

Minutes for April 13, 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	<u> </u>	x <u>(m)</u>
Gov. Szymczak	x <u>ms</u>	<u> </u>
Gov. Mills	<u> </u>	x <u> </u>
Gov. Robertson	x <u>R</u>	<u> </u>
Gov. Balderston	x <u>COB</u>	<u> </u>
Gov. Shepardson	x <u>SPS</u>	<u> </u>
Gov. King	<u> </u>	x <u> </u>

Minutes of the Board of Governors of the Federal Reserve System
on Monday, April 13, 1959. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser to the Board
Mr. Molony, Special Assistant to the Board
Mr. Hill, Assistant to the Secretary

Messrs. Marget, Furth, Hersey, Sammons, Irvine,
Katz, Reynolds, and Wood of the Division
of International Finance

Messrs. Garfield, Noyes, Robinson, Williams,
Dembitz, Altmann, Brill, Eckert, Fisher,
Manookian, Weiner, Wernick, Yager, and
Miss Dingle, Division of Research and
Statistics

Economic review. The staffs of the Divisions of International Finance and Research and Statistics presented a review of international and domestic economic developments.

All of the members of the staff except Messrs. Sherman, Kenyon, Riefler, Molony, Noyes, Brill, and Hill then withdrew and Messrs. Hackley, General Counsel, Solomon and Hexter, Assistant General Counsel, Young, Assistant Counsel, Shay, Legislative Counsel, and Hostrup, Nelson, and Benner, Assistant Directors, Division of Examinations, entered the room.

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:

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Item No.

Letter to The Merchants National Bank of Boston, Boston, Massachusetts, regarding possible amendments to Regulation F which would permit commingling of trust funds under the provisions of the proposed Self-employed Individual's Retirement Act of 1959.

1

Letter to the Society for Savings Company in the City of Cleveland, Cleveland, Ohio, regarding its status as a holding company affiliate. (For transmittal through the Federal Reserve Bank of Cleveland)

2

Letter to the Garfield Commercial & Savings Bank, East Los Angeles, California, approving the establishment of a branch in Monterey Park. (For transmittal through the Federal Reserve Bank of San Francisco)

3

Letter to the Federal Reserve Bank of Richmond interposing no objection to an additional expenditure of approximately \$200,000 for the renovation and enlargement of the air conditioning system at the head office.

4

Letter to the Federal Reserve Banks concerning System representation at the various graduate schools of banking.

5

Letter to the Department of Defense regarding a form of title evidence proposed to be used in connection with the construction of defense housing under the so-called "Capehart" program.

6

Letter to the Department of Justice regarding litigation involving the Federal Reserve Bank of Chicago in connection with a guaranteed loan.

7

Letter to the Federal Reserve Bank of Richmond approving the appointment of Herman C. Yaeger as Federal Reserve Agent's Representative at the Charlotte Branch.

8

Letter to the Federal Reserve Bank of Dallas approving the appointment of Jesse D. Sanders and James R. Benton as Alternate Assistant Federal Reserve Agents.

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Loans to wives of executive officers. There had been circulated to the Board a memorandum from Mr. Young, Assistant Counsel, dated March 11, 1959, regarding a letter from the Comptroller of the Currency dated March 2, 1959, requesting advice as to whether loans made to wives of certain officers of Citizens & Southern National Bank of Charleston, South Carolina, were in violation of section 22(g) of the Federal Reserve Act and the Board's Regulation O, Loans to Executive Officers of Member Banks. The examiner had listed in the examination report of the subject bank 23 loans made to 20 wives of bank officers, each in excess of the \$2,500 maximum permitted by section 22(g) and Regulation O. Eighteen of the loans were secured by notes and mortgages and five by stock or life insurance, or both. All of the loans were found to be above criticism as general credits. In the case of real estate liens, in no case did the officer sign a note or otherwise have an interest in or a claim on the property, although it was presumed in most cases his income would be the primary source of meeting the loan payments. The Legal Division was of the opinion that the loans in question were not in violation of the law or regulation, particularly in view of an interpretation issued in 1939 (F.R.L.S. #6642) concerning a case in which the wife of a vice president of a national bank who owned real estate, bonds, and stocks in her own name desired to obtain a loan from the bank, the proceeds of which admittedly would be used

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by her husband. It appeared in that case that the husband would not be liable, either directly or indirectly on the obligation, and the Board's interpretation was that the loan to the wife was permissible.

Mr. Hackley commented that there might be some difference of opinion with respect to the applicability of the Board's earlier ruling and that the Legal Division had reviewed the matter carefully before reaching a conclusion. Mr. Young pointed out in this connection that the 1939 ruling involved a situation where the proceeds of the loan were admittedly for the benefit of the husband.

Governor Robertson expressed doubt regarding the nonapplicability of the law and regulation to this case, for it seemed to him to be a violation of the spirit of the law when a bank took care of its officers by making loans to their wives. The purpose of the law was to avoid a conflict of interest by preventing an officer from using bank funds beyond a certain limit. He said he could see some basis for the 1939 ruling; if the present case involved one or two loans it might be different, but here there were loans to wives of 20 officers. The examiner, he thought, was justified in his criticism. It was necessary, he felt, to look behind each loan to determine whether it was in effect being made to an officer or for his benefit. The loan limit perhaps was too low, particularly on home loans, and liberalization had in fact been recommended by the Board to the Congress. However, the legislation

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had not been passed. Governor Robertson suggested taking the position that the examiner's criticism in regard to the 23 loans should stand.

After further discussion of the facts of the matter in relation to the provisions of the law and the Board's 1939 interpretation, other members of the Board joined in the view that there appeared to be a violation of the spirit and purpose of the law and regulation.

Accordingly, agreement was expressed with the suggestion of Governor Robertson that the matter be referred back to the Legal Division for preparation of a revised draft of letter reflecting the views stated at this meeting.

Mr. Thomas entered the room during the foregoing discussion and Mr. Walter Young withdrew at this point.

Requests for hearings on Regulations T and U. There had been distributed prior to the meeting a memorandum from Mr. Solomon dated April 13, 1959, to which was attached a memorandum listing requests to be heard on the proposed amendments to Regulations T and U.

There followed a discussion in which the view was expressed that to grant hearings might result in an undesirable delay. Question also was raised whether it would not be necessary to go beyond the actual requests received and give others who had commented on the proposed amendments an opportunity to be heard if they so desired. On the other hand, reference was made to the public relations aspect and to the possibility that oral presentations would be helpful to the Board in promulgating satisfactory regulations.

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It was then suggested and agreed that it would be helpful to discuss the matter with the Presidents of the Federal Reserve Banks tomorrow in order to obtain their views.

Clayton Act status of proposed merger. There had been distributed to the Board memoranda from the Division of Examinations and the Legal Division dated March 30, and April 10, 1959, respectively, regarding the Clayton Act status of the proposed acquisition of stock of City Bank of Washington, D. C., by the American Security Corporation, also of Washington.

After a brief preliminary discussion, it was agreed that the matter would be considered further at another meeting.

Continental Bank and Trust Company. As a matter of information, Mr. Hackley reported that the suit involving a matter of trust administration filed by The Continental Bank and Trust Company, Salt Lake City, Utah, against the Federal Reserve Bank of San Francisco had been dismissed by the court.

The meeting then adjourned.

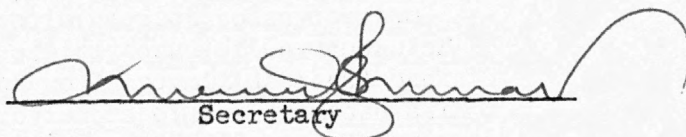
Secretary's Notes:

Pursuant to the recommendation contained in a memorandum dated April 3, 1959, from Mr. Sherman, Secretary of the Board, Governor Shepardson approved on behalf of the Board on April 9, 1959, acceptance of the resignation of Ava Mae Landes, Records Clerk in the Office of the Secretary, effective April 17, 1959.

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Pursuant to the recommendation contained in a memorandum dated April 9, 1959, from Mr. Noyes, Adviser, Division of Research and Statistics, Governor Shepardson today approved on behalf of the Board acceptance of the resignation of Mary M. Naughton, Draftsman-Illustrator in that Division, effective April 9, 1959.



Secretary

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

Item No. 1
4/13/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 13, 1959.

Mr. Frederick W. London, Trust Officer,
The Merchants National Bank of Boston,
28 State Street,
Boston, Massachusetts.

Dear Mr. London:

Reference is made to your letter of March 3, 1959, in which you request information in respect to any contemplated changes in Regulation F of the Board of Governors of the Federal Reserve System which would permit national banks to commingle funds under the provisions of the proposed Self Employed Individual's Retirement Act of 1959, commonly known as the Simpson-Keogh Bill.

As you know, the proposed legislation was passed by the House of Representatives on March 16, 1959, but it is yet in a formative stage. The Board, however, recognizes the desirability of considering the amendment of its Regulation F prior to the time the proposed legislation might become law. Accordingly, studies are under way on several proposals that have been advanced in this connection and it is expected that these studies will be completed and a decision reached on the matter at an early date.

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
4/13/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 13, 1959.

Mr. George G. Litzko, Vice President,
Society for Savings Company
in the City of Cleveland,
127 Public Square,
Cleveland 14, Ohio.

Dear Mr. Litzko:

This refers to your letter of January 14, 1959, addressed to the Vice President of the Federal Reserve Bank of Cleveland, enclosing the application of Society for Savings Company in the City of Cleveland for a permit to vote the stock which it owns of Society National Bank of Cleveland, Cleveland, Ohio.

The Board of Governors understands that Society for Savings Company in the City of Cleveland owns substantially all of the outstanding shares of stock of Society National Bank of Cleveland; that all of the assets of such Company are represented by its investment in the stock of that bank; and that such Company does not, directly or indirectly, own or control any stock of, or manage or control, any banking institution other than Society National Bank of Cleveland.

In view of these facts, the Board has determined that Society for Savings Company in the City of Cleveland is not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies within the meaning of the following provisions of section 2(c) of The Banking Act of 1933:

" . . . Notwithstanding the foregoing, the term 'holding company affiliate' shall not include (except for the purposes of section 23A of the Federal Reserve Act, as amended) any corporation all of the stock of which is owned by the United States, or any organization which is determined by the Board of Governors of the Federal Reserve System not to be engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies."

Mr. George G. Litzko

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Accordingly, Society for Savings Company in the City of Cleveland is not deemed to be a holding company affiliate except for the purposes of section 23A of the Federal Reserve Act and does not need a voting permit from the Board of Governors in order to vote the bank stock which it owns.

If, however, the facts should at any time differ from those set out above to an extent which would indicate that Society for Savings Company in the City of Cleveland might be deemed to be so engaged, this matter should again be submitted to the Board. The Board reserves the right to rescind this determination and make a further determination of this matter at any time on the basis of the then existing facts.

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

4/13/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 13, 1959.



Board of Directors,
Garfield Commercial & Savings Bank,
East Los Angeles, California.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of San Francisco, the Board of Governors approves the establishment of a branch at 225 West Garvey Avenue, Monterey Park, California, by Garfield Commercial & Savings Bank, East Los Angeles, California. 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 structure is to be increased \$172,500 prior to establishment of the branch.

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
4/13/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 13, 1959.

Mr. Hugh Leach, President,
Federal Reserve Bank of Richmond,
Richmond 13, Virginia.

Dear Mr. Leach:

This refers to your letter of March 27 concerning the renovation and enlargement of the air conditioning system at your head office building, in which it was stated that as the work approached three-fourths completion it became apparent the final cost will be approximately \$750,000, which is \$200,000 above the amount approved in the Board's letter of March 7, 1958.

It is noted that after full discussion of all phases of the situation, including critical review of the explanations offered by the architect and the contractor for the differences between the original and present estimates of final cost, your directors approved the recommendation of the officers of your Bank that the total authorized expenditures under the contract be increased from \$550,000 to \$750,000, with the understanding that this action would be brought to the attention of the Board of Governors. It is further noted that you are of the opinion that when the project reaches completion the Bank will have received full value for all funds expended.

In view of the circumstances set forth in your letter and in the attachments thereto, the Board will interpose no objection to the additional expenditure of approximately \$200,000 over the \$550,000 previously authorized, or a total not to exceed \$750,000 for the project.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 5
4/13/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 13, 1959.



Dear Sir:

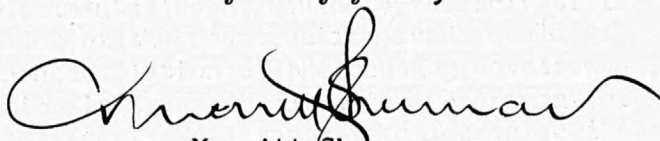
The reports relative to the number of officers and employees selected by the Federal Reserve Banks to attend the various banking schools during the summer sessions of 1959 have now been received.

From the information submitted, it appears that the total number of officers and employees selected to attend these schools conforms to the policy outlined in the Board's letter on this subject, S-1489, dated February 26, 1953.

The purpose of the Board's request for this annual report on attendance was to determine whether System representation was becoming disproportionate in relation to the entire student body of the schools. Reports received since 1953 indicate that Reserve Bank attendance has not been disproportionate. During the intervening years banking schools have generally raised their eligibility requirements as to age and experience and, in addition, the Graduate School at Rutgers has adopted a quota system to regulate the attendance from any one bank. It appears, therefore, that the necessity for this report no longer exists.

The Board is preparing a new letter consolidating instructions relative to attendance at Graduate Schools of Banking from which, in view of the circumstances indicated above, the requirement of an annual report will be omitted.

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. 6
4/13/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 13, 1959.

Mr. Robert Dechert, General Counsel,
Department of Defense,
Washington 25, D. C.

Dear Mr. Dechert:

This refers to your letter of March 13, 1959, with which you enclosed two title documents you are contemplating using, in lieu of title insurance, in connection with the construction of defense housing under the so-called "Capehart" program. One of these documents is a continuing warranty of title captioned "Title Instrument" which is to be executed by the mortgagor for the benefit of the mortgagee, and the other, captioned "Guaranty with Respect to Title Instrument" is to be executed by the Department of Defense and is a guaranty of the "Title Instrument." You have asked for an opinion as to whether these documents could be considered suitable substitutes for title insurance from the point of view of bank supervisory authorities.

As we understand the arrangement under the "Capehart" plan, a corporation, specially formed by private individuals for the purpose, enters into a building contract with the Department of Defense for the purpose of constructing defense housing. The corporation also enters into a long-term lease with the United States Government for government land on which the housing is to be constructed. The corporation then obtains mortgage financing from a private institution for the purpose of constructing the housing development and gives the lender the "Title Instrument." The Department of Defense concomitantly issues its guaranty of this instrument. These documents, then, would be the only title evidence on which the lender of the construction funds could support its mortgage. Upon completion of the housing development, the stock of the corporation is transferred to the Department of Defense and, in the ordinary course of events, a different private lender would take over the permanent financing of the project. After receiving the stock of the builder corporation, the lender

Mr. Robert Dechert

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of the funds for permanent financing is guaranteed payment of the mortgage debt by the Department of Defense, irrespective of any other considerations, title, or otherwise. Thus, the question is as to what title protection the lender of the construction funds should have during the construction period.

It is expected that a bank lending funds on the security of a mortgage will, in all cases, have satisfactory evidence in its files that will assure the bank of the validity of the mortgage and its lien position. There are, however, no rules which prescribe the form or source of such evidence. The only requirement is that it be adequate. Therefore, if the instruments captioned "Guaranty with Respect to Title Insurance" and "Title Instrument" become operative upon the date the loan is made, and if no material exceptions are contained in schedule "A" of the "Title Instrument," and if the Department of Defense has the authority to assume the burden of guaranteeing the "Title Instrument" executed by the mortgagor, we can see no objection to the method of furnishing title evidence that you propose.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 7
4/13/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 13, 1959.

George Cochran Doub,
Assistant Attorney General,
Civil Division,
United States Department of Justice,
Washington 25, D. C.

Re: R. S. Bowlby and Robert West
d/b/a R. S. Bowlby Manufacturing
Co. v. Harris Trust & Savings
Bank, United States, Federal
Reserve Bank of Chicago, U.S.D.C.
E.D. Texas, Civ. No. 331.

Dear Mr. Doub:

This is in response to your letter of April 1, 1959, in which you request to be advised whether the Board would wish the Civil Division, Department of Justice, to represent the Federal Reserve Bank of Chicago in the above suit.

Pursuant to the provisions of section 301 of the Defense Production Act, the Federal Reserve Banks act as fiscal agents of the guaranteeing agencies, in this case the Department of the Navy, in connection with V loans. Since the filing of the above suit, the Federal Reserve Bank of Chicago has requested its principal, the Department of the Navy, to arrange for the Reserve Bank to be represented by the Department of Justice.

You are advised that the Board is in agreement with the above arrangement.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

cc: Federal Reserve Bank of Chicago.

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

Item No. 8
4/13/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 13, 1959.



Mr. Alonzo G. Decker, Jr.,
Chairman of the Board and
Federal Reserve Agent,
Federal Reserve Bank of Richmond,
Richmond 13, Virginia.

Dear Mr. Decker:

In accordance with the request contained in your letter of March 27, 1959, the Board of Governors approves the appointment of Mr. Herman C. Yaeger as an additional Federal Reserve Agent's Representative at the Charlotte Branch.

This approval is given with the understanding that Mr. Yaeger will be solely responsible to the Federal Reserve Agent and the Board of Governors for the proper performance of his duties, except that, during the absence or disability of the Federal Reserve Agent or a vacancy in that office, his responsibility will be to the Assistant Federal Reserve Agent and the Board of Governors.

When not engaged in the performance of his duties as Federal Reserve Agent's Representative, Mr. Yaeger may, with the approval of the Federal Reserve Agent and the Vice President in charge of the Charlotte Branch, perform such work for the Branch as will not be inconsistent with his duties as Federal Reserve Agent's Representative.

It will be appreciated if Mr. Yaeger is fully informed of the importance of his responsibilities as a member of the staff of the Federal Reserve Agent and the need for maintenance of independence from the operations of the Bank in the discharge of these responsibilities.

It is noted from your letter that with the approval of this appointment by the Board of Governors, Mr. Yaeger will execute the usual Oath of Office which will be forwarded to the Board of Governors and that his appointment will become effective on the date of execution of the Oath.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 9
4/13/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 13, 1959.



Mr. Robert J. Smith,
Chairman of the Board and
Federal Reserve Agent,
Federal Reserve Bank of Dallas,
Dallas 2, Texas.

Dear Mr. Smith:

In compliance with the request contained in your letter of March 30, 1959, the Board of Governors approves the appointment of Mr. Jesse D. Sanders as Alternate Assistant Federal Reserve Agent at the Federal Reserve Bank of Dallas to succeed Mr. Edward Price and the appointment of Mr. James R. Benton as an additional Alternate Assistant Federal Reserve Agent in anticipation of the retirement of Assistant Federal Reserve Agent Hudel in 1960.

This approval is given with the understanding that they will be solely responsible to the Federal Reserve Agent and the Board of Governors for the proper performance of their duties, except that, during the absence or disability of the Federal Reserve Agent or a vacancy in that office, their responsibility will be to the Assistant Federal Reserve Agent and the Board of Governors.

When not engaged in the performance of their duties as Alternate Assistant Federal Reserve Agents, Messrs. Sanders and Benton may, with the approval of the Federal Reserve Agent and the President, perform such work for the Bank as will not be inconsistent with their duties as Alternate Assistant Federal Reserve Agents.

It will be appreciated if these new appointees are fully informed of the importance of their responsibilities as members of the staff of the Federal Reserve Agent and the need for maintenance of independence from the operations of the Bank in the discharge of these responsibilities.

Mr. Robert J. Smith

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It is noted from your letter that upon the approval of these appointments by the Board of Governors, Messrs. Sanders and Benton will execute the usual Oath of Office which will be forwarded to the Board of Governors together with advice of the effective date of their appointments.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.