



Minutes of the Board of Governors of the Federal Reserve System  
on Friday, April 17, 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. Sherman, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Riefler, Assistant to the Chairman  
Mr. Marget, Director, Division of International  
Finance  
Mr. Johnson, Director, Division of Personnel  
Administration  
Mr. Hackley, General Counsel  
Mr. Molony, Special Assistant to the Board  
Mr. Furth, Associate Adviser, Division of  
International Finance  
Mr. Sprecher, Assistant Director, Division of  
Personnel Administration  
Mr. Solomon, Assistant General Counsel  
Mr. Hexter, Assistant General Counsel  
Mr. Benner, Assistant Director, Division of  
Examinations  
Mr. Hill, Assistant to the Secretary  
Mr. Young, Assistant Counsel

Defense planning memorandum. Governor Robertson suggested that copies of the Federal Reserve staff committee memorandum "Preattack Planning for Postattack Financial and Economic Rehabilitation," revised April 16, 1959, be sent to the members of the Federal Advisory Council, and there was agreement with the suggestion.

Discount rates. The establishment without change by the Federal Reserve Banks of New York, Philadelphia, and Chicago on April 16, 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 those Banks.

4/17/59

-2-

Item circulated to the Board. The following item, which had been circulated to the Board and a copy of which is attached to these minutes under the item number indicated, was approved unanimously:

Item No.

Letter to the Secretary of the Retirement System of the Federal Reserve Banks approving an amendment to the Connecticut General group life insurance policy. (Prepared in the light of developments resulting from the action taken by the Board on January 19, 1959.)

1

Messrs. Johnson and Sprecher then withdrew from the meeting.

Loans to wives of executive officers (Item No. 2). Pursuant to the understanding at the meeting of April 13, 1959, there had been distributed to the Board a revised draft of letter to the Comptroller of the Currency regarding the question of possible violation of section 22(g) of the Federal Reserve Act and Regulation O, Loans to Executive Officers of Member Banks, because of loans made to the wives of certain executive officers of The Citizens & Southern National Bank of Charleston, South Carolina.

In commenting, Mr. Hackley called to the Board's attention that the legislative history of section 22(g) suggested it was not intended to apply to loans to relatives and wives of executive officers. At one point, he noted, Senator Gore introduced an amendment that would have required a report to the board of directors on loans to wives or close relatives of executive officers. However, the amendment was

4/17/59

-3-

defeated, even though in the course of discussion Senator Gore made it clear that no limit would be placed thereby upon borrowings by wives and relatives.

Mr. Hackley then distributed a further revised draft of the letter to the Comptroller, the nature of the revision being to strengthen the last paragraph by making it clear, should that be the Board's position, that the loans in question were considered to be in violation of the spirit and purpose of the law.

Governor Mills expressed the view that the correct position was the one taken in the original draft letter considered by the Board at the April 13 meeting. He suggested that this was more of a problem than might appear on the surface, for as a morale builder and a matter of paternalistic control certain banks like to have the advantage of extending credit to their official families in one way or another, and at a preferential rate. Personally, he felt that relationships between a bank and its executive officers creditwise should be at arm's length, and he concurred in the practice followed at many banks where officers are forbidden to borrow from the bank and have to arrange loans from other sources of credit. Nevertheless, he would not want to disparage the practice followed by certain reliable financial institutions. A letter making the presumption that loans to wives of executive officers would be liquidated from the earning power of the husbands seemed to

4/17/59

-4-

him to be reaching rather far. However, his principal concern about the revised draft of letter had to do with the seeming inconsistency between the position taken therein and the recommendations of the Board and the Comptroller of the Currency in connection with the proposed Financial Institutions Act, which favored a substantial liberalization in the limitations on loans to executive officers. Until that issue was settled, it seemed to him that it would be too exacting to condemn a practice that in his impression was rather widespread. He then suggested that this problem might be discussed with the Interagency Standing Committee of Bank Supervisors in order to sound out the opinions of the supervisory authorities represented in that group.

Governor King indicated agreement with the views expressed by Governor Mills, including the suggestion that the subject be discussed with the Interagency Standing Committee.

Governor Robertson commented that another meeting of the Committee was to be held within a month or less. From the standpoint of the existing law and regulation, he felt that the position taken in the revised draft of letter was proper. While he concurred in the view that the present law was too restrictive, it appeared to him that the Board must be guided by the terms of the statute until the law was changed. If, however, it was the view that discussion by the Interagency

4/17/59

-5-

Committee was desirable, he would be inclined to defer a final reply to the Comptroller on the question that had been raised.

After further discussion, it was agreed that arrangements should be made to discuss the subject at the next meeting of the Interagency Standing Committee, with the understanding that the Comptroller of the Currency would be advised of the intention to have such a discussion. A copy of the letter sent to the Comptroller pursuant to this action is attached as Item No. 2.

Messrs. Hexter, Benner, and Young then withdrew from the meeting.

Inter-American Development Bank. There had been distributed to the Board a memorandum from Mr. Marget, Director of the Division of International Finance, dated April 16, 1959, regarding a draft bill providing for United States participation in the proposed Inter-American Development Bank that had been submitted to the National Advisory Council Staff Committee for review prior to formal transmittal to the Bureau of the Budget. The bill would provide for the appointment of a Governor, an Executive Director, and their alternates, and the memorandum raised the question whether the Board might wish to have its staff representatives suggest an amendment to the bill to make it clear that the provisions of section 10, paragraphs 1 and 4, of the Federal Reserve Act would not preclude the appointment of a member of the Board to such a position.

Comments by members of the Board revealed a unanimity of opinion that it would not be advisable to propose such an amendment at this time.

4/17/59

-6-

Among other things, doubt was expressed concerning the desirability of an arrangement by which a member of the Board would assume a position with an international institution that required any substantial amount of his time to be devoted to such duties. It was suggested, however, that further thought might be given to this matter at some time in the future in connection with other revisions of the Federal Reserve Act.

In this connection, Governor Mills requested that the Division of International Finance prepare for the Board's information a memorandum concerning the circumstances surrounding affiliations between central banks in foreign countries and international institutions.

The meeting then adjourned.

Secretary's Notes: Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson today approved on behalf of the Board the appointment of the following persons to the Board's staff, effective upon assuming duties:

John D. Smith as Technical Assistant, Division of Bank Operations, with basic annual salary at the rate of \$7,750.

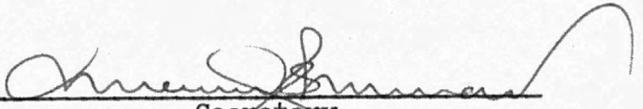
Patricia Lee Davis as Clerk-Stenographer, Division of Personnel Administration, with basic annual salary at the rate of \$3,755.

Governor Shepardson also approved today on behalf of the Board the recommendation contained in a memorandum from the Division of Personnel Administration dated April 17, 1959, that all members of the Board's staff now 50 years of age or over be

4/17/59

-7-

requested to furnish the Division of Personnel Administration a birth certificate or other appropriate proof of age as soon as practicable and within a period of six months; and that staff members reaching age 50 henceforth be requested individually to furnish similar proof of age.



---

Secretary

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

Item No. 1  
4/17/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 17, 1959

Mrs. Valerie R. Frank,  
Secretary, Retirement System  
of the Federal Reserve Banks,  
Federal Reserve Bank of New York,  
New York 45, New York.

Dear Mrs. Frank:

With reference to your letter of April 1, 1959,  
the Board of Governors approves the amendment to the Connecticut  
General group life insurance policy to eliminate insurance  
coverage in cases where employees of the Federal Reserve Banks  
are retained in service after age 65 and vest their retirement  
benefits either by formal retirement or by some other means.

For this purpose the Secretary of the Board has  
executed the attached authorization for the Federal Reserve  
Bank of Chicago's accepting and signing a rider substantially  
in the form of the rider enclosed with your letter of April 1,  
1959. It is understood that this authorization will extend  
to the Federal Reserve Bank of Chicago's accepting and signing  
an additional rider amending the paragraph entitled "Conversion  
privilege" on page 6 of the original contract as set forth in  
the authorization.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

Enclosure.

To the Federal Reserve Bank of Chicago:

The Federal Reserve Bank of Chicago is authorized on behalf of the Board of Governors of the Federal Reserve System, to accept and sign a rider substantially in the form of the rider enclosed with the letter from the Retirement System, dated April 1, 1959, which rider is to be attached to and form a part of policy No. 22271-01 (formerly No. G-9999) issued by the Connecticut General Life Insurance Company.

The Federal Reserve Bank of Chicago is also authorized on behalf of the Board of Governors of the Federal Reserve System to accept and sign an additional rider to be attached to and form a part of said policy, which rider will amend the first sentence of the paragraph entitled "Conversion Privilege" on page 6 to read substantially as follows (the underscored words indicating changes):

"Conversion Privilege. If written application and payment of premium are made by any insured employee to the Company (within 31 days after termination of employment or) within 31 days after termination of his insurance other than upon the termination of this policy, the Company shall issue, without evidence of insurability, any policy of life insurance (without disability benefits) applied for, which is customarily issued by it, except Term insurance, in an amount not greater than the amount of the employee's life insurance under this Group policy at the time of such termination."

It is understood that the words "(within 31 days after termination of employment or)" will be omitted if the insurance company agrees and the Illinois Insurance Department makes no objection.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

BY

  
Merritt Sherman,  
Secretary

April 17, 1959  
DATE

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

Item No. 2  
4/17/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 24, 1959



Mr. W. M. Taylor,  
Deputy Comptroller of the Currency,  
Treasury Department,  
Washington 25, D. C.

Dear Mr. Taylor:

This is in response to your letter of March 2, 1959, with which was enclosed an excerpt from a report of examination of the Citizens & Southern National Bank of South Carolina, Charleston, South Carolina. You have requested the Board's advice as to whether specified loans made to wives of certain executive officers of the bank are in violation of section 22(g) of the Federal Reserve Act and Regulation O.

While the Board has given considerable thought to the above question, in view of the fact that all bank supervisory agencies may be interested in the problem, the Board is suggesting that this subject be placed on the agenda for discussion by the Inter-Agency Committee in order that the Board may have the benefit of the views of that Committee before giving you a final answer.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.