,

C. Canby Balderston,
Vice Chairman.
March 27, 1959

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 March 25, 1959, the Board approves the designation of Vernon T. Braswell as a special assistant examiner for the Federal Reserve Bank of Richmond for the purpose of participating in the examination of member banks only.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
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 March 24, 1959, the Board approves the appointment of Howard Don Gill 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.