

Minutes for April 1, 1959.

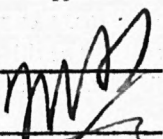
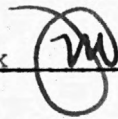
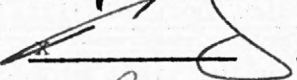
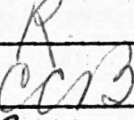
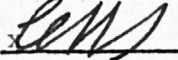
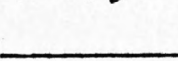
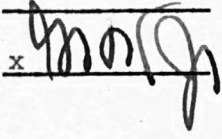
To: Members of the Board

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

Minutes of the Board of Governors of the Federal Reserve System  
on Wednesday, April 1, 1959. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Balderston, Vice Chairman  
Mr. Szymczak  
Mr. Mills  
Mr. Robertson 1/  
Mr. Shepardson

Mr. Sherman, Secretary  
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. Farrell, Director, Division of Bank  
Operations  
Mr. Molony, Special Assistant to the Board  
Mr. Shay, Legislative Counsel  
Mr. Noyes, Adviser, Division of Research  
and Statistics  
Mr. Furth, Associate Adviser, Division of  
International Finance  
Mr. Solomon, Assistant General Counsel  
Mr. O'Connell, 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. Hill, Assistant to the Secretary  
Mr. Young, Assistant Counsel  
Mr. Collier, Chief, Current Series Section,  
Division of Bank Operations

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:

1/ Withdrew from meeting at point indicated in minutes.

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	<u>Item No.</u>
Letter to the Long Island Trust Company, Garden City, New York, approving the establishment of a branch at 1501-1515 Franklin Avenue. (For transmittal through the Federal Reserve Bank of New York)	1
Letter to The Ohio Citizens Trust Company, Toledo, Ohio, consenting to its proposed merger with The Spitzer-Rorick Trust & Savings Bank, also of Toledo, and approving the establishment of three branches. (For transmittal through the Federal Reserve Bank of Cleveland)	2
Letter to the Union Trust Company of Maryland, Baltimore, Maryland, approving the establishment of a branch in Dundalk. (For transmittal through the Federal Reserve Bank of Richmond)	3
Letter to the Federal Reserve Bank of Chicago authorizing the waiver of penalties incurred by the Farmers and Merchants State Bank, Sebewaing, Michigan, because of deficiencies in its required reserves.	4
Letter to the Federal Deposit Insurance Corporation with regard to the application of the Milwaukee Western Bank, Milwaukee, Wisconsin, for continuance of deposit insurance after withdrawal from membership in the Federal Reserve System.	5
Letter to the First National Bank of Paragould, Paragould, Arkansas, regarding its surrender of the right to exercise fiduciary powers. (For transmittal through the Federal Reserve Bank of St. Louis)	6
Letter to the Chairman of the House Committee on the Judiciary reporting on H.R. 432 and H.R. 2977, bills to amend section 11 of the Clayton Act to provide for the more expeditious enforcement of cease and desist orders issued thereunder. (With a copy to the Bureau of the Budget)	7

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	<u>Item No.</u>
Letter to the Bureau of the Budget regarding proposed amendments to the national banking laws submitted by the Treasury Department which would clarify or eliminate certain ambiguities.	8
Letter to the Bureau of the Budget regarding proposed legislation which would increase the insurance on bank deposits and on savings and loan share accounts from \$10,000 to \$20,000.	9
Letter to the Federal Reserve Bank of St. Louis authorizing disclosure to a law firm of certain unpublished information in connection with the settlement of an estate.	10

With reference to Item No. 8 and another bill proposed by the Comptroller of the Currency on which the Board had not yet reported to the Bureau of the Budget, both of which were intended to clarify certain ambiguities and delete obsolete material from the national banking laws, it was agreed that the Legal Division would prepare for the Board's consideration a draft of a bill to accomplish similar purposes with regard to provisions of the Federal Reserve Act. This procedure contemplated that the Board would then determine by appropriate steps whether it would be advisable to request the introduction of such a bill.

Request for permission to exercise trust powers (Item No. 11).

There had been circulated to the Board a file relating to the request of The Wayne Trust Company, Cambridge City, Indiana, a State member bank, for permission to exercise fiduciary powers. Both the Federal Reserve Bank of Chicago and the Division of Examinations recommended favorably.

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Governor Robertson stated that he would like to be recorded as voting against approval of this request because he doubted whether a bank of such small size could be expected to obtain personnel qualified to handle trust business competently and because he saw nothing in the file to indicate that this was an exceptional case either from the standpoint of the applicant bank or from the standpoint of community need. Unless it was to be the Board's policy to grant such requests indiscriminately, he felt that each case should be examined critically to be sure of the need for authority to exercise trust powers and the ability of the applicant bank to administer such powers effectively. In further comments, Governor Robertson referred to the scarcity of skilled trust examiners, which meant that trust activities in small institutions usually had to be reviewed by commercial bank examiners who were not expert in trust affairs.

Mr. Benner commented favorably concerning the asset condition, capital, management, and history of the applicant bank, which would be the only bank in the community offering fiduciary services. In the circumstances, he felt that it would be difficult to justify denial of this particular application. He pointed out that the trust services of small banks tend to be limited and that over the years there had been few cases where serious problems had developed.

Governor Mills said he would accept the recommendation of the Division of Examinations. As he recalled it, the Board's position in considering requests of small banks for fiduciary powers was that if

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the bank had competent management and access to reliable legal counsel it could be assumed that the technical responsibilities involved in conducting trust business that such banks might obtain would be adequately discharged. If applications of banks fulfilling these requirements were denied, the effect would be to reserve the privilege of offering fiduciary services to larger banks in the more important communities. Experience had shown, he said, that small banks obtaining fiduciary powers found the field open to them to be limited, with the result that their business was confined largely to modest responsibilities which could be performed without exposing their trust accounts, depositors, and stockholders to undue risk.

Governor Shepardson remarked that there might be merit in the point raised by Governor Robertson. On reading the file, he had been prepared to accept the staff's recommendation because it did not occur to him that there would be a justification for denial. The question in his mind was where a line could be drawn in such cases.

Governor Szymczak stated that he thought the Board should have the benefit of the staff's thinking on the subject and then determine the criteria for granting fiduciary powers so that the staff would know what to look for in making recommendations. He felt that this was necessary in order that the Board's decisions would be consistent over a period of time. Therefore, while he would vote favorably in this particular case, at some point the Board should discuss the criteria.

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Governor Balderston said he would vote to grant the current request but that he shared Governor Robertson's concern, particularly as it related to the maintenance of competent management. Even though satisfactory management might be available at the time trust powers were granted, the prospect for continuation of high-quality management would be less in a bank not large enough to employ at least one full-time trust officer. In summary, his concern was not exclusively with the granting of trust powers and the standards used in reaching a decision but also with the ability to exercise such powers properly with the passage of time.

Thereupon, the request of The Wayne Trust Company for permission to exercise fiduciary powers was approved, Governor Robertson voting "no", with the understanding that a study of the kind suggested would be made by the Division of Examinations in cooperation with the Legal Division. At the suggestion of Governor Robertson, it was understood that the study would provide information as to the number of trust power applications acted upon adversely.

A copy of the letter transmitted to The Wayne Trust Company through the Federal Reserve Bank of Chicago pursuant to this action is attached as Item No. 11.

Mr. Molony, Special Assistant to the Board, entered the meeting during the foregoing discussion, and at this point Messrs. O'Connell, Nelson, and Walter Young withdrew.

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Letter from Senator Javits. There had been distributed to the Board a draft of reply to a letter from Senator Javits, a member of the Senate Banking and Currency Committee, requesting comment on suggestions contained in enclosed memoranda from a Commerce Department staff member which related in part to the use of banking institutions to promote foreign investment.

In discussion, Governor Szymczak recalled that at the time Regulation K, Corporations Doing Foreign Banking or other Foreign Financing under the Federal Reserve Act, was revised in 1956 the Board agreed that after a period of about two years of experience with the revised regulation consideration would be given to the need for requesting additional legislative authority in this field. His question, therefore, was whether it would be desirable to indicate in the letter to Senator Javits that if and when the Board's experience demonstrated the advisability of seeking additional legislation the Board would institute such a request.

After consideration of this question, it was the consensus that language to such effect need not be included because it might be assumed the Board had this area continually under review and would seek legislation at whatever time and in whatever respect might be necessary. Accordingly, it was understood that the proposed letter to Senator Javits, with minor modifications agreed upon at this meeting, would be put in final form for transmittal.



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Secretary's Note: Subsequent to the meeting Governor Szymczak asked that the reply be withheld in order that he might present an alternative draft of letter for the Board's consideration.

Mr. Furth then withdrew and Mr. Weiner, Chief, National Income, Labor Force, and Trade Section, Division of Research and Statistics, entered the room.

Report on H.R. 4870 (Item No. 12). There had been distributed to the Board a revised draft of letter to Chairman Dawson of the House Committee on Government Operations in response to his request dated February 25, 1959, for a report 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."

Following comments on the revised draft by Mr. Noyes, agreement was reached on several minor changes therein, and unanimous approval was given to a letter in the form attached hereto as Item No. 12, with the understanding that a copy would be sent to the Bureau of the Budget.

In this connection Governor Mills commented that it would hardly be possible to reach complete agreement on the details of such a letter. Therefore, if the draft as revised at this meeting was satisfactory to the other members of the Board it was agreeable to him.

Mr. Weiner then withdrew and Messrs. Robinson, Adviser, and Hald, Economist, Division of Research and Statistics, entered the room.

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Maximum interest rates on time deposits (Item No. 13). Pursuant to the understanding at the meeting on March 25, 1959, there had been distributed to the Board a draft of letter to the Federal Reserve Bank of New York in connection with the request of the First National City Bank of New York that the maximum interest rate payable on time deposits maturing between 90 days and six months be increased to 3 per cent from 2-1/2 per cent.

Following a review of the draft by Mr. Robinson, the principal changes agreed upon were (1) to delete a paragraph that might carry the implication that a further rise in short-term market rates would be likely to cause a change in the Board's position, and (2) to delete sentences in the final paragraph relating to subject matter felt to have been covered adequately elsewhere in the letter.

The letter was then approved unanimously in the form attached hereto as Item No. 13.

Messrs. Farrell, Robinson, Benner, and Hald then withdrew from the meeting.

Testimony on reserve requirement legislation. There had been distributed to the Board a draft of testimony on reserve requirement legislation to be given by Governor Balderston before Subcommittee No. 2 of the House Banking and Currency Committee on April 7, 1959.

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Mr. Thomas reviewed in detail the changes of substance from the testimony presented before the Senate Banking and Currency Committee on March 23, 1959, and as the result of this review a number of suggestions were made for changes in the draft.

At the conclusion of the discussion, during which Governor Robertson, Mr. Ralph Young, and Mr. Solomon withdrew from the meeting, it was understood that changes agreed upon at this meeting would be made and that the testimony would be presented in a final form satisfactory to Governor Balderston.

At the instance of Governor Balderston, consideration was given to what response might be appropriate if questions should be raised at the hearing concerning the order of importance assigned by the Board to the several provisions of the proposed legislation on reserve requirements. Comments in this regard brought out that the bill represented a package worked out by the Board after much study, and after consultation with representatives of the American Bankers Association, and that it would therefore seem preferable not to express an opinion other than on the bill as a whole. A possible result, it was noted, might be to suggest to the Congress that it would be sufficient to enact vault cash legislation only. At the same time, some opinion was expressed to the effect that the provisions of the bill calling for a reduction in the range of requirements applicable to central reserve city banks were perhaps

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less vital than the others to the accomplishment of a program such as the Board had in mind in requesting the legislation. Should the alternatives be retention of the present range of requirements for central reserve city banks or abolition of the central reserve city classification, the view was stated that the former would be preferable.

Standby consumer credit controls. Governor Balderston reported having been advised that the Treasury was preparing a reply to a request from the Senate Banking and Currency Committee for comment on a bill introduced by Senator Bush that would provide standby authority for consumer credit controls. This caused him to raise the question of what response might be given if the Treasury should inquire as to the Board's current position.

Mr. Shay commented that a routine request for a report on this bill also had been received by the Board. However, it had been determined, after checking with the staff of the Senate Banking and Currency Committee, that no report need be filed in the absence of further developments. The Treasury, he understood, followed the practice of responding to all Committee requests for reports on bills.

All members of the staff then withdrew and the Board went into executive session.

Salary for officer of St. Louis Reserve Bank (Item No. 14).

The Secretary later was informed by the Vice Chairman that in executive session the Board approved a letter to the Federal Reserve Bank of

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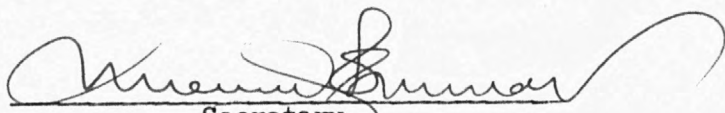
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St. Louis approving the payment of salary to Carl T. Arlt as Assistant Vice President, effective September 1, 1959, at the rate fixed by the Board of Directors. A copy of the letter is attached hereto as Item No. 14.

Sponsorship of graduate work by St. Louis Reserve Bank (Item No. 15). Governor Shepardson advised the Secretary that during the executive session the Board authorized the Federal Reserve Bank of St. Louis to proceed on an experimental basis with a program of assistance to graduate students in the field of money and banking as described in a letter from First Vice President Freutel dated March 27, 1959. Attached to these minutes as Item No. 15 is a copy of the letter sent to the Federal Reserve Bank of St. Louis pursuant to this action.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board a letter to the Federal Reserve Bank of New York (attached Item No. 16) approving the appointment of Harry N. Herber, III, as assistant examiner, and a letter to the Federal Reserve Bank of Richmond (Item No. 17) approving the designation of Edward B. Armistead and John E. Broskie as special assistant examiners.

  
Secretary

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

Item No. 1  
4/1/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 1, 1959.

Board of Directors,  
Long Island Trust Company,  
Garden City, New York.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors approves the establishment of a branch at 1501-1515 Franklin Avenue, Garden City, New York, by Long Island Trust Company, Garden City, New York. This approval is given provided the branch is established within six months from the date of this letter and that formal approval of State authorities is effective at the time the branch is established.

It is noted that capital funds are to be increased by \$886,000 before the branch is established.

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  
4/1/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD



April 1, 1959.

Board of Directors,  
The Ohio Citizens Trust Company,  
Toledo, Ohio.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Cleveland, the Board of Governors hereby gives its written consent, under the provisions of Section 18(c) of the Federal Deposit Insurance Act, to the merger of The Ohio Citizens Trust Company and The Spitzer-Rorick Trust & Savings Bank, Toledo, Ohio, and approves the establishment of a branch at each of the following locations by The Ohio Citizens Trust Company:

335 Superior Street, Toledo, Ohio  
In the Miracle Mile Shopping Center, Washington Township  
1440 Secor Road, Adams Township

This approval is given provided:

- (1) the merger is effected substantially in accordance with the Agreement of Merger dated February 18, 1959, copy of which was submitted with your request,
- (2) formal approval of the appropriate State authorities is obtained,
- (3) the merger and the establishment of the branches are effected within six months from the date of this letter, and
- (4) any shares acquired by the bank from dissenting stockholders are sold within six months from the date of their acquisition.

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  
4/1/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 1, 1959.

Board of Directors,  
Union Trust Company of Maryland,  
Baltimore 3, Maryland.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Richmond, the Board of Governors of the Federal Reserve System approves the establishment of a branch on the southwest corner of Merritt Boulevard and Wise Avenue in the unincorporated community of Dundalk, Baltimore County, Maryland, by Union Trust Company of Maryland, provided the branch is established within twelve months from the date of this letter, and approval of the State authorities is effective as of the date the branch is established.

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  
4/1/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD



April 1, 1959.

Mr. Laurence H. Jones, Cashier,  
Federal Reserve Bank of Chicago,  
Chicago 90, Illinois.

Dear Mr. Jones:

This refers to your letter of March 20, regarding the penalties totaling \$94.44 incurred by the Farmers and Merchants State Bank, Sebawaing, Michigan, on deficiencies of 12.9 and 6 per cent, respectively, in its required reserves during the two semimonthly periods in December 1958.

It is noted that the deficiencies arose from the merger of the subject bank with the State Savings Bank of Gagetown, Gagetown, Michigan, and the establishment of the latter bank as a branch; the new branch continued to be operated somewhat as a separate unit; in the resulting difficulties in coordinating the activities and accounting of the two offices, the clerk responsible for preparing the reports of deposits for reserve purposes continued to use only the figures of what is now the head office; the bank has had a very good record in the past and usually carries a substantial excess balance; and that your Bank has already waived a penalty for the semimonthly period ended November 30 under Paragraph E of the waiver provisions.

In the circumstances, and in view of your recommendation, the Board authorizes your Bank to waive the assessment of the penalties incurred in December.

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  
4/1/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD



April 1, 1959

The Honorable Jesse P. Wolcott,  
Chairman,  
Federal Deposit Insurance Corporation,  
Washington 25, D. C.

Dear Mr. Wolcott:

Reference is made to your letter of March 17, 1959, concerning the application of Milwaukee Western Bank, Milwaukee, Wisconsin, for continuation of deposit insurance after withdrawal from membership in the Federal Reserve System.

Recent reports of examination of this bank showed a disproportionate relationship of capital to risk assets and the Reserve Bank has been urging consideration of the sale of additional common stock. No other corrective programs have been urged upon the bank which, in the opinion of the Board of Governors, it would be desirable to incorporate as conditions to continuance of deposit insurance.

Very truly yours,

A handwritten signature in cursive script that reads "Kenneth A. Kenyon".

Kenneth A. Kenyon,  
Assistant Secretary.

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

Item No. 6  
4/1/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD



April 1, 1959.

First National Bank of Paragould,  
Paragould, Arkansas.

Gentlemen:

This refers to the resolution adopted on December 2, 1958, by the board of directors of your bank, signifying its desire to surrender the authority to exercise fiduciary powers heretofore granted by the Board of Governors of the Federal Reserve System.

The Board, understanding that your bank has been discharged or otherwise properly relieved in accordance with the law of all of its duties as fiduciary, has issued a formal certificate to the effect that the First National Bank of Paragould is no longer authorized to exercise any of the fiduciary powers covered by the provisions of section 11(k) of the Federal Reserve Act, as amended. This certificate is enclosed.

In this connection, your attention is called to the fact that, under the provisions of section 11(k) of the Federal Reserve Act, as amended, when such a certificate has been issued by the Board of Governors of the Federal Reserve System to a national bank, such bank (1) shall no longer be subject to the provisions of section 11(k) or the regulations of the Board of Governors of the Federal Reserve System made pursuant thereto, (2) shall be entitled to have returned to it any securities which it may have deposited with the State authorities for the protection of private or court trusts, and (3) shall not exercise thereafter any of the powers granted by the Board pursuant to the provisions of section 11(k) without first applying for and obtaining a new permit to exercise such powers.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.

Enclosure

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 7  
4/1/59

OFFICE OF THE VICE CHAIRMAN

April 1, 1959



The Honorable Emanuel Celler, Chairman,  
Committee on the Judiciary,  
House of Representatives,  
Washington 25, D. C.

Dear Mr. Chairman:

This is in response to your letter of March 18, 1959, requesting a report by the Board of Governors on identical bills, H. R. 432 and H. R. 2977 "To amend section 11 of the Clayton Act to provide for the more expeditious enforcement of cease and desist orders issued thereunder, and for other purposes."

Under section 11 of the Clayton Act (15 U.S.C. 21) this Board is authorized to enforce compliance with sections 2, 3, 7 and 8 thereof "where applicable to banks, banking associations, and trust companies". The only proceeding that has been conducted pursuant to this authority terminated at a stage prior to the point at which would arise the problems of enforcement that led to the introduction of H. R. 432 and H. R. 2977. Consequently, the Board can not draw upon actual experience with these problems in forming its judgment as to the desirability of the proposed amendment of section 11. However, it appears to the Board that the proposed enforcement procedure would be more expeditious than the present procedure without adversely affecting the rights and safeguards to which respondents in Clayton Act proceedings are entitled. The bills would introduce into the Clayton Act an enforcement procedure similar to that provided by section 5 of the Federal Trade Commission Act as amended in 1938 (15 U.S.C. 45).

The Board of Governors favors the general objective embodied in the two bills.

Sincerely yours,

C. Canby Balderston,  
Vice Chairman.

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

Item No. 8  
4/1/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 1, 1959



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

Dear Mr. Hughes:

This is in response to your Legislative Referral Memorandum of March 2, 1959, requesting the views of the Board of Governors on a draft proposal "To amend the national banking laws to clarify or eliminate ambiguities, and for other purposes."

Most of the sections of the draft proposal appear to be peculiarly within the scope of operations of the Comptroller's Office or to have no material significance insofar as the functions and responsibilities of the Federal Reserve System are concerned. As to those provisions, the Board has no comment.

Section 9 of the draft proposal would amend section 24A of the Federal Reserve Act so as to prevent any national bank or State member bank, without the approval of the Comptroller of the Currency or the Board of Governors as the case may be, from investing in bank premises in an amount in excess of 100 per cent of its capital stock or 50 per cent of its capital and surplus, whichever is greater. Under existing law, investments in bank premises are limited to 100 per cent of capital stock of banks unless approval is obtained. The Board has no objection to favorable consideration of this provision.

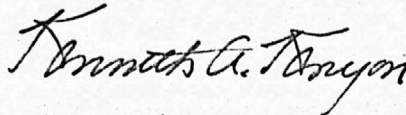
Section 12 would permit the directors of national banks to declare dividends on a quarterly basis as well as semi-annually or annually. It would also require the approval of the Comptroller of the Currency before the directors of any national bank could declare and pay to shareholders dividends which exceed the amount of its net profits of that year combined with its retained net profit of the preceding two years, less any required transfers to surplus or a fund for the retirement of any preferred stock. By virtue of certain provisions of section 9

Mr. Phillip S. Hughes

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of the Federal Reserve Act State member banks are made subject to provisions of law relating to payment of unearned dividends by national banks. It is not entirely clear whether section 12 of the draft proposal necessarily relates to the payment of unearned dividends and would therefore be applicable to State member banks, but it would be undesirable for such banks to have to obtain the Comptroller's consent. Accordingly, it should be made clear that the Comptroller's approval would not be required in the case of a State member bank.

Very truly yours,



Kenneth A. Kenyon,  
Assistant Secretary.

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

Item No. 9  
4/1/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 1, 1959.

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

Dear Mr. Hughes:

In your memorandum of March 2, 1959, you have asked the Board to comment on H. R. 3688, "To amend the Federal Deposit Insurance Act to increase the amount of a deposit which may be insured under that Act", and also on legislation which provides the same increase on Federal Savings and Loan Insurance Corporation coverage.

The Board has carefully reviewed H. R. 3688. This bill would amend the FDIA to provide an increase in bank deposit insurance from \$10,000 to \$20,000. It is expected that a bill will be introduced providing a similar increase in Federal Savings and Loan insurance. Accordingly, the following comments apply to prospective insurance increases in both cases.

In connection with the proposed amendment to the FDIA, numerically more than 98 per cent of all bank accounts are fully insured, and approximately 55 per cent of the dollar volume of all bank accounts are insured. The proposed increase would change the numerical total covered by insurance only an infinitesimal fraction, and would increase the dollar volume by about 10 per cent. The primary purpose of Federal Deposit Insurance is the protection of the small depositor. This purpose appears to have been attained since more than 98 per cent of all bank accounts are presently insured.

In the case of share accounts of Federal Savings and Loan Associations, it is understood that more than 98 per cent of all share accounts and the dollar volume thereof are now fully insured. Hence, the small saver would appear to be fully protected, and there would seem to be no need for an increase in the insurance of those accounts.

The reported tendency of some share account investors to transfer funds from association to association in pursuit of the highest dividend rate might be accelerated if larger share accounts were insured. This could have a deleterious effect on savings and loan associations because of the volatility of such "hot money" share accounts.



Mr. Phillip S. Hughes

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There is no ceiling on dividend payments by savings and loan associations as there is on interest payments by commercial banks. An increase in the insurance on share accounts would tend to make United States Savings Bonds less attractive as an investment than the Government-insured share accounts enjoying a higher dividend than the interest payments on savings bonds. This consideration already apparent at the present time could be accentuated if the insurance limit on share accounts were raised.

It is the Board's conclusion that there is no need for an increase in the insurance of either bank deposits or share accounts at this time.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.



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

Item No. 10  
4/1/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 1, 1959

Mr. Guy S. Freutel, First Vice President,  
Federal Reserve Bank of St. Louis,  
St. Louis 66, Missouri.

Dear Mr. Freutel:

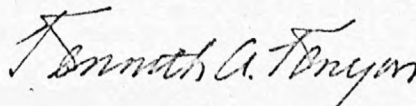
Reference is made to your letter of March 20, 1959, in which you enclosed copies of certain correspondence exchanged between the Federal Reserve Bank of St. Louis and the law firm of Miller, Fairman & Sanford, in connection with a request from that law firm that it be furnished the dates of original issue of certain designated \$50.00 and \$100.00 Federal Reserve notes, together with the dates on which they were first put into circulation.

A reading of the correspondence exchanged relative to this request leads to the conclusion that, due to the circumstances attending the request, the Federal Reserve Bank is unable to comply with the same. However, from your forwarding letter and the reply you propose to the request, it appears that the Board's authorization for the furnishing of the information requested is nevertheless desired, despite the fact that disclosure to the extent requested will not be made. This conclusion has been substantiated by a conversation between a member of the Board's legal staff and your Counsel, Mr. Dunne.

Pursuant to section 8(a) of the Board's Rules of Organization, the Board authorizes disclosure of the information requested to the extent and in the form deemed by you most appropriate under the circumstances. This authorization, of course, is in no sense related to the ultimate merits of the claims asserted by Miller, Fairman & Sanford on behalf of their clients.

A reply in the form proposed in your enclosure would appear to be an appropriate response under the circumstances you have described.

Very truly yours,



Kenneth A. Kenyon,  
Assistant Secretary.

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

Item No. 11  
4/1/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 1, 1959.

Board of Directors,  
The Wayne Trust Company,  
Cambridge City, Indiana.

Gentlemen:

This refers to your request for permission, under applicable provisions of your condition of membership numbered 1, to exercise fiduciary powers.

Following consideration of the information submitted, the Board of Governors of the Federal Reserve System grants permission to The Wayne Trust Company to exercise the fiduciary powers now or hereafter authorized by its charter and the laws of the State of Indiana.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 12  
4/1/59

OFFICE OF THE VICE CHAIRMAN

April 1, 1959.



The Honorable William L. Dawson,  
Chairman, Committee on Government Operations,  
House of Representatives,  
1501 House Office Building,  
Washington 25, D. C.

Dear Mr. Chairman:

This letter is in response to yours of February 25, 1959, in which you ask for 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." Important sections of the bill are similar to sections in bills submitted both in the present and preceding sessions of Congress on which the Board has already commented.

1. The bill makes more explicit as goals of policy than does the Employment Act of 1946 (a) the "concept of sustained growth"; and (b) the "concept of reasonable price stability." The Board believes that both of these goals are implicit in the present Act; nevertheless, it may be desirable to include them explicitly.

While careful consideration should be given to the wording of the directive, a resolute statement by the Congress that stabilization of the price level is a primary aim of Federal policy would be a significant declaration demonstrating to the American people and to the world the conviction that this country has the ability and the determination to stabilize average prices and to preserve the purchasing power of the dollar.

"Sustained growth" is, of course, a primary objective of national economic policy. The Board believes that sustained growth cannot be divorced from relative price stability and that an economy characterized by the latter offers the best environment for encouraging the expansion of saving and investment that must underlie economic growth.

2. The bill requires 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. The present Act is somewhat ambiguous with respect to "quantitative terms."

The Board does not favor a requirement that "foreseeable trends" be expressed in "quantitative terms." While great strides have been made in economic analysis in recent years, forecasting continues to be more of an art than a science. A requirement that the Council make official projections in quantitative terms appears to us to promise more than can safely be delivered, and if done might well introduce rigidities into economic policy making and provoke debate about matters outside the area of control by Government action. Flexibility is desirable in adjusting to changing conditions and views as to the future are almost always modified in the course of each Congressional session.

3. H.R. 4870 also makes provision for public hearings, factual summaries of these hearings, and advisory statements by the Council, if deemed desirable, concerning (1) price increases in industries in which output is concentrated in relatively few firms and which appear to threaten economic stability; and (2) wage increases which are declared by the employer to be a cause of the price increases.

Within its field of responsibility, the Board directs its efforts toward achieving relatively stable prices and toward maintaining the purchasing power of the dollar and an environment conducive to economic growth with a minimum of cyclical instability. It is fully aware both of the great usefulness of ascertaining the facts about critical areas of our economy and of the constructive role played by public hearings in developing relevant and significant information. At the same time, however, the Board has little faith in the workability of any approach such as that summarized above which depends essentially on persuasion. Such an approach, it appears to us, (a) may bog down in a morass of hearings and reports, of claims and counterclaims; and (b) would involve a more or less continuous far-ranging and detailed examination--which would require a large-scale administrative organization--of price and wage policies in particular industries and companies without adequate criteria for evaluating such policies. Furthermore, the setting of detailed wage and price criteria would be a drastic step for a free enterprise economy to take in peacetime.

4. The Board is especially concerned with those aspects of H.R. 4870 that relate to monetary and credit policies. The proposed

bill would require the inclusion of monetary and credit policies in (1) the President's review of the economic program, and (2) in the program recommended by him for carrying out the policies of the Employment Act "to the same extent as all other policies affecting employment, production, and purchasing power." In addition, it is provided (3) "That if the Federal agency directly responsible for the execution of such monetary and credit policies disagrees with such program and recommendations, the President shall report such disagreement to the Congress, together with a statement from the disagreeing agency of its reasons." In essence, the first two of the above provisions were included in H.R. 12785 in the 85th Congress, and the Board commented extensively on them in a letter to you of June 27, 1958.

The Board believes that a review of monetary and credit developments and an appraisal of their contribution to the attainment of the objectives of the Act is an essential part of the President's review of general economic developments. In fact, every Economic Report submitted to date has included a discussion both of past monetary and credit developments and also of the actions taken by the monetary authorities. The Board therefore questions the need for this change in the law.

The Board believes that the second and third of the proposed amendments summarized above are undesirable. Some instruments of national economic policy--such as fiscal policy, housing policy, and agricultural policy--by their nature can be adapted to changing economic circumstances only slowly. Basic decisions, once made, are difficult to change within the course of a given fiscal year, or even longer. Monetary and credit policy, in contrast, is the most flexible of the instruments of national economic policy. Most of the Federal Reserve operations are essential to meet short-term variations of a regular or special nature, and these must be adapted continuously to broader policy considerations. Monetary policies can and should be adapted quickly to changing economic conditions. This flexibility would be greatly hampered if monetary policy were to be treated in the same way as other policy areas for which longer term planning is essential.

Furthermore, any procedure for advance recommendations on monetary and credit policy, such as proposed in this bill, would run the risk of stimulating speculative tendencies in the use of bank credit. It would of necessity reveal the Federal Reserve's own views with respect to prospective monetary policy. It would also foster speculative tendencies in the securities markets generally and, perhaps, especially in the Government securities market. The danger

of speculative and destabilizing consequences could be substantial, whether the Presidential recommendations were interpreted as inflationary or deflationary in their potential effects. In this connection, it should be noted that the Federal Reserve Act requires the System to keep the use of bank credit for speculation under close and constant surveillance.

Congress has heretofore entrusted to the Federal Reserve System responsibility for decisions in the area of monetary and credit policy. A separate mandate from the Congress to the Executive, as contained in this bill, to make recommendations in this area and to report to the Congress differences between him and the Federal Reserve would jeopardize the ability of the System, as an agent of Congress, to perform its duties and responsibilities in an independent, objective, nonpartisan, and impartial manner.

There can be no doubt that the Congress at any time can limit or withdraw the trusteeship it has granted to the Federal Reserve System to carry out constitutional responsibilities of Congress in the field of money and credit. However, any action that might reduce the independence of the Federal Reserve from the Executive should be considered with great care, especially in the light of the experience in other countries which have followed a similar course. The Board sincerely believes that the reasoning which led the Congress to provide for an independent monetary authority in the original Federal Reserve Act is just as relevant and valid today as it was when the Act was passed in 1913.

At the same time, the Executive is not, and should not be, inhibited in any way from commenting upon or criticizing the Board's monetary and credit policies. So far as the Board is aware, there has never been any question as to either the authority for, or propriety of, such an expression of views by the Executive.

The process of decision making in the Federal Reserve System rests on a constant and detailed flow of information with respect to the ever-shifting forces that affect the trend and level of output, employment, incomes, credit, money, and prices. Decisions are made on the basis of continuous scrutiny of the complex of economic forces and with flexible adaptation to changing economic circumstances. There is the fullest possible disclosure by the System of the information on which its decisions are made. As the Board is in continuous contact with the Executive offices of the Government, there is ample room for exchange of views. Also, it should be noted, members of the Board

The Honorable William L. Dawson

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frequently appear before appropriate Congressional Committees to comment on and answer questions regarding Board policy.

The Board believes that the proposed changes in the Employment Act with respect to the formation of monetary and credit policy could only result in reducing the effectiveness of such policy as an instrument for furthering the objectives of the Act. For these reasons, the Board would not favor enactment of H.R. 4870.

Sincerely yours,

(Signed) C. Canby Balderston

C. Canby Balderston,  
Vice Chairman.

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

Item No. 13  
4/1/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 1, 1959.

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

Dear Mr. Hayes:

This is in reply to your letter of March 13, 1959 to the Board, in connection with which you sent the Board a copy of a letter from the First National City Bank of New York requesting that the maximum permissible interest rate payable on time deposits maturing between 90 days and six months be increased to 3 per cent from the present 2-1/2 per cent.

The Board has given further careful consideration to the problem of maximum allowable rates on time and savings deposits in the light of this new request. The Board appreciates that the most recent proposal is less sweeping than that contained in your letter of February 18, 1959, and that in the interval since that request was acted upon there have been new developments, including an increase in the discount rate. However, after a careful weighing of these factors, including market rates, the Board has again reached the conclusion that no change should be made at this time in the maximum permissible rates of interest applicable under Regulation Q.

In reaching this decision, the Board has given particular attention to the following considerations:

(1) It is noted that as of last December, when your Bank made a survey of time deposits of foreign banks held by ten New York City banks, more than 70 per cent of such deposits were for six months or more, with the bulk of these carrying an option for earlier withdrawal. If the regulation were now changed to permit payment of the same interest rate on 90-day deposits as on the longer maturities, it would appear that one result might be to make these deposits even more volatile than at present. Depositors in the six months range with options for earlier withdrawals would lose the present interest rate incentive to leave funds on deposit until maturity, and presumably there would be few if any new deposits for firm six months or longer periods.





Mr. Alfred Hayes

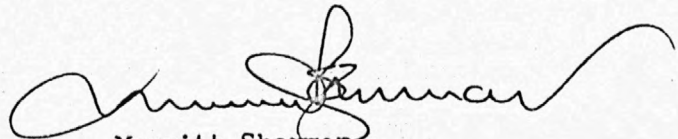
-2-

April 1, 1959

(2) More fundamentally, the Board feels that the proposed increase in the maximum permissible rates on time deposits payable in less than 6 months would not be consistent with the purposes of the legislative mandate under which Regulation Q exists. These basic purposes include protecting and assuring sound banking practice in the investment of funds. In view of the demonstrated lack of stability of the deposits of foreign banks particularly mentioned, and no doubt also of other funds that may be attracted into time deposits by the higher rates, there would appear to be question as to the availability of sound assets of sufficient liquidity and earning power to justify the payment of higher rates on such deposits. The present structure of market rates on securities suitable for bank investment to balance funds held under time deposits payable in less than six months does not appear to the Board to justify the rates proposed.

In addition to these considerations, the Board believes that, as long as there is a statutory prohibition against the payment of interest on demand deposits, rates payable on time deposits must be so regulated as not to encourage the shifting of what are essentially short-term working balances into short-term time deposits.

Very truly yours,



Merritt Sherman,  
Secretary.

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

Item No. 14  
4/1/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 1, 1959.

CONFIDENTIAL (FR)

Mr. Guy S. Freutel,  
First Vice President,  
Federal Reserve Bank of St. Louis,  
St. Louis 66, Missouri.

Dear Mr. Freutel:

The Board of Governors approves the payment of salary to the following newly appointed officer of the Federal Reserve Bank of St. Louis for the period September 1, 1959 through December 31, 1959 at the rate indicated, which is the rate fixed by your Board of Directors as reported in your letter of March 13, 1959:

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
Carl T. Arlt	Assistant Vice President	\$15,000

It is noted from your letter that no budgetary provision was made in your 1959 budget for the addition of this official position.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

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

Item No. 15  
4/1/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 2, 1959



Mr. Guy S. Freutel,  
First Vice President,  
Federal Reserve Bank of St. Louis,  
St. Louis 66, Missouri.

Dear Mr. Freutel:

The Board has considered your letter addressed to Governor Shepardson under date of March 27, 1959 and will interpose no objection to your Bank's proceeding on an experimental basis with a plan such as you outline for sponsoring some graduate work in universities in the field of money and banking.

Your letter states that your plan is similar to that used by the Federal Reserve Bank of Chicago, concerning which the Board sent a letter to all Federal Reserve Banks under date of April 29, 1957, but your specific proposal is that two men be selected for a 15-month program with the understanding that they would spend two successive summers at your Bank and the intervening year at their universities working on their doctoral dissertations covering subject matter of mutual interest to the Federal Reserve System and to their faculty advisers. Compensation to these men would be provided on the same basis as that provided under the plan of the Federal Reserve Bank of Chicago.

It is noted that you hope to commence this program during 1959 and that the cost involved would not cause a total research expenditure this year in excess of that budgeted for 1959.

The Board's authorization for your Bank to proceed with the program outlined is not to be considered as indicating a decision that a program patterned after that undertaken experimentally at the Federal Reserve Bank of Chicago should be adopted generally throughout the System, or that the program now under way at the Chicago Bank or that proposed by your Bank, should be continued beyond the presently authorized trial periods.

Very truly yours,

Merritt Sherman,  
Secretary.

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

Item No. 16  
4/1/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 1, 1959.

Mr. R. B. Wiltse, Vice President,  
Federal Reserve Bank of New York,  
New York 45, New York.

Dear Mr. Wiltse:

In accordance with the request contained in your letter of March 26, 1959, the Board approves the appointment of Harry N. Herber, III as an assistant examiner for the Federal Reserve Bank of New York. Please advise as to the date on which the appointment is made effective.

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. 17  
4/1/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 1, 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 27, 1959, the Board approves the designation of the following employees of your bank as special assistant examiners for the Federal Reserve Bank of Richmond for the purpose of participating in the examination of member banks only, except the bank listed immediately above their names:

First and Merchants National Bank of Richmond,  
Richmond, Virginia

Edward B. Armistead  
John E. Broskie

Southern Bank and Trust Company,  
Richmond, Virginia

Edward B. Armistead

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.

