

Minutes for June 4, 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 <u>(w)</u>	_____
Gov. Szymczak	x <u>[Signature]</u>	_____
Gov. Mills	_____	x <u>[Signature]</u>
Gov. Robertson	x <u>R</u>	_____
Gov. Balderston	x <u>CCB</u>	_____
Gov. Shepardson	_____	x <u>[Signature]</u>
Gov. King	x <u>[Signature]</u>	_____

Minutes of the Board of Governors of the Federal Reserve System
on Thursday, June 4, 1959. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman 1/
Mr. Balderston, Vice Chairman
Mr. Szymczak
Mr. Robertson
Mr. King

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Riefler, Assistant to the Chairman
Mr. Hackley, General Counsel
Mr. Masters, Director, Division of Examinations
Mr. Molony, Special Assistant to the Board
Mr. Nelson, Assistant Director, Division of
Examinations
Mr. Powell, Special Counsel to the Board

Services of Mr. Holahan (Item No. 1). Pursuant to arrangements made as the result of discussion at yesterday's meeting, Mr. Powell was present for the purpose of amplifying his letter to the Board dated May 26, 1959, in which he stated that it would be helpful to him, as Special Counsel to the Board in the matter of The Continental Bank and Trust Company, Salt Lake City, Utah, if arrangements could be made whereby J. Frank Holahan, after the effective date of his resignation from the employ of the Board, could be available for such technical advice and assistance as might be needed from time to time in the completion of the proceeding involving The Continental Bank and Trust Company and in any court proceedings that might follow the final order of the Board.

1/ Entered meeting at point indicated in minutes.

6/4/59

-2-

Mr. Powell explained that arrangements such as he had suggested in his letter would be of convenience and assistance to him, although not indispensable. He pointed out that although he had received much assistance from various members of the Board's staff during the course of the current proceeding, Mr. Holahan had worked with him from the beginning on all features of the case. Therefore, it would be helpful, as various briefs were written or arguments prepared, if Mr. Holahan could be available for consultation. The case would not involve, of course, any further testimony or the preparation of further exhibits as evidence, and he did not envisage that any searching of the record of the case by Mr. Holahan would be required. Rather, he envisaged that on occasions when he had drafted some argument or motion that involved facts, he would provide a copy to Mr. Holahan and request the latter's views. He did not foresee that it would be necessary for Mr. Holahan to leave his place of residence; any discussion probably could be accomplished by telephone or, if necessary, Mr. Powell could pay a visit to Mr. Holahan.

Mr. Powell pointed out that after the case was formally submitted to the Board of Governors, a period of several months probably would ensue before the Board made its decision. Then, depending upon the nature of the decision, another period might elapse during which Continental would be given an opportunity to

6/4/59

-3-

comply with whatever the Board might require. After the case was submitted to the Board, he did not foresee that it would be necessary to call upon Mr. Holahan unless and until the case was taken to court by Continental, but if the case did go to court there would ensue a period of brief-writing during which it would be helpful to have the benefit of consultation with Mr. Holahan. In any event, Mr. Holahan's services would be used on a sporadic basis and not continuously. In further comments, Mr. Powell outlined the period of time that might elapse if the case were taken to court and appealed before a final decision was handed down.

In response to a question by Governor Robertson, Mr. Powell indicated that Mr. Holahan's services would not require him to go beyond the record of the case except possibly to the extent that certain published material, by stipulation, had been incorporated in the record by reference. Accordingly, it would not be necessary for Mr. Holahan to have recourse to the Board's files.

The discussion then turned to the matter of compensation and it was pointed out that consultants retained by the Board generally were paid a maximum rate of \$50 per day for each day served. Mr. Powell recalled that the payment of compensation to certain expert witnesses in the Continental proceeding was at a higher rate; according to his recollection, it had been customary for those persons to add the

6/4/59

-4-

number of hours devoted to the case over a period of time and then make a division in order to determine the number of days or fractions thereof for which they requested compensation.

In response to a question by Governor Balderston, Mr. Powell said he would not feel free to enter into an arrangement with Mr. Holahan without the approval of the Board. If it seemed preferable for the arrangement to be between him and Mr. Holahan rather than between the Board and Mr. Holahan, he would be glad to endeavor to work out an arrangement within such framework as the Board might prescribe.

Governor Balderston then stated that he would not consider it appropriate for the Board to retain Mr. Holahan directly. Governor Robertson indicated that if there was any feeling in that respect he would go along with the idea of an arrangement between Mr. Powell and Mr. Holahan within a general framework outlined by the Board.

At this point Chairman Martin joined the meeting, and the discussion that had taken place was reviewed for his benefit.

Governor Robertson then inquired of Mr. Powell whether it would be agreeable to him if the Board should authorize him to make an arrangement with Mr. Holahan for purposes such as he had mentioned, with the understanding that compensation to Mr. Holahan would not exceed the rate ordinarily paid by the Board to outside consultants.

Mr. Powell indicated that such an arrangement and stipulation would be agreeable to him. He did not contemplate that the total

6/4/59

-5-

amount of compensation paid to Mr. Holahan would be large because he did not envisage calling upon Mr. Holahan to any great extent, perhaps not more than 25 or 30 hours in the course of a year.

In response to a further question from Governor Robertson, Mr. Powell said that he did not see how any question could be raised regarding the propriety of such an arrangement with Mr. Holahan. He noted that Continental had not raised any question about the propriety of the Board's retaining expert witnesses from the banking and academic fields.

Chairman Martin then indicated to Mr. Powell that the Board would consider the matter further and that he would be advised.

Before withdrawing from the meeting, Mr. Powell commented that Counsel for The Continental Bank and Trust Company had filed with the Board a motion to disqualify Governor Robertson as a member of the Board in reviewing the Report and Recommended Decision of the Trial Examiner or from otherwise participating in the decision on the section 9 proceeding, on the basis of his allegedly being prejudiced and having personal animosity toward the Continental Bank's President, Mr. Cosgriff. Mr. Powell stated that he was preparing a memorandum brief in opposition to the motion which he would file within the next few days as part of the record of the proceeding. He requested,

6/4/59

-6-

therefore, that the Board withhold action on the motion until the memorandum brief in opposition to it could be filed.

Mr. Powell then withdrew and Mr. Shay, Legislative Counsel, entered the room.

There followed discussion of the request made by Mr. Powell with respect to the services of Mr. Holahan during which Governor Balderston stated that Mr. Powell's explanation had served to answer many of the questions that were on his mind when the matter was considered yesterday. In view of the explanation by Mr. Powell concerning the manner in which he envisaged utilizing the services of Mr. Holahan, Governor Balderston said that he would be agreeable to an arrangement between Mr. Powell and Mr. Holahan of the kind that had been suggested.

Other members of the Board concurred in this point of view. However, it was thought advisable that the letter to Mr. Powell authorizing such an arrangement with Mr. Holahan make clear that compensation should not be at a rate in excess of \$50 per eight-hour day and also that payments made to Mr. Holahan would be reimbursed to Mr. Powell in addition to the retainer agreed upon between the Board and Mr. Powell with respect to the latter's services as Special Counsel.

6/4/59

Thereupon, it was agreed to authorize Mr. Powell to enter into an arrangement with Mr. Holahan subject to the conditions stated above. Governor King did not participate in this decision.

A copy of the letter subsequently sent to Mr. Powell is attached as Item No. 1.

Items circulated to the Board. The following items, which had been circulated to the Board and copies of which are attached hereto under the respective item numbers indicated, were approved unanimously:

	<u>Item No.</u>
Letter to the Naumkeag Trust Company, Salem, Massachusetts, granting an extension of time within which to establish a branch in Salem.	2
Letter to the Comptroller of the Currency recommending favorably with respect to an application to organize a national bank at Orlando, Florida.	3
Letter to the Comptroller of the Currency recommending favorably with regard to an application to organize a national bank in St. Petersburg, Florida.	4

Messrs. Masters and Nelson then withdrew from the meeting.

Report on H.R. 2790, H.R. 5732, and H.R. 6323 (Item No. 5).

Pursuant to the understanding at yesterday's meeting, there had been distributed to the Board a revised draft of letter to the Chairman of the House Banking and Currency Committee in response to his request for a report on H.R. 2790, H.R. 5732, and H.R. 6323, bills which would increase

6/4/59

the number of members of the Board of Governors, abolish the Federal Open Market Committee, and transfer to the Board the functions of that Committee. Two of the bills also contained other provisions.

There ensued a discussion of the revised draft and several suggestions were made regarding the phrasing of comments on the bills. At the conclusion of the discussion, agreement was reached on certain changes. The draft was then referred back to the staff for editing, with the understanding that the letter would then be transmitted over the signature of Chairman Martin.

A copy of the letter sent later in the day to the Chairman of the House Banking and Currency Committee pursuant to this action is attached as Item No. 5.

The meeting then adjourned.

Secretary's Notes: During the day advice was received that the directors of the Federal Reserve Banks of Philadelphia and Kansas City had established, subject to the approval of the Board of Governors, a rate of 3-1/2 per cent (rather than 3 per cent) on discounts for and advances to member banks under sections 13 and 13a of the Federal Reserve Act, along with a rate of 4 per cent on advances under section 10(b). Other rates in the Banks' existing schedules were established without change, except that the Philadelphia Bank fixed a rate of 4-1/2 per cent on advances under the last paragraph of section 13. These rates being within the pattern approved by the Board on May 28, 1959, the Banks were advised

6/4/59

-9-

of approval of the rates, effective June 5, 1959. A press release in the usual form was issued at 4:00 p.m. EDT, telegraphic advice was sent to all Reserve Banks and branches, and arrangements were made for publication of a notice in the Federal Register.

Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Robertson, in the absence of Governor Shepardson, today approved on behalf of the Board the following items affecting the Board's staff:

Appointment

Marilyn A. Gatlin as Clerk in the Division of International Finance, with basic annual salary at the rate of \$3,755, effective the date of entrance upon duty.

Date of beginning maternity leave

Patricia C. Fitzmaurice, Senior Clerk in the Division of International Finance, to work for an additional week before beginning maternity leave on June 15, 1959.

Leave without pay

Eva Mason, Statistical Clerk in the Division of Research and Statistics, from June 5 through July 31, 1959.


Secretary

1957

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

Item No. 1
6/4/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 4, 1959



Mr. Bolling R. Powell, Jr.,
Powell, Dorsey, Blum & White,
1741 K Street, N. W.,
Washington 6, D. C.

Dear Mr. Powell:

This refers to your letter of May 26, 1959, in which you suggest the desirability of an arrangement by which the technical advice and assistance of Mr. J. Frank Holahan can continue to be available to you during the remaining phases of the Continental Bank and Trust Company proceeding.

As indicated in your letter, Mr. Holahan has resigned his position with the Board effective June 12, 1959, and thereafter will be employed as a vice president by the National Bank of Westchester, White Plains, New York.

In recognition of Mr. Holahan's close contact with the subject proceeding and the special knowledge and experience he has derived therefrom, it is understandable that a continuation of the collaborative relationship between you, as Board's Special Counsel, and Mr. Holahan would be desirable. Therefore, the Board authorizes you to make arrangements with Mr. Holahan which will be conducive to this purpose. Compensation to Mr. Holahan for such services, in addition to necessary travel expense which will be paid by the Board, should not exceed \$50 per diem, computed on the basis of an 8-hour day, and such compensation will be reimbursed by the Board in addition to the retainer heretofore agreed to.

The Board's staff, of course, will continue, as it has in the past, to cooperate with you fully in furnishing any factual information and technical counsel which you may require in connection with further developments in this case.

Very truly yours,

Merritt Sherman,
Secretary.

1958

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

Item No. 2
6/4/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 4, 1959



Board of Directors,
Naumkeag Trust Company,
Salem, Massachusetts.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Boston, the Board of Governors extends to March 15, 1960, the time within which Naumkeag Trust Company may establish a branch in an area bounded by Derby Square and Central Street, Salem, Massachusetts, as originally approved in letter of the Board of Governors dated September 15, 1958.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

1959

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

Item No. 3
6/4/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 4, 1959

Comptroller of the Currency,
Treasury Department,
Washington 25, D. C.

Attention Mr. W. M. Taylor,
Deputy Comptroller of the Currency.

Dear Mr. Comptroller:

Reference is made to a letter from your office dated October 14, 1958, enclosing copies of an application to organize a national bank on State Highway 50, west of the city limits of Orlando, Florida, and requesting a recommendation as to whether or not the application should be approved.

A report of investigation of the application made by an examiner for the Federal Reserve Bank of Atlanta indicates that the organizers have agreed to provide a minimum capital structure for the bank of \$600,000 instead of \$500,000 shown in the application. This revised capital structure appears to be adequate. This report discloses generally favorable findings with respect to the earnings prospects of the bank and management, although definite arrangements have not been made for the chief executive officer. While there is some question as to need for the bank at the present time, future growth in the area is anticipated and the institution will provide more convenient facilities for local residents. Accordingly, the Board of Governors recommends favorable consideration of the application with the understanding that arrangements will be made for executive management satisfactory to your office.

The Board's Division of Examinations will be glad to discuss any aspects of this case with representatives of your office if you so desire.

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
6/4/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 4, 1959

Comptroller of the Currency,
Treasury Department,
Washington 25, D. C.

Attention Mr. L. A. Jennings,
Deputy Comptroller of the Currency.

Dear Mr. Comptroller:

Reference is made to a letter from your office dated February 3, 1959, enclosing copies of an application to organize a national bank in St. Petersburg, Florida, signed by Mr. Fred H. Green and Associates, and requesting a recommendation as to whether or not the application should be approved.

Information contained in a report of investigation of the application made by an examiner for the Federal Reserve Bank of Atlanta indicates generally favorable findings with respect to the proposed capital structure of the bank, its earnings prospects, the character of management, and the need for a bank in this expanding area. Accordingly, the Board of Governors recommends approval of the application to organize a national bank in St. Petersburg, Florida.

The Board's Division of Examinations will be glad to discuss any aspects of this case with representatives of your office if you so desire.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.





BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 5
6/4/59

OFFICE OF THE CHAIRMAN

June 5, 1959

The Honorable Brent Spence, Chairman,
Committee on Banking and Currency,
House of Representatives,
Washington 25, D. C.

Dear Mr. Chairman:

This is in response to your letter of May 11, 1959, requesting reports on H. R. 2790, H. R. 5732, and H. R. 6323, each of which would increase the number of members of the Board of Governors and abolish the Federal Open Market Committee and transfer to the Board the functions of that Committee.

H. R. 2790 would increase the number of Board members from seven to twelve while H. R. 5732 and H. R. 6323, identical bills, would increase the number of Board members to sixteen, four of whom, the Secretaries of Labor, Commerce, and Agriculture, and the Administrator of the Small Business Administration, would serve *ex officio*.

The present Board and Committee structure is the product of much constructive thought and was adopted after long consideration and debate on the part of the Congress. It should not be fundamentally changed without extensive hearings to permit comprehensive expression of opinion by informed and competent persons and full consideration of the views of members of the Congress and officials of the Federal Reserve System. This is especially so because the questions raised by the bills are of such far-reaching significance to the economy. In our judgment, the System's organizational structure should be changed only if such hearings and study develop an unquestionably better organization.

With respect to the proposal contained in H. R. 5732 and H. R. 6323, to provide for four *ex officio* members on the Board, the Board believes that such membership would tend to make the Board a cumbersome body, might interfere with the exercise by the Board of independent judgment in determining credit policies, and would place additional burdens on government officials who are already fully occupied with other duties for which they are primarily responsible. Prior to 1936 two *ex officio* members served on the Board but after careful examination of the question during consideration of the Banking Act of 1935, *ex officio* membership was terminated.

The Honorable Brent Spence

-2-

While the Board would see no substantial objection to the provisions contained in H. R. 5732 and H. R. 6323 that would make persons actively engaged in "any business or professional occupation other than banking" eligible for election as Class B directors of Federal Reserve Banks, the Board questions whether the exception should be limited only to the occupation of banking. Traditionally, Class B directors have been regarded as representing the borrowing segment of the public as distinguished from the lending segment represented by Class A directors. Consequently, if this amendment is adopted, it would seem desirable to change the words "other than banking" to read "other than one involving the exercise of banking or other major lending activities."

Both H. R. 5732 and H. R. 6323 would require the President, in appointing members to the Board, to have due regard to a fair representation of "labor, small business, and consumer interests". The Board believes it essential that Board members be representative of the interest of the nation as a whole, irrespective of their previous affiliations. If any amendment is made to the law in this respect, it would be preferable to eliminate all references to representation of particular interests in the selection of Board members.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.