

Minutes for July 15, 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>(m)</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
Wednesday, July 15, 1959. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Balderston, Vice Chairman
Mr. Szymczak
Mr. Mills
Mr. Shepardson
Mr. King

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank Operations
Mr. Molony, Special Assistant to the Board
Mr. Shay, Legislative Counsel
Mr. Nelson, Assistant Director, Division of
Examinations
Mr. Smith, Assistant Director, Division of
Examinations
Mr. Daniels, Assistant Director, Division of Bank
Operations

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

	<u>Item No.</u>
Letter to the Federal Reserve Bank of Cleveland regarding a modified form of resolution to be adopted by directors of member banks designating officers authorized to cast votes for Class A and Class B directors.	1
Letter to the Federal Reserve Bank of St. Louis regarding the applicability of section 6(a) of the Bank Holding Company Act to a loan servicing arrangement between two holding company subsidiaries.	2

In connection with Item No. 1, Mr. Hackley responded to a
question by saying that the Legal Division would submit to the Board

7/15/59

-2-

shortly a revised general statement of procedure to be followed in connection with the election of Class A and Class B directors of Federal Reserve Banks and that the change being made by the Federal Reserve Bank of Cleveland would be incorporated therein.

Mr. Hostrup then withdrew from the meeting.

Proposed Chemical Bank-New York Trust merger (Item No. 3). In a letter to Congressman Celler dated June 9, 1959, regarding the proposed merger of Chemical Corn Exchange Bank and the New York Trust Company, both of New York City, the Board indicated that when any application in connection with that proposal was received, the Board would advise Mr. Celler as to its responsibilities and proposed procedures with respect to the matter. The Board had now received, through the Federal Reserve Bank of New York, an application for approval of the establishment by the continuing bank (under the name of Chemical Bank New York Trust Company) of branches at the locations of present offices of the New York Trust Company. Accordingly, there had been submitted to the Board, with a memorandum from Mr. Hackley dated July 13, 1959, a draft of letter to Congressman Celler indicating, with respect to the application, the extent of the Board's jurisdiction in the matter and the procedures contemplated in the consideration of it.

After suggestions by Governors Mills and Balderston for minor changes in the draft had been agreed upon, unanimous approval was given

7/15/59

-3-

to a letter to Congressman Celler in the form attached under Item No. 3.

At this point Messrs. Riefler, Assistant to the Chairman, and Noyes, Adviser, Division of Research and Statistics, joined the meeting.

Capital accounts of the Federal Reserve Banks (Item No. 4). As indicated at the meeting on July 9, 1959, there had been distributed to the members of the Board copies of a memorandum from Mr. Farrell to Chairman Martin dated July 10, 1959, with regard to the capital accounts of the Federal Reserve Banks and related matters. This memorandum pointed out that on December 31, 1958, the capital structure of the Reserve Banks was as follows:

Capital paid in		\$363,098,000
Surplus		868,410,000
Other capital accounts:		
Reserves for contingencies:		
Reserves for registered mail losses	\$11,124,000	
All other	<u>98,000,000</u>	109,124,000

In addition, it was noted that on the same date the Reserve Banks were carrying allowances for depreciation on bank buildings totaling \$60,987,000, these allowances being shown as a deduction from the gross total of bank premises on the asset side of the balance sheet. Mr. Farrell's memorandum contained sections on capital stock of the Reserve Banks paid in by member banks, surplus of the Reserve Banks, the history of the franchise tax, the payment of interest on Federal Reserve notes, beginning in 1947, reserves for contingencies, and depreciation allowances. Incorporated also was a

7/15/59

-4-

portion of a memorandum from Governor Mills to the Board dated May 5, 1952, reading as follows:

". . . as a check against improvident practices and as a means of reassuring a public that is relatively uninitiated in central banking theory, it is highly advisable that the Federal Reserve Banks should maintain adequate Reserves for Contingencies against depreciation in the U. S. Government securities held in the System Open Market Account and that their operations should be conducted against a background of ample capital funds. These assertions are made with the thought that the public likens the operations of the Federal Reserve Banks to those of private banks and that, therefore, its confidence in the entire banking system is strengthened by having the Federal Reserve Banks adhere to reserves and capital accumulation policies consistent to those followed in conservative private banking practice.

". . . As far as the Treasury is concerned, the amount of Federal Reserve Bank earnings thus withheld would be nominal as compared to the benefit inuring public policy-wise and, in any event, the Treasury would not be releasing its residual claim to earnings thus retained."

At the request of the Chairman, Mr. Farrell offered comments on the matters referred to in the memorandum which he prefaced by bringing out that there was not complete agreement within the Division of Bank Operations or among the Reserve Bank Presidents regarding various aspects of the subject. After noting that the question as a whole involved psychological considerations, including the impression that the System gave, or desired to give, to the public and the Congress, he went on to say that basically there was no real difference between the reserves set up by the Reserve Banks and the surplus accounts. In his opinion, the reserves served as a target for possible attack by critics of the System, and it

7/15/59

-5-

was hard to rationalize the need for maintaining the reserves in a manner that would be convincing to persons outside the System. Furthermore, Mr. Farrell said, there appeared to be no thoroughly acceptable formula to determine the relationship between Federal Reserve Bank surplus and capital stock accounts, and perhaps there was actually no logical relationship between them. All things considered, his feeling was that a desirable procedure might be to attempt to determine the level of surplus that the Reserve Banks should have, and not to maintain additional reserves. In the absence of a demonstration of inadequacy, he felt that a level of surplus standing at 200 per cent of paid-in capital might be something that the Federal Reserve Banks could live with satisfactorily. This would mean that the surplus would grow automatically along with paid-in capital, which in turn would increase according to the growth of the banking community.

Turning to the depreciation allowances, Mr. Farrell said he did not feel that the Reserve Bank Presidents were quite as interested in adhering to the theoretical concept of depreciation as they were in the possibility of divesting the Reserve Banks of burdensome work. The Division of Bank Operations, he said, had not moved faster in this area because there were several avenues that could be followed with regard to the handling of depreciation and no general agreement as to which might be preferable. It was his view that the question of depreciation

7/15/59

-6-

might be set aside from the problem of surplus and contingency reserves and decided on its own merits.

After discussion of the rate of current earnings of the Reserve Banks and the present level of the surplus accounts, Chairman Martin said it occurred to him that, as a goal, the System would be in a stronger position if 100 per cent of earnings after expenses and dividends were paid over to the Treasury. This would be understandable to the man in the street, whereas the current procedure was susceptible of misunderstanding. Many persons were inclined to think at first that the 10 per cent of earnings retained by the Reserve Banks covered payment of the Banks' expenses, and an explanation often served only to create doubt as to whether the current procedure was desirable. Chairman Martin said he would not want to give up any of the principles set forth by Governor Mills in 1952, for he felt that those principles were fundamental to the System. However, if adequate surplus was available, he believed that the System would be in a stronger position, particularly from the standpoint of public relations, if it were made clear that any earnings over and above expenses and dividends were to be paid over to the Treasury after surplus had reached a certain level.

After reference to possible criticisms that might be directed toward the System because of the current procedure, Governor Shepardson said he would agree that the Reserve Banks needed adequate reserve funds.

7/15/59

-7-

However, he found it difficult to differentiate clearly between the contingency reserves and the surplus accounts, for the latter constituted essentially a reserve. Like Governor Mills, he felt that the Reserve Banks should have surplus accounts somewhat similar to those maintained by banks generally, for that was something understandable to the public, but he wondered whether the special reserves could not be wiped out and the surplus accounts adjusted from year to year to such extent as might be necessary to maintain a surplus equivalent to 200 per cent of paid-in capital. In this connection, he noted from Mr. Farrell's memorandum that at the end of 1958 surplus for all member banks averaged 168 per cent of capital, and surplus for central reserve city member banks in New York averaged 193 per cent of capital. The procedure he suggested would permit Reserve Bank capital accounts to grow along with member bank capital accounts and would eliminate the relatively small reserve items that did not appear to have any great significance.

Governor Mills stated that there were other considerations to be taken into account. The premise of Governor Shepardson that, for this purpose, the Federal Reserve Banks should be likened to private enterprise suggested following the principle of building up reserves as a protection against liabilities. Recently, he noted, the Board had expressed to the Congress the opinion that over the years the Nation might look forward to a growth in the money supply sufficient

7/15/59

-8-

to foster a stable and growing economy, and the counterpart of a growth in the money supply would be an increase in the liabilities of the Federal Reserve Banks. Accordingly, it appeared to him that the System should prepare against such an eventuality by a growth in the capital and surplus accounts of the Federal Reserve Banks. A change in the point of view of the System perhaps would indicate that what it had done in past years was wrong. Thus, while the System could, of course, return to the Treasury funds accumulated in the best of its judgment, this could evoke criticism on the part of analysts of the System. If changes were made in the procedures followed to date, it was his view that they should be made only reluctantly and under pressure, with knowledge given to the public that the action was taken primarily at the request or dictation of the Congress rather than because of a belief on the part of the System that the Reserve Banks were overcapitalized in relation to their liabilities.

As to depreciation allowances, Governor Mills said it might be charged that there was no good reason for the Reserve Banks to take depreciation. However, if they stopped taking depreciation on capital investments in buildings and plant, this might be regarded as equivalent to saying that the Reserve Banks were Governmental institutions, a question that had always been a controversial issue. In this connection, he recalled that in the past, when the Board went to the Congress to

7/15/59

-9-

request an increase in the limitation on the amount of funds available for the construction of Federal Reserve Bank branches, it had been pointed out with considerable effect that the cost of such branches did not represent an expense to the Treasury at the time of construction but rather was paid out of capital funds accumulated from depreciation reserves and retained earnings.

At the instance of Governor Shepardson, there ensued discussion with respect to the extent of correlation between the growth of the money supply and the growth of member bank capital, following which Chairman Martin repeated that he felt that the System should strive for some formula that was reasonably automatic and readily explainable. A private institution, he noted, does not have to explain the disposition of its funds except to its customers and stockholders, but the Federal Reserve System must consider the national interest. He was not sure how to arrive at the proper formula, and he was sympathetic to the point of view expressed by Governor Mills, but he felt there must be some level of surplus which, having been attained, would permit additional earnings to be turned over to the Treasury.

At the request of the Board, Mr. Hackley commented on the history of legislative actions pertaining to the disposition of Federal Reserve Bank earnings and the recommendation submitted by the Board in 1956 in connection with the proposed Financial Institutions Act. It was noted

7/15/59

-10-

that the procedures currently followed by the System were consistent both with the spirit of legislation on the subject in the past and with the proposal made in connection with the Financial Institutions Act.

Governor King said it appeared to him that the Board was dealing with a problem that had several major parts. His general approach would be to try to resolve such a problem within accepted accounting practices and to depart therefrom only with good reason. Thus, he would favor continuing the current procedures with respect to depreciation, rather than to have a consistent build-up of capital expenditures on the books of the Reserve Banks, and he felt that good accounting practice called for the establishment of reserves for contingencies. However, in view of the fact that surplus accounts had built up to their current size, he would be inclined to favor elimination of the reserves for contingencies, believing that this would have a healthy effect in presenting a more understandable picture to the man on the street and to the Congress. As to current earnings, he felt that it would be desirable to make some reduction in the percentage of retention, but he would want to think further on the matter before consenting to complete elimination of the retention of earnings. At the same time, he doubted whether it would be appropriate to provide for maintaining surplus in any exact relationship to paid-in capital; along these lines, he had been wondering whether it might not be desirable to reduce the amount of Federal Reserve Bank

7/15/59

-11-

stock for which member banks are required to subscribe. He was aware of some Congressional reaction to the ownership of stock in the Federal Reserve Banks by member banks and to their receiving dividends thereon, some on a nontaxable basis. It occurred to him that any action in the direction of removing that criticism might be helpful from the standpoint of the Congress and the public interest. Furthermore, while he doubted that member banks could get a greater return from their funds now invested in Reserve Bank stock, he had heard bankers complain about having to hold stock of the Reserve Bank. In raising this point, he was not necessarily suggesting complete elimination of member bank stockholdings, but he noted that a reduction would provide some additional funds to the member banks with which to meet the credit needs of the economy and would constitute to a certain extent an alternative to reductions in reserve requirements. In a sense, he suggested, the member bank's stock might be considered as part of its total reserve requirement, and the dividends received might be regarded as a return on the entire amount of required reserves. He recognized, of course, that this problem was one to be approached cautiously because of the implications that were involved.

In response to a question by Chairman Martin, Governor King verified that he felt the reserves for contingencies now carried by the Reserve Banks could be turned over to the Treasury. He would continue the current depreciation procedures and would maintain

7/15/59

-12-

surplus accounts without a fixed relationship to the amount of paid-in capital. While he felt that the Federal Reserve Banks should be entitled to retain some portion of their earnings, he was inclined to think that the current 10 per cent retention could be scaled down somewhat. As he saw it, the turning over of the reserves for contingencies and the scaling down of the 10 per cent retention would not constitute an admission that what the System had been doing was wrong but rather an indication that, as in any organization, certain modifications are considered desirable with the passage of time and in the light of changing conditions.

Governor Shepardson suggested that the question of member bank stockholdings in the Federal Reserve Banks was one going beyond that involved in the immediate problem of the disposition of Federal Reserve earnings, a statement with which Governor King agreed. The latter went on to say, however, that there were various methods by which the basic Federal Reserve concept of a marriage of Governmental and commercial interests might be preserved, such as the service of bankers on the boards of directors of the Reserve Banks and on the Federal Advisory Council.

After further discussion, Governor Mills again stated that he would be inclined to do nothing to change the current procedures except under pressure and as a compromise, to which Chairman Martin replied that the Bureau of the Budget had had a draft of bill before it for some time and there was a question whether such proposed legislation

7/15/59

-13-

might not become active. Governor Mills then stated that if circumstances necessitated, he would be inclined to return to the Treasury the funds now held as contingency reserves, or perhaps the \$80 million thereof which was transferred from net earnings in 1948 and 1949, giving as a reason the fact that the System was divesting itself of that amount in the public interest, much in the same manner as when it contributed \$139 million to the capital of the Federal Deposit Insurance Corporation and later allowed that amount to remain with the Treasury due to the interim build-up of Reserve Bank capital funds.

Governor Szymczak suggested that an essential question was whether the central bank, with power of note issue, should be treated differently from other institutions. Also involved was the fact that the Federal Reserve System was an institution deriving most of its earnings from Government securities. Thus, the System did not need capital funds to the extent of having to obtain them from the member banks. As had been pointed out, one possibility would be that the capital stock could be paid back in entirety and relations with the member banks maintained through their representation on the boards of directors of the Reserve Banks. He was inclined to favor some reduction or elimination of the contingency reserves and a change in depreciation procedures, but not until after thorough discussion with the Reserve Bank Presidents, the Treasury, and the Budget Bureau.

7/15/59

-14-

Governor King then made the further statement that he was inclined to abandon time-honored rules and principles only reluctantly. However, in view of the practical situation, he would rather see the System initiate whatever adjustments seemed appropriate than to have such adjustments forced upon it.

Governor Shepardson commented that the principle involved in ownership of Reserve Bank stock by member banks involved a serious question. Since a reduction in the current stock subscription requirement would not be of great significance from the standpoint of meeting the problem that was of concern to the Budget Bureau and the Treasury, he would not like to see the question of a reduction in such requirement raised unless the System was prepared to take up the question of eliminating member bank shareholdings entirely. However, he felt that logical arguments could be made for a change in the amount of the surplus accounts and reserves now held by the Reserve Banks and that these matters were worthy of consideration. After citing certain statistics with regard to member bank deposits and capital accounts over approximately the last two decades, he pointed out that the growth of capital accounts appeared at least to have kept pace with the growth of deposits percentagewise. Accordingly, he was disposed to feel that account could be taken of changes in the money supply by relating the growth of Reserve Bank capital accounts to that of the capital accounts of the member banks.

7/15/59

-15-

Chairman Martin inquired whether the Board was sufficiently in agreement with the thought of transferring to the Treasury the funds now held as contingency reserves to be willing to raise this question with the Reserve Bank Presidents, and there was no indication to the contrary.

The Chairman then inquired whether any objection would be seen to sending copies of Mr. Farrell's memorandum of July 10, 1959, to the Presidents, with an accompanying letter which would suggest that the Board would like to discuss the matter with the Presidents. The accompanying letter would indicate that the Board was disposed to question the need of maintaining the reserves for contingencies and would express the thought that the whole subject of the Reserve Bank capital accounts should be kept under review. On the other hand, the letter would not raise specifically the question of depreciation allowances. It would, in effect, put the Board in the position of suggesting that perhaps the reserves for contingencies could be eliminated, but it would not comment specifically on any other facets of the general problem.

At this point Mr. Farrell responded to questions by Governor Balderston by stating that there should be no substantial mechanical difficulties affiliated with a possible decision to hold Reserve Bank surplus accounts at a figure equivalent to 200 per cent of paid-in capital. With this explanation, it was Chairman Martin's suggestion

7/15/59

-16-

that attention not be directed to problems of such nature in corresponding with the Presidents.

At the conclusion of the discussion, it was agreed that the procedure outlined by Chairman Martin should be followed. Mr. Farrell was requested to prepare for the Chairman's signature a letter to the Presidents of the Reserve Banks presenting the problem in the manner indicated and transmitting copies of Mr. Farrell's memorandum in substantially the form that it had been distributed to the Board.

A copy of the letter sent to the Presidents pursuant to this action is attached as Item No. 4. A separate letter was sent to Mr. Johns, as Chairman of the Conference of Presidents.

Messrs. Nelson, Smith, and Daniels then withdrew and Messrs. Young, Director, Division of Research and Statistics, and Marget, Director, Division of International Finance, entered the room.

Maximum rates on time and savings deposits. Chairman Martin reported briefly on a conversation this morning with the Comptroller of the Currency which pointed up the growing importance, as a practical problem, of the question of the current maximum rates of interest payable on time and savings deposits under Regulation Q, Payment of Interest on Deposits.

Mr. Farrell reported briefly on a discussion yesterday at the Treasury with respect to the payment of interest on Treasury tax and loan accounts, at which the view was expressed by certain commercial

7/15/59

-17-

bankers who were present that such a decision would lead directly to the question of the payment of interest on demand deposits.

Messrs. Hackley and Farrell then withdrew from the meeting.

Testimony on Government securities market study. There had been distributed to the Board several drafts, most recently under date of July 14, 1959, of a statement proposed to be made by the Secretary of the Treasury in testifying on July 24, 1959, before the Joint Economic Committee in connection with that Committee's study of employment, growth, and price levels. The Committee had expressed a desire to be informed concerning the Treasury-Federal Reserve study of the Government securities market, and the testimony therefore was devoted to a progress report on that study.

Chairman Martin commented that, as indicated by the draft of testimony, the study of the Government securities market was scheduled to be released publicly on July 24. He (Chairman Martin) was to appear before the Committee on July 27 and, according to present plans, he would endeavor merely to answer such questions as the Committee might direct to him. Chairman Martin also commented that he would be accompanied to the hearing by Mr. Roosa, Vice President of the Federal Reserve Bank of New York, as well as appropriate members of the Board's staff.

During the ensuing discussion, it was noted that both the Secretary of the Treasury and Chairman Martin might be asked questions

7/15/59

-18-

relating to any specific actions contemplated as a result of the study of the Government securities market, and it was agreed that the Chairman would deal with any questions of that nature in such manner as he considered most appropriate.

In this connection, Mr. Young commented on the tone of the testimony proposed to be given by the Secretary. He pointed out that the draft would be subjected to editorial scrutiny at the Treasury, and that there would be an opportunity to consider the incorporation of any suggestions on the part of the members of the Board.

Accordingly, it was understood that any comments or suggestions relating to the draft of testimony would be submitted to Mr. Young.

All of the members of the staff except Messrs. Sherman, Kenyon, and Marget then withdrew from the meeting.

Technical assistance for Banco de Guatemala (Item No. 5). In a memorandum dated July 10, 1959, which had been distributed to the Board, Mr. Marget recommended that the Board secure the detail of Ralph E. Holben, of the staff of the International Cooperation Administration, for a period of one year and then detail Mr. Holben to Banco de Guatemala for a similar period to serve that bank in an advisory capacity. This arrangement contemplated that the International Cooperation Administration would retain Mr. Holben on its pay roll and would be responsible for his travel and any other allowances, all on a reimbursable basis.

7/15/59

-19-

The Board in turn would receive full reimbursement from Banco de Guatemala. As the memorandum pointed out, the essential reason for these arrangements was that efforts to locate a suitably qualified person within the Federal Reserve System had not been successful and the International Cooperation Administration was not willing to make Mr. Holben available to Banco de Guatemala unless he was subject to the direction of the United States Operations Mission in that country, an arrangement which was not suitable to Banco de Guatemala. The memorandum also noted that an arrangement such as proposed for an exchange of personnel between Government agencies was not unusual. Submitted with the memorandum was a draft of letter proposed to be sent to the International Cooperation Administration with regard to the arrangements for the services of Mr. Holben.

At the request of the Board, Mr. Marget outlined developments in Guatemala that had eventuated in the request for advisory services and commented on the difficulty experienced in locating a person from within the System who would be suitably qualified for the assignment and could be made available at this time. He noted that the negotiations resulting in the current recommendation had been carried on after discussion of the problem with Governor Shepardson at an earlier stage and added that the United States Embassy in Guatemala was in accord with the proposed arrangement.

7/15/59

-20-

Governor Szymczak expressed doubt as to the advisability of proceeding in the manner suggested. After noting that the arrangement was quite involved, he said that he would favor extending assistance to Banco de Guatemala to the maximum extent possible, or to any other central bank, if the request could be complied with by use of personnel of the Federal Reserve System. In this connection, he brought out that one of the reasons for undertaking such missions related to the benefits that would be derived by System personnel so assigned, whereas in this case no such benefit would accrue to a staff member who would return to the Board's service. If the arrangement now proposed should be agreed upon, it would constitute a precedent and similar requests might be forthcoming that would contemplate even more involved arrangements.

Governor Shepardson then referred to his earlier discussion of the matter with Mr. Marget, and to his understanding that the practice of loaning an employee to another agency for an assignment of this nature was not unusual. As to the mechanical aspects of the transfer of funds, he said that the office of the Board's Controller saw no difficulties in the current proposal. As he understood it, no suitable person was available from within the Federal Reserve System, and Mr. Holben appeared to be adequately qualified. He had checked with the International Cooperation Administration regarding Mr. Holben and regarding the desirability of sending an employee of that agency for a mission of the kind contemplated. The outgrowth of his conversations was that it appeared desirable for Mr. Holben to go to

7/15/59

-21-

Guatemala under an arrangement whereby he would report directly to Banco de Guatemala rather than to representatives of International Cooperation Administration in that country. Consequently, the project seemed feasible and within the framework of similar cases.

Governor Mills said that personally he would not favor the procedure. However, if the arrangement were entered into and Mr. Holben was to be identified as an employee of the Federal Reserve System, he felt that a check should be made of Mr. Holben's employment record and it should be ascertained that Mr. Holben had satisfactory security clearance.

In further discussion, Chairman Martin agreed that the procedures suggested by Governor Mills should be followed. Assuming that these checks proved satisfactory, he felt that it would be desirable for the System to be in the position of rendering any assistance possible to other central banks and that this should be the overriding consideration in appraising the current proposal. If Mr. Holben was a desirable person for the assignment and "the cards were completely on the table" as far as all the parties to the transaction were concerned, it was his feeling that the recommended procedure should be approved. The fact that red tape was involved did not appeal to him as a sufficient reason of itself for preventing Banco de Guatemala from obtaining needed assistance.

At the conclusion of the discussion, and with the reservations of Governors Szymczak and Mills noted, the recommendation contained in

7/15/59

-22-

Mr. Marget's memorandum was approved, with the understanding that the procedures suggested by Governor Mills would be completed before advice was sent to the International Cooperation Administration.

Secretary's Note: The points mentioned by Governor Mills having been resolved satisfactorily, the letter of which a copy is attached as Item No. 5, was sent to the International Cooperation Administration.

The meeting then adjourned.

Secretary's Notes: Attached as Items 6 and 7 are copies of letters sent yesterday to Chairman Spence of the House Banking and Currency Committee and to Congressman Patman concerning the transmittal to the Committee of reports on examinations of the twelve Federal Reserve Banks made during 1958.

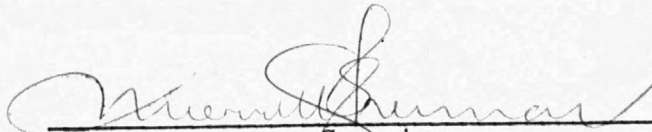
Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson approved today on behalf of the Board the following items affecting the Board's staff:

Appointment

Joan F. McLaughlin, as Library Assistant in the Division of Research and Statistics, with basic annual salary at the rate of \$3,755, effective the date of entrance upon duty.

Acceptance of resignation

Alice R. Williams, Statistical Clerk, Division of Research and Statistics, effective August 7, 1959.


Secretary

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

Item No. 1
7/15/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 15, 1959.

Mr. W. D. Fulton, President,
Federal Reserve Bank of Cleveland,
Cleveland 1, Ohio.

Dear Mr. Fulton:

This is in response to your letter of June 19, 1959, with which was enclosed a modified form of resolution to be adopted by boards of directors of member banks in your District designating the officers who are authorized to cast the vote of the member bank for Class A and Class B directors of the Federal Reserve Bank.

The resolution as modified would eliminate the provision for signatures of officers authorized to cast the vote of the member bank. The Board has no objection to the use of such an authorization form since, although the law requires a resolution by the board of directors, it does not require a space for signatures of officers who are authorized to vote. Also, as you have suggested, a space for signatures is unnecessary because certificate envelope signatures may be checked against the bank's regular member bank signature files rather than against signatures on the designation form.

In connection with the above, you may already know that a draft of revised procedure for election of Class A and Class B directors of Federal Reserve Banks is in the process of preparation. It is contemplated that this draft will include the change suggested by you in your letter on the form of member bank authorization.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.



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

Item No. 2
7/15/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



July 15, 1959

Mr. Geo. E. Kroner, Vice President,
Federal Reserve Bank of St. Louis,
St. Louis 66, Missouri.

Dear Mr. Kroner:

This refers to your letter of September 11, 1958, enclosing a copy of the Annual Report for the year ending April 30, 1958, of Diversified Trust Fund A of the Kentucky Trust Company, Louisville, Kentucky ("the Trust Company"). In this connection, your memorandum to Mr. Gerald T. Dunne, Counsel for your Bank, and Mr. Dunne's reply have been noted with respect to the question whether the Trust Company, a subsidiary of First National Bank Trustees, Louisville, Kentucky, is violating the Bank Holding Company Act by servicing mortgage loans for The First National Bank of Louisville, which also is a subsidiary of First National Bank Trustees.

It is the Board's understanding that the Trust Company and the Bank have an agreement pursuant to which the Trust Company, as trustee, makes, processes, and services mortgage loans on real estate for the Bank; that whenever such loans are made, approval of the Bank is evidenced by the signature on the loan application of one of the officers designated in said agreement; that when the loan is approved and before any funds are advanced, the check of the Bank, payable to the "Kentucky Trust Company, Trustee", in the amount of the loan is delivered to the Trust Company; that the Trust Company closes, services, collects, and supervises the loan; that the Trust Company remits to the Bank monthly the proceeds of collections made by it, less necessary out-of-pocket expenses; that, in consideration of these services, the Bank pays to the Trust Company a sum equal to one-half of one per cent per annum on the unpaid balances; that the Trust Company has no liability for payment of principal or interest on said loans; and that the credit extended on such loans is the credit of the Bank and not that of the Trust Company.

Section 6(a)(4) of the Bank Holding Company Act forbids a bank "to make any loan, discount or extension of credit to a bank holding company of which it is a subsidiary or to any other subsidiary of such bank holding company". The described procedure does not appear

Mr. Geo. E. Kroner

-2-

to be inconsistent with the stated purpose of section 6(a) which, in relevant part, is to prevent one subsidiary of a bank holding company from taking undue advantage of the resources of another subsidiary that is a bank (S. Rep. No. 1095, 84th Cong., 1st Sess. 15 (1955)). On the basis of the information available to the Board, the described arrangement between The First National Bank of Louisville and the Kentucky Trust Company would appear to be essentially one of convenience for the servicing of loans on real estate, and does not involve the making of any "loan, discount or extension of credit".

In the Board's opinion, the described procedure is not in violation of section 6(a) of the Act.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 3
7/15/59

OFFICE OF THE CHAIRMAN

July 15, 1959

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

Dear Mr. Chairman:

In my letter of June 9, 1959, in response to yours of June 4, regarding the proposed merger of Chemical Bank and New York Trust Company, I indicated that, when any application in connection with that proposal was received by the Board, the Board would advise you as to its responsibilities and proposed procedures with respect to this matter.

The Board has now received through the Federal Reserve Bank of New York an application for the Board's approval of the establishment by the continuing bank (under the name of Chemical Bank New York Trust Company) of branches at the locations of present offices of New York Trust Company. Since it appears that the merger will not involve any diminution of capital or surplus, the merger itself will not require the Board's approval under section 18(c) of the Federal Deposit Insurance Act. It also appears that the proposed transaction will not involve a bank stock acquisition subject to section 7 of the Clayton Act. Accordingly, the Board's jurisdiction in the matter is limited to that conferred by section 9 of the Federal Reserve Act requiring the Board's approval for the establishment of branches by State member banks.

As in the case of other branch applications by State member banks, an investigation is being made by the Federal Reserve Bank of New York and its report will be submitted to the Board. On the basis of that report and study of the matter by its own staff, the Board will consider the financial condition and management of the institutions involved, the needs and convenience of the banking public, and other factors relevant to the public interest, including the probable effect of the establishment of the proposed branches upon banking competition.

The Honorable Emanuel Celler -2-

It is the general practice of the Federal Reserve Bank of New York to consult informally with the New York State Banking Department in connection with all but routine matters involving State member banks; and the Board will take into consideration the action taken by the State authorities on the present proposal. It is not contemplated, however, that the Board in this case will formally consult with the Antitrust Division of the Department of Justice; nor does the Board believe that any useful purpose would be served by the holding of a public hearing regarding this application.

Sincerely yours,

A handwritten signature in cursive script, reading "Wm. McC. Martin, Jr.", with a large, stylized flourish at the end.

Wm. McC. Martin, Jr.

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

Item No. 4
7/15/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 17, 1959.



Dear Sir:

The Board has recently considered the question of the capital accounts of the Federal Reserve Banks, particularly with reference to the size of the surplus and reserves for contingencies. Enclosed is a memorandum containing background material on the subject.

Since the policy was adopted in 1947 of transferring excess earnings to the Government, combined surplus accounts of the Reserve Banks have increased from \$440 million (235 per cent of capital paid in) to \$868 million (239 per cent of capital paid in). In addition, \$80 million has been added to the \$18 million reserve for contingencies other than registered mail losses which was set up at the end of 1945, and the reserve for registered mail losses has increased from \$6 million to \$11 million.

The Board believes that it would be desirable at this time to review the capital accounts of the Federal Reserve Banks, and particularly the continuing need for the reserves for contingencies. Accordingly, the Board is asking the Chairman of the Conference of Presidents to have this topic placed on the agenda for consideration at the next regular meeting of the Conference, which it is understood will be held during September, with a view to having a full discussion of the subject at the joint meeting of the Board and the Presidents following the close of that Conference.

Yours very truly,

Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Enclosure.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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

Item No. 5
7/15/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 15, 1959

Dr. D. A. FitzGerald,
Deputy Director for Operations,
International Cooperation Administration,
Room 505, Malatico Building,
806 Connecticut Avenue, N. W.,
Washington 25, D. C.

Dear Dr. FitzGerald:

The Board of Governors of the Federal Reserve System is prepared to enter upon the following arrangement with respect to the services of Mr. Ralph E. Holben, of the staff of the International Cooperation Administration:

1. Mr. Holben would be detailed by the International Cooperation Administration to the staff of the Board of Governors for the period of one year, and the Board in turn would detail Mr. Holben to the Banco de Guatemala for a similar period to serve that Bank in an advisory capacity.
2. The International Cooperation Administration would retain Mr. Holben as an employee on its payroll, and, in addition, would be responsible for his travel and such other allowances as may be agreed upon, all on a reimbursable basis. The Board, in turn, would receive reimbursement for all such expenses from the Banco de Guatemala.
3. Mr. Holben would be able to return to the International Cooperation Administration upon completion of his detail to the Banco de Guatemala, and would meanwhile retain his pension and other rights.
4. For the duration of his assignment to the Banco de Guatemala, Mr. Holben would be entirely independent of I.C.A. supervision, being detailed to the Banco de Guatemala by the Board of Governors of the Federal Reserve System rather than by I.C.A., and would be responsible solely to the Banco de Guatemala during the period of his stay.

If the foregoing meets with your approval, the Board would appreciate written confirmation thereof, including paragraph 4. The

Dr. D. A. FitzGerald

- 2 -

Board would also appreciate receiving from you a listing of the reimbursable charges, as well as confirmation that an acceptable billing technique would be as outlined by Miss Hood of your organization: namely, quarterly billing of the Board by the International Cooperation Administration, these bills to be paid upon receipt by the Board of funds from the Banco de Guatemala.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 6
7/15/59

OFFICE OF THE CHAIRMAN

July 14, 1959

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

Dear Mr. Chairman:

In a telegram dated June 23, 1959, Mr. Patman requested that copies of the reports of examination of the twelve Federal Reserve Banks made during 1958 and of the audit report covering the operations of the Board of Governors of the Federal Reserve System during 1958 be made available for his use. In my acknowledgment of June 24 I advised Mr. Patman that the reports of examination of the Reserve Banks would be assembled and sent to the House Committee on Banking and Currency in accordance with past practice, adding that a copy of the audit report of the Board of Governors for 1958 already had been furnished to the Committee under date of February 26, 1959.

The reports of examination of the twelve Federal Reserve Banks made during 1958 will be transmitted today to the offices of the Committee on Banking and Currency of the House of Representatives. You will recall that my letter of May 2, 1958 transmitting the reports for 1957 stated that these were being forwarded to the Committee with the understanding that they would be made available in confidence only to members of Congress and their staffs. The 1958 reports are being transmitted with the same understanding.

The reports of examination contain information with respect to borrowings by member banks, business organizations, and individuals, as well as information relating to loans on gold by the Reserve Banks to foreign central banks. Disclosure of information of this nature would be contrary to the general policy observed by banks of holding in strict confidence transactions on behalf of any of their customers. The Board

The Honorable Brent Spence -2-

continues to believe that this confidential relationship is especially necessary with respect to operations of foreign central banks or matters relating to loans on gold, disclosure of which might have serious unforeseeable repercussions.

Enclosed for your information is a copy of my letter of this date to Mr. Patman.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Enclosure

Item No. 7
7/15/59

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

OFFICE OF THE CHAIRMAN

July 14, 1959

The Honorable Wright Patman,
House of Representatives,
Washington 25, D. C.

Dear Mr. Patman:

The reports of examination of the twelve Federal Reserve Banks about which you asked in your telegram of June 23 are being sent today to the office of the Committee on Banking and Currency of the House. A copy of my letter of transmittal to Chairman Spence is enclosed for your information.

Your subsequent telegram of July 10 also referred to the audit report covering the Board of Governors of the Federal Reserve System during the year 1958. As indicated in my acknowledgment of June 24 to you, a copy of this report was sent to the Chairman of the Banking and Currency Committee of the House on February 26, 1959.

We regret the delay that has occurred in making available the reports of examination of the Federal Reserve Banks. We also regret that the 1958 Annual Report of the Board has not been available at an earlier date this year. It is expected, however, that the report will be transmitted before the end of this month, and a copy will be sent to you as soon as it is available.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Enclosure