

Minutes of the Board of Governors of the Federal Reserve System
on Wednesday, May 20, 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. Farrell, Director, Division of Bank Operations
Mr. Solomon, Assistant General Counsel
Mr. Hexter, Assistant General Counsel
Mr. Hostrup, Assistant Director, Division of
Examinations
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

Discount rates. The establishment without change by the Federal Reserve Banks of Boston and Atlanta on May 18, 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.

Items circulated to the Board. The following items, which had been circulated to the Board, with appropriate supporting information, and copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:

5/20/59

-2-

	<u>Item No.</u>
Letter to The First National City Bank of New York, New York City, approving the establishment of a branch in Guayaquil, Ecuador. (For transmittal through the Federal Reserve Bank of New York)	1
Letter to the Catskill National Bank and Trust Company, Catskill, New York, approving its supplemental application for fiduciary powers. (For transmittal through the Federal Reserve Bank of New York)	2
Letter to The County Trust Company, White Plains, New York, approving the relocation of its branch at 333 South Fulton Avenue, Mount Vernon, to South Columbus Avenue and Colonial Place. (For transmittal through the Federal Reserve Bank of New York)	3
Letter to the Millburn-Short Hills Bank, Millburn, New Jersey, granting an extension of time within which to accomplish membership in the System. (For transmittal through the Federal Reserve Bank of New York)	4
Letter to The Dulaney National Bank of Marshall, Marshall, Illinois, approving its application for fiduciary powers. (For transmittal through the Federal Reserve Bank of Chicago)	5
Prior tax certification with respect to The Kemper Investment Company, Kansas City, Missouri. (For transmittal to the Company through the Federal Reserve Bank of Kansas City, and with a duplicate original to the Commissioner of Internal Revenue)	6
Letter to the First National Bank of Jonesboro, Jonesboro, Arkansas, regarding its surrender of the authority to exercise fiduciary powers. (For transmittal through the Federal Reserve Bank of St. Louis)	7
Letter to the Hereford State Bank, Hereford, Texas, waiving six months' notice of withdrawal from membership in the Federal Reserve System. (For transmittal through the Federal Reserve Bank of Dallas)	8

5/20/59

-3-

Item No.

Letter to the Federal Reserve Bank of Dallas regarding the applicability of section 32 of the Banking Act of 1933 to the service of Mr. Henry E. Dahlberg as a director of the Southern Arizona Bank and Trust Company, Tucson, Arizona. (With a copy to the Federal Reserve Bank of Kansas City in view of a related case that had arisen in that District)

9

Messrs. Nelson, Goodman, and Benner then withdrew from the meeting.

Services for member banks (Item No. 10). There had been distributed to the Board a draft of reply to a letter from Mr. Mitchell, Chairman of the Board of the Federal Reserve Bank of Atlanta, dated May 1, 1959, requesting the Board's consideration of a resolution adopted by the Board of Directors of the Federal Reserve Bank of Atlanta which urged the management of the Bank to (1) study the feasibility of an increase in armored car service with a view to serving eventually practically the entire membership of the Sixth Federal Reserve District and (2) investigate the cost of supplying the member banks with wrapped coin and determine whether this service could be furnished without charge or, if necessary, at a nominal cost. This resolution had been initiated by a Special Committee on Member Bank Services composed of directors of the Sixth District, appointed to make a study of possibilities of broadening the services rendered by the Federal Reserve Bank to its member banks.

5/20/59

-4-

Mr. Farrell commented that Mr. Mitchell's letter reflected awareness of the Board's recent request that the Presidents' Conference review the basis for computing the costs of the coin wrapping operation with a view to securing reimbursement of substantially the costs involved for those Banks desiring to provide the service. With respect to armored car service, Mr. Farrell said a case could be made for its extension in view of the poor mail service to many points in the Atlanta District.

During the discussion which followed, the suggestion was made that the letter be phrased in such a manner as to point out clearly that supplying member banks with currency and coin without charge was an appropriate and essential function of the Reserve Banks, whereas in the Board's view coin wrapping was not in the same category.

In connection with the possible extension of armored car service, attention was called to a tentative strike of armored car drivers in the Pittsburgh area and question was raised as to the advisability of abandoning United States mail service and extending armored car service in view of the possibility of interruptions of service. The suggestion was made that the letter contain no implication that the Board was urging the use of armored cars, particularly since abandonment of the use of registered mail might mean that this service would not be available if a future need for it should arise.

5/20/59

-5-

In response to a question as to whether any Reserve Bank had made a study of the desirability of owning and operating its own armored cars as an alternative to contracting with a private company, Mr. Farrell said he was not aware of any study regarding possible use of Bank-owned trucks except in a Reserve Bank city but that he would look into the matter.

With respect to the possibility of a strike in the Pittsburgh area, it was suggested that a similar strike may have occurred elsewhere and that the Pittsburgh Branch might find helpful the experience of the Reserve Bank concerned. It was brought out during this discussion that arrangements reportedly had been made for certain Pittsburgh companies to pick up funds to meet payrolls at the Branch in their own trucks if armored car service used by member banks should be affected by a strike. Question was raised whether such a practice was advisable, and it was understood that the Division of Bank Operations would discuss the matter with the management of the Pittsburgh Branch.

The letter to Mr. Mitchell then was approved unanimously in a form reflecting the suggestions agreed upon at this meeting. A copy of the letter sent pursuant to this action is attached as Item No. 10.

Mr. Smith, Assistant Director, Division of Examinations, entered the room during the foregoing discussion.

5/20/59

-6-

Safekeeping practices of Federal Reserve Banks. In its letter of September 19, 1957, the Board requested the Presidents' Conference to review the entire subject of safekeeping facilities. The Subcommittee on Cash, Leased Wire, and Sundry Operations subsequently submitted a report on the matter, which was accepted by the Presidents' Conference at its February 1958 meeting and was discussed with the Board at that time. On December 8, 1958, the Board addressed a letter to Mr. Erickson, Chairman of the Presidents' Conference, in which it was (1) noted that the acceptance by the Presidents of the Subcommittee report mentioned above represented basically a reaffirmation of decisions reached upon earlier occasions by the Presidents' Conference and the Board, and (2) suggested that a current statement of general policy be agreed upon along lines which were set forth in that letter. When this statement was considered by the Presidents at a special session on January 6, 1959, some of the Presidents suggested that certain changes might be desirable in the light of present circumstances, and it was then agreed that any additions to or deletions from the proposed statement should be submitted to the Committee on Miscellaneous Operations. A modified statement was presented to the Conference on March 23, 1959, incorporating practically all the suggestions submitted by the several Reserve Banks so that in effect it recognized the various safekeeping practices which were currently deemed desirable

5/20/59

-7-

by the Reserve Banks. During the joint meeting of the Board and the Presidents on March 24, 1959, the modified statement of general policy was reviewed and the Presidents were advised that the Board would give consideration to the proposed statement and inform the Conference of its views.

Under date of May 13, 1959, there had been distributed to the Board a memorandum from the Division of Bank Operations containing a comparative analysis of the modified statement and the statement proposed by the Board. Submitted with the memorandum were alternative draft letters to the Presidents of all Federal Reserve Banks (1) accepting the proposed policy statement and (2) setting forth a brief statement of broad policy.

In commenting on the modified statement proposed by the Presidents' Conference, Mr. Farrell said that the policy was less restrictive than might appear to be the case due to the insertion of various catch-all phrases. Accordingly, he suggested that in lieu of such a detailed statement, the Board might wish to consider a broad general statement which he thought would have the same practical effect as the statement adopted by the Presidents.

During the discussion that followed, some opinion was expressed in favor of the issuance of a general statement such as proposed by the Division of Bank Operations, thus leaving a broad scope of administrative discretion to the Banks. A second view was that the policy

5/20/59

-8-

statement should be more detailed and that to leave the interpretation of a broad policy to the discretion of the individual Banks would result in a variation in practices. In time, it was suggested, practices would tend to gravitate to the level of the most liberal Bank. It was also pointed out that under a broad policy examiners might lack adequate criteria for evaluating safekeeping practices in the Reserve Banks.

Question was raised as to the validity of the vault adequacy test for reserve city banks and whether the policy statement should not restrict the holding of securities for reserve city banks to "limited periods." It was pointed out that both the vault adequacy test and the time limitation were originally included to permit the holding of securities of a reserve city bank temporarily in need of vault space.

The suggestion then was made that a letter to the Reserve Banks be drafted which would contain a policy statement to the effect that the Banks would hold securities in safekeeping only when such holdings contributed to the efficient and economical operations of the Banks or were otherwise in the public interest and were consistent with the purposes of the System. This general statement would be supplemented by examples of types of holdings that would or would not be consistent with such a policy, with the examples drawn from outstanding letters to the Reserve Banks.

After further discussion, it was agreed that a letter along such lines would be prepared for the Board's consideration.

5/20/59

-9-

Messrs. Hexter, Hostrup, and Smith then withdrew from the meeting and Messrs. Thomas, Economic Adviser to the Board, and Shay, Legislative Counsel, entered the room.

Letter to Congressman Kilburn (Item No. 11). Governor Balderston related to the Board that a telephone request had been received from the office of Congressman Kilburn of New York for comment regarding a letter dated May 19, 1959, that Congressman Patman addressed to members of the House Committee on Banking and Currency in connection with H.R. 5237, a bill "to amend member bank reserve requirements". In the letter, Mr. Patman stated that the Federal Reserve in effect, was saying that it wanted to transfer about \$15 billion of Government bonds to the commercial banks because they needed the profits from them and that he would ask the Committee to conduct further hearings on the bill. Mr. Kilburn wished to make a statement tomorrow at the Committee meeting and was desirous of receiving the Board's comments.

Mr. Thomas distributed to the members of the Board a draft of reply to Congressman Kilburn and a memorandum proposed to be enclosed. The memorandum was similar in form to one previously prepared by members of the staff at the request of Congressman Hiestand of California and dealt with the principal points made by Congressman Patman at the hearings before Subcommittee No. 2 regarding H.R. 5237.

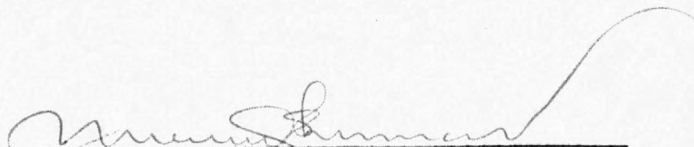
5/20/59

-10-

Following a discussion, during which a suggestion was made for a change in the draft of letter to Congressman Kilburn, the Board approved unanimously a letter in the form attached as Item No. 11, with the understanding that copies of the letter and memorandum would be sent to Chairman Spence of the House Banking and Currency Committee and Chairman Brown of Subcommittee No. 2, House Banking and Currency Committee.

The meeting then adjourned.

Secretary's Note: Pursuant to the recommendation contained in a memorandum dated May 12, 1959, from Mr. Kelleher, Director, Division of Administrative Services, Governor Shepardson, acting on behalf of the Board, today granted permission to Wilbert L. Stephens, Laborer in that Division, to continue part-time outside employment as a parking attendant for the Doggett Parking Company.


Secretary

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

Item No. 1
5/20/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 20, 1959.

The First National City Bank of New York,
55 Wall Street,
New York, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System authorizes The First National City Bank of New York, New York, New York, pursuant to the provisions of Section 25 of the Federal Reserve Act, to establish a branch in Guayaquil, Ecuador, and to operate and maintain such branch subject to the provisions of such Section; upon condition that, unless the branch is actually established and opened for business on or before June 1, 1960, all rights granted hereby shall be deemed to have been abandoned and the authority hereby granted shall automatically terminate on such date.

Please advise the Board of Governors in writing, through the Federal Reserve Bank of New York, when the branch is established and opened for business, furnishing information as to the exact location of the branch. It is understood that no change will be made in the location of the branch after establishment without the prior approval of the Board of Governors.

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
5/20/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



May 20, 1959.

Board of Directors,
Catskill National Bank and
Trust Company,
Catskill, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System has given consideration to your supplemental application for fiduciary powers, and, in addition to the authority heretofore granted to act as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, and committee of estates of lunatics, grants you authority to act, when not in contravention of State or local law, in any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the State of New York. The exercise of all such powers shall be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

A formal certificate indicating the fiduciary powers that Catskill National Bank and Trust Company is now authorized to exercise will be forwarded to you in due course.

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
5/20/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 20, 1959.

Board of Directors,
The County Trust Company,
White Plains, New York.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors of the Federal Reserve System approves the relocation of the branch presently located at 333 South Fulton Avenue, Mount Vernon, New York, to a new location in the vicinity of the intersection of South Columbus Avenue and Colonial Place, Mount Vernon, New York. This approval is given provided the branch is established at the new location within one year from the date of this letter.

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
5/20/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 20, 1959.



Board of Directors,
Millburn-Short Hills Bank,
Millburn, New Jersey.

Gentlemen:

In accordance with a request submitted through the Federal Reserve Bank of New York, the Board of Governors extends to August 24, 1959, the time within which Millburn-Short Hills Bank, Millburn, New Jersey, may accomplish admission to membership in the Federal Reserve System, as outlined in the Board's letter of November 25, 1958.

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
5/20/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 20, 1959.



Board of Directors,
The Dulaney National Bank
of Marshall,
Marshall, Illinois.

Gentlemen:

The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers and grants you authority to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the State of Illinois, the exercise of all such rights to be subject to the provisions of Section 11(k) of the Federal Reserve Act and Regulation F of the Board of Governors of the Federal Reserve System.

A formal certificate indicating the fiduciary powers that The Dulaney National Bank of Marshall is now authorized to exercise will be forwarded to you in due course.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 6
5/20/59

C E R T I F I C A T I O N

1. The Board of Governors of the Federal Reserve System has been informed by The Kemper Investment Company, Kansas City, Missouri, that it proposes to distribute to its shareholders on a pro rata basis the following shares of bank stock:

<u>Number of Shares</u>	<u>Name of Bank</u>
133,360	The City National Bank and Trust Company of Kansas City, Kansas City, Missouri
1,201 $\frac{1}{2}$	The Citizens National Bank of Emporia, Emporia, Kansas
3,334	Grand Avenue Bank of Kansas City, Kansas City, Missouri
4,800	Kemper State Bank, Boonville, Missouri
463 $\frac{1}{4}$	Clay County State Bank, Excelsior Springs, Missouri
5,976	The First National Bank of Independence, Independence, Missouri
76,722	The Fourth National Bank in Wichita, Wichita, Kansas

2. Pursuant to the provisions of section 1101(b) and section 1103(b) of the Internal Revenue Code of 1954, the Board of Governors of the Federal Reserve System hereby certifies that:

- (a) The Kemper Investment Company satisfies the requirements of subsection (b) of section 1103 of the Internal Revenue Code of 1954 and therefore is a "qualified bank holding corporation" as defined in that subsection.
- (b) The shares of bank stock enumerated in "1" above, are all or part of the property by reason of which The Kemper Investment Company controls (within the meaning of section 2(a) of the Bank Holding Company Act of 1956) the named banks.
- (c) The proposed distribution of the shares of bank stock enumerated hereinabove is appropriate to effectuate the policies of the Bank Holding Company Act of 1956.

Executed in Washington, D. C., pursuant to direction of the Board of Governors of the Federal Reserve System.

(SEAL)

(Signed) Merritt Sherman
Merritt Sherman, Secretary.

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

1804

Item No. 7
5/20/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 20, 1959.

First National Bank of Jonesboro,
Jonesboro, Arkansas.

Gentlemen:

This refers to the resolution adopted on December 16, 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 Jonesboro 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 25, D. C.

Item No. 8
5/20/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



May 20, 1959.

Board of Directors,
Hereford State Bank,
Hereford, Texas.

Gentlemen:

The Federal Reserve Bank of Dallas has forwarded to the Board of Governors your letter of April 24, 1959, and the accompanying resolution signifying your intention to withdraw from membership in the Federal Reserve System and requesting waiver of the six months' notice of such withdrawal.

In accordance with your request, the Board of Governors waives the requirement of six months' notice of withdrawal. Upon surrender to the Federal Reserve Bank of Dallas of the Federal Reserve Bank stock issued to your institution, such stock will be canceled and appropriate refund will be made thereon. Under the provisions of section 10(c) of the Board's Regulation H, your bank may terminate membership in the Federal Reserve System at any time within eight months after notice of intention to withdraw from membership was given. It is requested that the certificate of membership be returned to the Federal Reserve Bank of Dallas.

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. 9
5/20/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



May 20, 1959.

Mr. L. G. Pondrom, Vice President,
Federal Reserve Bank of Dallas,
Dallas 2, Texas.

Dear Mr. Pondrom:

Receipt is acknowledged of your letter of April 2, 1959,
and enclosures, relating to the question whether Mr. Henry E.
Dahlberg may continue to serve as a director of the Southern
Arizona Bank and Trust Company, Tucson, Arizona, in view of the
provisions of section 32 of the Banking Act of 1933.

As pointed out in your letter and the comprehensive
memorandum of counsel which you enclosed, the question has been
considered previously, and on the basis of the figures for the
years prior to 1957, the Board concluded that section 32 was not
applicable. The year 1956 showed a rather large volume of sec-
tion 32 business but was regarded as unusual because it included
items which it was thought were not likely to recur. Therefore,
although the question appeared to be a very close one, the Board
stated that business of the kind described in section 32 need not
at that time be regarded as one of the primary activities of
J. A. Hogle & Co.

However, the information submitted with your letter indi-
cates that the total volume of underwriting and distributing has,
contrary to expectations, increased, and the totals have been
\$9 million for 1956, \$8 million for 1957, and over \$24 million for
1958, the ratio of income from this business to total gross income
being 10.62 per cent, 10.06 per cent, and 11.22 per cent, respec-
tively, for these three years.

The Supreme Court said in Board of Governors v. Agnew,
329 U.S. 441, "If the underwriting business of a firm is substantial,
the firm is engaged in the underwriting business in a primary way
* * *. The line between substantial and unsubstantial seems to us
to be the one indicated by the words 'primarily engaged'."

Mr. L. G. Pondrom

-2-

Your counsel points out that the experience of your Bank in section 32 matters has been limited. However, a review of the cases considered by the Board under this statute shows that in cases where the total volume of section 32 business was large (\$10 or \$15 million and over), the Board has held that the firm was "primarily engaged" in such business, even though the income from that source was considerably less than 10 per cent (or in one case even less than 5 per cent) of the total income of the firm. Consistently with the position taken in these cases, it appears that J. A. Hogle & Co. should be regarded as primarily engaged in the business described in section 32 and that Mr. Dahlberg may no longer serve as a director of the member bank.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 10
5/20/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 20, 1959

Mr. Walter M. Mitchell,
Chairman of the Board,
Federal Reserve Bank of Atlanta,
Atlanta 3, Georgia.

Dear Mr. Mitchell:

This is in reply to your letter of May 1, 1959 enclosing for the Board's consideration a resolution adopted by the Board of Directors of the Federal Reserve Bank of Atlanta pertaining to services rendered by the Reserve Bank to its member banks, particularly the wrapping of coin and the extension of armored car service in over-the-road shipment of money. It is noted that this resolution was initiated by a newly appointed Special Committee on Member Bank Services composed of directors of the Sixth District which was appointed to make a study of possibilities of broadening the services rendered by the Federal Reserve Bank to its member banks.

The Board agrees with your Committee that the Federal Reserve System should do everything reasonably possible for the member banks, thereby making membership in the System more attractive. However, because of the quasi-public nature of the Federal Reserve Banks and the interest of the Federal Government in their net earnings, the Board feels that the free services which are offered to member banks should be confined as a general practice to those that may be considered as a proper function of a central bank.

The resolution adopted by your Directors urges that the management of the Atlanta Bank pursue diligently the feasibility of a greater increase in the armored car service of the Reserve Bank, with the view of eventually serving practically the entire membership of the Sixth Federal Reserve District. Inasmuch as the Federal Reserve Banks are the primary source of supply for currency and coin, the Board has consistently taken the position that delivery service in this connection should be furnished all member banks on a basis as nearly equal as may be possible. The means by which this service is furnished is a matter which has been left largely for the individual Reserve Banks to decide in the light of the dictates of prudent

Mr. Walter M. Mitchell

-2-

management. While the Board recognizes that there are advantages in armored car service, it feels that caution should be used in any program that would rely completely, or to a large degree, on a means of shipment that is more subject to interruption (for example, by strikes) than is the United States mail service. Abandonment of the use of registered mail might mean that this service would not be available if a future need for it should arise.

As its second objective, the resolution requests the Reserve Bank management to investigate the cost of supplying wrapped coin to member banks and to determine whether this service can be furnished without charge, or, if believed necessary, at a nominal cost. The resolution further suggests that it would be highly desirable for some concessions to be made in this respect, particularly to the smaller banks. As your letter indicates, the idea of furnishing wrapped coin without charge or at nominal cost is contrary to the position taken by the Board in its letter of February 3, 1959, asking the Conference of Presidents to review the basis for computing the costs of the coin-wrapping operation with a view toward securing reimbursement for substantially the costs involved.

There is a substantial difference of opinion as to whether the furnishing of wrapped coin is a proper function of the Federal Reserve Banks. In taking the position that this was a matter that might be left to the judgment of the management of the individual Reserve Banks, the Board was partly influenced by the argument that many small banks cannot afford modern coin-wrapping equipment and that there are economies inherent in a centralized operation. However, the Board does not believe that these arguments carry persuasive reasons for furnishing the service at less than cost. The Board feels that the wrapping of coin is essentially a retail type of operation that goes beyond the function of the Reserve Banks as the primary source of supply for currency and coin. For these reasons, the Board continues to believe that, while there may be some justification for effecting economies through the offering of centralized wrapping facilities, it is inappropriate for the Reserve Banks to provide this service at substantially less than cost.

The resolution adopted by the Directors of your Bank also requests that the Board consider a suitable upward adjustment in the budget of the Atlanta Bank to take care of the proposed extension of the armored car and coin-wrapping services. It is assumed that, in the light of this letter, no steps will be taken to furnish wrapped coin without charge or at a nominal cost. Any excess expenditures

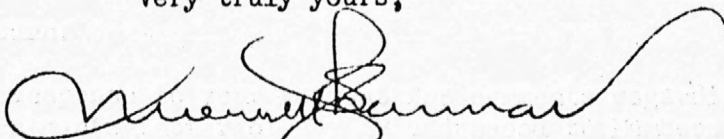
Mr. Walter M. Mitchell

-3-

resulting from an extension of the armored car service or from adoption of coin-wrapping service on a cost basis would be matters to be justified in the budget experience report submitted after the end of the year. Accordingly, it would appear that no budget adjustment by the Board would be necessary in this connection.

The Board is grateful for the interest your Directors have taken in these matters and for the opportunity to present its views to you.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Merritt Sherman". The signature is fluid and extends across the width of the page.

Merritt Sherman,
Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 11
5/20/59

OFFICE OF THE VICE CHAIRMAN

May 20, 1959.

The Honorable Clarence E. Kilburn,
House of Representatives,
Washington 25, D. C.

Dear Mr. Kilburn:

In response to your request for comments regarding Congressman Patman's letter of May 19 addressed to Members of House Committee on Banking and Currency, I am enclosing a copy of a memorandum prepared by members of the Board's staff with respect to Mr. Patman's statement presented at the hearings before Subcommittee No. 2 regarding H.R. 5237.

Mr. Patman's comments deal primarily with the use by the Federal Reserve of its powers to vary reserve requirements of member banks and to increase or decrease through open market operations the supply of reserves available to member banks. The System already has such powers, which are inherent in its responsibility to adjust the availability of bank credit and the money supply to the needs of the economy for the maintenance of growth and stability. H.R. 5237 is primarily designed to remove from the present law some structural inequities and difficulties of administration and only incidentally and to a relatively minor extent affects the System's existing authority to influence the over-all availability of reserves to the banking system.

In my testimony before Subcommittee No. 2, I indicated clearly the Board's intention to use the additional authority granted by the bill in a manner that would not conflict with the broader aims of monetary policy.

Sincerely yours,

(Signed) C. Canby Balderston

C. Canby Balderston,
Vice Chairman.