

Minutes for July 31, 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 proposed to place in the record of policy actions required to be kept under the provisions of Section 10 of the Federal Reserve Act an entry covering the item in this set of minutes commencing on the page and dealing with the subject referred to below:

Page 3      Actions incident to the admission of Hawaii to Statehood.

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
Chairman Martin	x <u><i>M</i></u>	<u><i>M</i></u>
Governor Szymczak	<u><i>S</i></u>	x <u><i>M</i></u>
Governor Mills	<u><i>M</i></u>	x <u><i>M</i></u>
Governor Robertson	x <u><i>R</i></u>	<u><i>R</i></u>
Governor Balderston	x <u><i>CCB</i></u>	<u><i>B</i></u>
Governor Shepardson	x <u><i>S</i></u>	<u><i>S</i></u>
Governor King	<u><i>K</i></u>	x <u><i>K</i></u>

Minutes of the Board of Governors of the Federal Reserve System

on Friday, July 31, 1959. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Riefler, Assistant to the Chairman  
Mr. Marget, Director, Division of International Finance  
Mr. Farrell, Director, Division of Bank Operations  
Mr. Shay, Legislative Counsel  
Mr. Solomon, Assistant General Counsel  
Mr. Hexter, Assistant General Counsel  
Mr. Nelson, Assistant Director, Division of Examinations  
Mr. Benner, Assistant Director, Division of Examinations  
Mr. Smith, Assistant Director, Division of Examinations  
Mr. Langham, Chief, Call Report Section, Division of Bank Operations  
Mr. Hogan, Legal Assistant, Legal Division

Discount rates. The establishment without change by the Federal Reserve Banks of Minneapolis and Kansas City on July 30, 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 or distributed to the Board. The following items, which had been circulated or distributed 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 Valley Bank and Trust Company, Springfield, Massachusetts, approving the establishment of two branches in Westfield incident to its proposed merger with The First National Bank of Westfield.	1

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	<u>Item No.</u>
Letter to The Connecticut Bank and Trust Company, Hartford, Connecticut, approving the establishment of branches in Thompsonville and Somers, Connecticut, incident to its proposed merger with The Thompsonville Trust Company.	2
Letter to the Federal Deposit Insurance Corporation regarding an application of The First Citizens State Bank of Whitewater, Wisconsin, for continuance of deposit insurance after withdrawal from membership in the Federal Reserve System.	3
Letter to the Budget Bureau with regard to enrolled bill S. 1928, to provide for United States participation in the Inter-American Development Bank.	4

The foregoing Item No. 4 was approved in a form reflecting a suggestion by Mr. Solomon that language be deleted from the draft which might give the impression that the provisions of the bill authorizing the Inter-American Development Bank to request any Federal Reserve Bank to act as its depository or fiscal agent were the only ones of interest to the Federal Reserve System.

At this point Mr. Fisher, Economist, Division of Research and Statistics, entered the room.

Report on S. 2378 (Item No. 5). At its meeting on July 24, 1959, the Board agreed to defer a report to the Senate Banking and Currency Committee on S. 2378, a housing bill, until after Chairman Martin had testified on Wednesday, July 29, before the Senate Housing Subcommittee concerning the Presidential veto of S. 57, the original omnibus housing bill. S. 2378 was a compromise measure which the Housing and Home

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Finance Administrator had indicated would probably be generally acceptable to the Executive Branch of the Government.

Under date of July 30, there was distributed to the Board, with a memorandum from Mr. Noyes, Adviser, Division of Research and Statistics, a draft of a revised letter to the Senate Banking and Currency Committee reporting on S. 2378.

After agreement had been expressed with certain editorial and clarifying changes suggested by Governor Robertson, unanimous approval was given to a letter in the form attached as Item No. 5.

Actions incident to Hawaiian Statehood. A memorandum from the Legal Division dated July 28, 1959, which had been distributed to the Board, pointed out that section 17 of the Hawaii Statehood Act amended section 2 of the Federal Reserve Act to provide that upon admission of the State of Hawaii to the Union, the Federal Reserve districts were to be readjusted by the Board of Governors of the Federal Reserve System in such manner as to include such State. The memorandum suggested that, in conformity with the procedure followed incident to the admission of Alaska to Statehood, the Board might wish to authorize its Secretary, upon being informed that the President of the United States had signed a proclamation making Hawaiian Statehood effective, to send a telegram to the Presidents of all Federal Reserve Banks advising of the inclusion of the State of Hawaii in the Twelfth Federal Reserve District. Since the admission of Hawaii also would render inappropriate certain language in

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the Board's Regulations E, G, H, I, J, L, and U, it was proposed that the necessary technical amendments be made as of the date of admission of Hawaii to Statehood, that the amendments be published thereafter in the Federal Register and the Federal Reserve Bulletin, and that the telegram sent to the Federal Reserve Banks incorporate reference to such amendments.

After a brief discussion, the inclusion of Hawaii in the Twelfth Federal Reserve District was approved unanimously, effective upon Hawaii's admission as a State of the Union, with the understanding that Hawaii would be a part of the territory served by the head office. The Secretary of the Board was authorized to take the steps outlined in the memorandum from the Legal Division upon being informed that the President of the United States had signed a proclamation making the Statehood of Hawaii effective.

Messrs. Shay, Hogan, and Fisher then withdrew and Mr. Harris, Coordinator of Defense Planning, entered the room.

Storage of Federal Reserve currency (Items 6 and 7). In 1957 the Board approved a change in the plans for the new building of the Salt Lake City Branch so as to provide a third level to the vaults for possible storage of emergency supplies of currency as part of the defense planning program. In view of the uncertainty of the status of the proposal to build a vault at Fort Riley, Kansas, for storage of emergency currency, the Board on June 23, 1959, asked Mr. Farrell to discuss with Treasury

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representatives the possibility of using for this purpose the third-level vault at Salt Lake City. In a memorandum dated July 16, 1959, which had been circulated to the Board, Mr. Farrell reported having discussed with the Treasury the alternatives of (1) making the vault available to the Comptroller of the Currency so that any currency stored there would continue to be under his custody, or (2) having the various Federal Reserve Agents request the Comptroller to ship currency to an Agent's Representative at Salt Lake City who would be given power of attorney to act for the other Agents. The Treasury expressed willingness to go along with either of the proposals, but indicated a preference for the second alternative. President Mangels of the San Francisco Reserve Bank had advised Mr. Farrell that the third-level vault in Salt Lake City would hold about 118 million pieces of currency on either a dead-storage or a roll-over basis, but that the vault was unfinished and could not be used for the purpose until compartments and lights had been installed.

Mr. Farrell's memorandum indicated that the Treasury had not yet given up hope for the Fort Riley vault. Attached to the memorandum was a copy of a letter dated June 18, 1959, from Under Secretary of the Treasury Baird to Senator Robertson clarifying certain points regarding proposed legislation which would authorize construction of the vault and indicating that the Treasury would await further advice from the Senator.

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In a memorandum from the Division of Bank Operations dated July 21, 1959, which also had been circulated to the Board, reference was made to a letter dated July 2, 1959, from the Comptroller of the Currency requesting that the Board agree to the removal of 5,625 packages of Federal Reserve notes stored in the United States Bullion Depository at Fort Knox, Kentucky. These notes were placed in the Fort Knox vault in 1951 and 1954, and Treasury auditors recently had reported deterioration of the packages. Since it appeared that the Fort Knox vault was not adapted to the storage of currency for long periods, the memorandum suggested that it probably would be advisable not to replace the notes. Possible alternative arrangements for removal and circulation or other disposition of the notes were suggested, and there was submitted with the memorandum a draft of letter to the Comptroller of the Currency expressing agreement with his suggestion that detailed plans be decided upon by representatives of the Board and the Comptroller's Office.

Following preliminary comments by Mr. Farrell on various aspects of the Salt Lake City proposal, during which he noted that modifications of the second alternative referred to in his July 16 memorandum could be considered, Governor Robertson expressed the opinion that the Salt Lake City vault should be utilized promptly in order to get as much currency out of Washington as possible, particularly in view of the Comptroller of the Currency's request for removal of the Federal Reserve notes now stored at Fort Knox.

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There ensued a discussion of procedures during which Mr. Farrell said that the Division of Bank Operations probably would have to come back to the Board for approval of whatever plans might be worked out with the Comptroller's Office for removal of the Federal Reserve notes from Fort Knox. With regard to the Salt Lake City proposal, he inquired whether the Board would deem it advisable to ask the Presidents' Conference to consider alternative arrangements for the handling of the notes to be stored at Salt Lake City.

It was the view of the Board that the San Francisco Bank should be requested to have the Salt Lake City vault placed in condition for the storage of an emergency supply of Federal Reserve notes, including installation of compartments and lighting, and that the Division of Bank Operations should prepare a plan for the handling of the notes for the Board's consideration.

At the instance of Governor Balderston, there followed a discussion of the utilization of vaults at other Federal Reserve offices for the storage of emergency currency. It was brought out that a two-year emergency supply of currency was now scattered around the country at various Federal Reserve Banks and branches, but that the Salt Lake City Branch building was the only office with facilities specifically designed for the purpose of storing an emergency supply of Federal Reserve notes. Also, while Salt Lake City was designated as a target area, it did not



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appear to be too high on the list, whereas most of the other Federal Reserve buildings having substantial vault space were in likely target areas.

Thereupon, it was agreed unanimously (1) to take the steps indicated at this meeting with respect to the proposal to store an emergency supply of currency at the Salt Lake City Branch, and (2) to advise the Comptroller of the Currency that the Board would offer no objection to removal of the Federal Reserve notes now held in the Fort Knox vault. Attached as Items 6 and 7, respectively, are copies of the letters sent to the Federal Reserve Bank of San Francisco and to the Comptroller of the Currency pursuant to the actions agreed upon at this meeting.

Extensions of time to establish branches (Item No. 8). In a letter dated June 9, 1959, Vice President Wiltse of the Federal Reserve Bank of New York submitted for the Board's consideration the suggestion that each Federal Reserve Bank be delegated authority to approve on behalf of the Board of Governors at least one extension of not more than six months, beyond the Board's original authorization, in which a State member bank would be allowed to establish an approved branch. Mr. Wiltse suggested that such a procedure would reduce materially the number of routine matters coming before the Board without in any substantial way diminishing the Board's exercise of its statutory responsibilities.

In a memorandum dated July 2, 1959, which had been circulated to the members of the Board, the Division of Examinations suggested an

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alternative procedure which contemplated that the Board, at the time of authorization of a branch, would approve one extension of time of six months without notifying the applicant bank. The Federal Reserve Bank would be requested to advise the applicant bank of this permission if the additional time became necessary or, in unusual cases, to resubmit the matter to the Board for further consideration. Submitted with the memorandum was a draft of letter to Mr. Wiltse outlining the procedure, and it was proposed that an edited version of the letter be sent to all Federal Reserve Banks. The Division's memorandum indicated that Counsel for the Board had some question as to whether the Board could legally delegate to the Reserve Banks the right to extend the time prescribed for the establishment of a branch. It was believed, however, that this objection would be overcome by adopting the alternative plan suggested by the Division of Examinations.

At the request of the Board, Mr. Nelson reviewed the procedure suggested by Mr. Wiltse and the alternative plan advanced for consideration by the Division of Examinations, following which Mr. Hexter discussed the matter from a legal standpoint.

Question was raised by Governor Shepardson whether, practically speaking, there was any substantial distinction between the alternative plan and Mr. Wiltse's original proposal. The Wiltse plan, he pointed out, would achieve a greater saving in paper work. Therefore, if any

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change in the current procedure was to be made, he would be inclined to favor the New York proposal in the absence of strong reasons against its adoption.

From the discussion that ensued, it developed that the current procedure was not regarded as unduly burdensome. Furthermore, the present procedure was believed to contain inherent advantages not found in either the New York plan or the alternative proposal of the Division of Examinations. It was also brought out that flexibility of approach in fixing time limits when branch applications were originally considered would work in the direction of reducing the number of requests for extension of time. The Division of Examinations was reported to be studying applications carefully for the purpose of recommending in each instance a period of time for establishment of a branch that seemed justifiable and reasonable in the light of the facts presented. Along these lines, it was noted that the Board frequently had granted a period up to one year, and an even longer time in exceptional circumstances.

The suggestion then was made that the present procedure for considering and acting upon requests for extension of time be continued without change. There was agreement with this suggestion, and it was understood that an appropriate letter would be sent to Vice President Wiltse.

A copy of the letter sent to Mr. Wiltse under date of August 7, 1959, is attached as Item No. 8.

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Verification and destruction of Treasury currency (Item No. 9).

Governor Robertson had been designated to represent the Board, and Presidents Leach, Fulton, and Mangels to represent the Presidents' Conference, in discussions with the Treasury relating to the verification and destruction of unfit Treasury currency by the Federal Reserve Banks. There had now been distributed to the members of the Board a draft of letter to the Under Secretary of the Treasury advising that the System group deemed it desirable to develop certain additional information, that this information could not be considered before September 1, and that it was hoped the Treasury would not be inconvenienced by the delay.

Governor Robertson commented that a meeting of the System group had been held, the group wished to develop a definite alternative procedure to suggest to the Treasury that would be in line with realities, and a staff committee therefore had been asked to obtain additional information. He and the designated Presidents would then go over the staff report and take the matter up with the Treasury, but it was felt that in the meantime the Treasury should be kept advised of the status of consideration of the matter.

Thereupon, the proposed letter to the Under Secretary of the Treasury was approved unanimously. A copy is attached as Item No. 9.

Mr. Smith then withdrew from the meeting, as did Mr. Harris.

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Expense of photostating certain records. At the Chairman's suggestion, it was agreed to defer consideration of a draft of letter to the Senate Select Committee to Investigate Improper Activities in Labor-Management Relations which would raise the question of reimbursement by the Committee for the cost incurred by the Federal Reserve Bank of San Francisco in cooperating with the Union Bank of Los Angeles to obtain photostats of certain records desired by the Committee.

Messrs. Noyes, Adviser, and Dembitz, Research Associate, Division of Research and Statistics, entered the room at this point.

Reserve requirements (Items 10 and 11). In accordance with the understanding at the meeting on Wednesday, July 29, members of the Board's staff met for the purpose of developing a program to study the problems inherent in the recently enacted legislation with respect to member bank reserve requirements. As the result of the staff meeting, two letters to the Presidents of the Federal Reserve Banks had been drafted for the Board's consideration. The first of these letters referred to the development of new standards for the classification of reserve cities, indicated that the Board would be glad to have the benefit of ideas regarding the standards that should be used, and

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stated that the Board contemplated asking to have the topic placed on the agenda for discussion with the Presidents at the joint meeting to be held September 23, 1959. This letter also set forth criteria that would seem appropriate for the reclassification of individual banks and outlined a procedure for the submission of applications that might be received from individual banks to carry reduced reserves during the period until revised standards for the classification of cities and banks could be established. The second proposed letter requested data relating to the vault cash holdings of individual member banks and would be transmitted as soon as the necessary enclosures could be prepared.

The draft letters were discussed and certain minor changes were suggested, following which unanimous approval was given to the two letters attached as Item No. 10 and Item No. 11, respectively.

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

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

	<u>Item No.</u>
Letter to the Federal Reserve Bank of New York interposing no objection to an extension of the leave of absence without pay granted to Merlyn N. Trued.	12

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Item No.

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Letter to the Federal Reserve Bank of Chicago approving the appointment of Harvey J. Wishart as Alternate Assistant Federal Reserve Agent, and later as Assistant Federal Reserve Agent.

The meeting then adjourned.

Secretary's Notes:

Governor Shepardson approved on behalf of the Board on July 30, 1959, the following items:

Memorandum from Mr. Kelleher, Director, Division of Administrative Services dated July 28, 1959, recommending the appointment of Sam M. VanHook as Guard in that Division, with basic annual salary at the rate of \$3,255, effective the date of entrance upon duty.

Memorandum from the Office of the Controller dated July 23, 1959, recommending payment of the bill in the amount of \$4,830 submitted by Harbeson Hough Livingston and Larson under date of July 15, 1959, for architectural services rendered on preliminary drawings for shelter facilities which would be incorporated in the substructure of an addition to the Board's building.

Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson today approved salary increases for the following members of the Board's staff, effective August 9, 1959:

Margaret R. Garber, Economist, Division of International Finance, from \$6,585 to \$7,030.

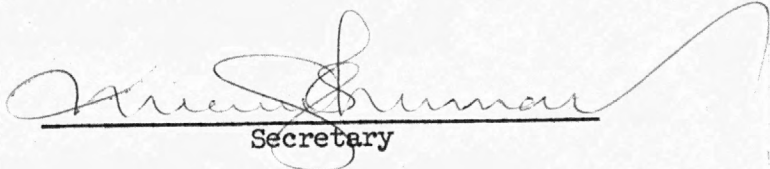
Donald B. Fitzhugh, from \$6,285 to \$7,030, with a change in title from Tabulation Planner to Data Processing Planner, Division of Administrative Services.

Herbert E. Haney, from \$5,280 to \$5,985, with a change in title from Operator, Tabulating Equipment, to Senior Programmer, Division of Administrative Services.

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Governor Shepardson also approved on behalf of the Board a memorandum from Mr. Fauver, Assistant Secretary, dated July 30, 1959, recommending that an invitation be extended to students at the Center for Latin American Monetary Studies, Mexico City, to visit the Board's offices during the week of September 14, 1959. This action approved a luncheon in the Staff Dining Room, payment of the cost of translating facilities, and payment of necessary miscellaneous expenditures.

  
Secretary



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

Item No. 1  
7/31/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 31, 1959.



Board of Directors,  
Valley Bank and Trust Company,  
Springfield, Massachusetts.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Boston, the Board of Governors of the Federal Reserve System approves the establishment of a branch at 30 Elm Street, and a branch at 82 North Elm Street, both in Westfield, Massachusetts, by Valley Bank and Trust Company, in connection with the merger of The First National Bank of Westfield, Westfield, Massachusetts, with and into Valley Bank and Trust Company.

The approval contained herein is given provided (a) the merger is effected substantially in accordance with the terms of the Agreement and Plan of Consolidation dated May 26, 1959, (b) the merger and establishment of the branches are effected within six months from the date of this letter, (c) any stock acquired from dissenting shareholders is disposed of within six months from the date of acquisition, and (d) formal approval of the State authorities is obtained and is in effect at the time the merger and establishment of the branches are effected.

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  
7/31/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 31, 1959.

Board of Directors,  
The Connecticut Bank and Trust Company,  
Hartford, Connecticut.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Boston, the Board of Governors approves the establishment of a branch in Thompsonville, Connecticut, and a branch in Somers, Connecticut, by The Connecticut Bank and Trust Company, in connection with the proposed merger of The Thompsonville Trust Company, Thompsonville, Connecticut, with and into The Connecticut Bank and Trust Company. This approval is given provided (a) the merger is effected substantially in accordance with agreement of merger dated June 1, 1959, (b) any stock acquired from dissenting shareholders is disposed of within six months from date of acquisition, and (c) the branches are established within six months 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. 3  
7/31/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 31, 1959.

The Honorable Jesse P. Wolcott,  
Chairman,  
Federal Deposit Insurance Corporation,  
Washington 25, D. C.

Dear Mr. Wolcott:

Reference is made to your letter of July 16, 1959, concerning the application of The First Citizens State Bank of Whitewater, Wisconsin, Whitewater, Wisconsin, to become an insured bank as a nonmember of the Federal Reserve System, effective simultaneously with withdrawal from the System.

No corrective programs have been urged upon the bank which, in the opinion of the Board of Governors, it would be considered desirable to incorporate as conditions to admitting the bank to membership in the Corporation as a nonmember of the Federal Reserve System.

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  
7/31/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 31, 1959.

Mr. Phillip S. Hughes,  
Assistant Director for  
Legislative Reference,  
Bureau of the Budget, Room 253,  
Executive Office Building,  
Washington 25, D. C.

Attention Mrs. Garziglia.

Dear Mr. Hughes:

This is in response to your communication dated July 28, 1959, requesting the views of the Board on an enrolled bill, S. 1928, "To provide for the participation of the United States in the Inter-American Development Bank."

The bill permits the President to accept membership on behalf of the United States in the Bank and authorizes an appropriation of \$450 million for the purchase of capital stock and the payment of the United States subscription to a Fund for Special Operations. Certain provisions of the bill relate to the marketing of the Bank's securities in the United States, the co-ordination of the activities of United States representatives to the Inter-American Development Bank by the National Advisory Council on International Monetary and Financial Problems, and the prior approval of Congress for certain actions on behalf of the United States with respect to the Bank, including voting an increase in capital or subscribing to additional stock, and accepting any amendment to the Bank agreement.

Section 6 of the bill provides that any Federal Reserve Bank that is requested to do so by the Inter-American Development Bank shall act as its depository or as its fiscal agent subject to the supervision and direction of the Board of Governors.

This is to advise that the Board of Governors has no objection to approval of the legislation by the President.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 5  
7/31/59

OFFICE OF THE CHAIRMAN

July 31, 1959

The Honorable A. Willis Robertson,  
Chairman, Banking and Currency Committee,  
United States Senate,  
Washington 25, D. C.

Dear Mr. Chairman:

This is in reply to your request for the Board's views on S. 2378, now pending before the Senate Committee on Banking and Currency, a bill containing provisions on FHA insurance programs, housing for the elderly, Federal National Mortgage Association, urban renewal, college housing, armed services housing, and miscellaneous matters.

Many of the comments I made on S. 57 while testifying before the Senate Housing Subcommittee on Wednesday, July 29, would also be applicable to S. 2378. The Board favors provisions of S. 2378 that would extend the FHA insurance program for armed services housing, the FHA Title I property improvement loan insurance program, and the Voluntary Home Mortgage Credit Program. Likewise the Board favors the proposed increase in general mortgage insurance authority for the Federal Housing Administration, although, as I indicated in my testimony, the Board would deem it wiser to remove all limits upon FHA insurance in force. These limits have no useful purpose. If they were removed, Congress would still have an opportunity, through the appropriations process, to review annually the standards under which the program is operated.

The Board has strong reservations about certain other provisions of S. 2378. One concerns the proposed reduction in statutory minimum downpayments on homes with FHA-insured mortgages, about which I commented in my testimony. This reduction does not appear warranted under present circumstances when construction and mortgage lending are near or at record levels, pressure on capital markets is strong and increasing, and general economic activity is rapidly expanding. What is needed now are measures to increase the rate of saving, not the rate of borrowing.

The Honorable A. Willis Robertson

No. 2

Another provision of S. 2378 would exclude FHA-insured home mortgage loans held by national banks from the limits currently imposed by the Federal Reserve Act on the amount of real estate loans that a national bank may hold in relation to its capital and surplus or its time and savings deposits. Such a relaxation of limits would have the effect of increasing the total amount of other real estate loans that a national bank could hold. Thus it would tend to lengthen the average maturity of bank assets and diminish bank liquidity. This statutory change does not seem desirable.

In conclusion, the Board wishes to state once again its deep concern about the problems of inflationary developments in the American economy and to express its hope that every effort will be made to harmonize housing programs with fiscal and monetary policies directed toward achieving economic stability which is essential to sustained growth.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

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

Item No. 6  
7/31/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 31, 1959.

Mr. H. N. Mangels, President,  
Federal Reserve Bank of San Francisco,  
San Francisco 20, California.

Dear Mr. Mangels:

It is understood that Mr. Farrell has discussed informally with you the possibility of using the third level vault in the new Salt Lake City Branch building to store, for emergency purposes, part of the stock of unissued Federal Reserve notes of various Banks now held in Washington. Your telegram of July 15 to Mr. Farrell stated that this vault is presently unfinished and could not be used for the storage of currency until compartments and lights have been installed.

The Board has decided that it would be desirable to utilize the vault for the purpose mentioned above. Accordingly, it would be appreciated if you would arrange for the installation of compartments and lights, and take any other steps that may be necessary, to make the vault available for this purpose.

It is assumed that upon completion of the work you will report the capitalized cost thereof on Form F.R. 611.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

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

Item No. 7  
7/31/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 31, 1959.

The Honorable Ray M. Gidney,  
Comptroller of the Currency,  
Department of the Treasury,  
Washington 25, D. C.

Dear Mr. Gidney:

The Board has considered your letter of July 2, 1959, and will offer no objection to the removal of the Federal Reserve notes stored at the United States Bullion Depository, Ft. Knox, Kentucky, under the joint custody of the Treasurer of the United States and the Comptroller of the Currency.

It is noted that the Treasury auditors recently recommended that the currency be placed in circulation or otherwise disposed of, because of the poor condition of the wrappings of many of the packages and because it appeared that the packages would continue to deteriorate with the passage of time.

As indicated in your letter, plans for the removal of the notes and the details thereof, should be decided upon between representatives of the Board and of your office.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.



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

Item No. 8  
7/31/59



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

August 7, 1959

Mr. R. B. Wiltse, Vice President,  
Federal Reserve Bank of New York,  
New York 45, New York.

Dear Mr. Wiltse:

This is in reply to your letter of June 9, 1959, suggesting that the Board give consideration to delegating to each Federal Reserve Bank the authority to approve, on behalf of the Board, at least one extension of not more than six months' time, beyond the Board's original authorization, in which a State member bank may establish an approved branch. Your letter expressed the view that such a procedure would reduce materially the number of routine matters coming before the Board without in any substantial way diminishing the Board's exercise of its statutory responsibilities.

The Board is appreciative of your purpose in submitting this suggestion and has considered the proposal along with possible alternatives designed to achieve the same objective. It has concluded, however, that the present arrangement, under which the Board considers all applications for extensions of time on the basis of a showing of need, tends to encourage a State member bank to establish a new branch within the prescribed period.

In addition, as indicated in your letter, the Board does not use the six-month rule as an arbitrary, inflexible instrument. Although deviations must be justified by the facts of a particular case, the Board has frequently permitted periods up to one year for the establishment of a branch. In a few exceptional cases, periods beyond a year have been approved.

In all the circumstances, it is the Board's opinion that the advantages inherent in the present procedure outweigh the benefits that might be derived from adopting any of the alternatives that have been considered.

Very truly yours,

Merritt Sherman,  
Secretary.



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 9  
7/31/59

OFFICE OF THE CHAIRMAN

July 31, 1959

The Honorable Julian B. Baird,  
Under Secretary of the Treasury,  
Washington 25, D. C.

Dear Mr. Baird:

In previous correspondence with regard to the arrangements for the verification and destruction of unfit Treasury currency, both you and Mr. Heffelfinger suggested a meeting to discuss the rising cost of the operation and means by which opportunities for irregularities could be minimized.

As you may recall, in my letter of June 9 I stated that the Board concurred in the desirability of such a meeting and felt that the purposes mentioned by you and Mr. Heffelfinger could be most effectively served by having representatives of the Presidents' Conference join with representatives of the Board in discussing the whole problem with representatives of the Treasury. At that time I mentioned that I would get in touch with you with regard to further arrangements for the suggested meeting after the Presidents had had an opportunity to consider the matter.

Subsequently a group, consisting of Governor Robertson and Presidents Leach, Fulton, and Mangels, was designated to represent the Federal Reserve in pursuing the problem. After some discussion of the subject, this ad hoc committee now feels that it is desirable to develop certain additional information which, however, can not be considered before September 1. We hope that you will not be inconvenienced by the resulting delay in the meeting with representatives of the Treasury.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Item No. 10  
7/31/59BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON 25, D. C.ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 31, 1959.

Dear Sir:

The Board is giving preliminary consideration to the question of what actions will be necessary or appropriate as a result of the recent amendment to Section 19 of the Federal Reserve Act, which concerns bank reserves. Briefly, the problems fall into three general categories: counting of vault cash as reserves, new standards for classification of reserve cities, and new standards for reclassification of individual banks.

In the light of the changes made by the new legislation, including the abolition of central reserve city designation of New York and Chicago in three years, it will be necessary to reconsider the standards for classification of reserve cities with greater emphasis upon the nature of deposit accounts other than interbank and less upon interbank accounts. Accordingly, the standards for classification of reserve cities (F.R.L.S. #4220) and the triennial designation of reserve cities scheduled to become effective March 1, 1960, must be reviewed. In this connection, the Board would be glad to have the benefit of your ideas regarding what standards should be used, and it contemplates asking that this topic be placed on the agenda for discussion with the Presidents of the Reserve Banks at their meeting to be held September 21-23.

The Board believes that, until standards for the classification of cities are established, it will not be possible to fix new criteria to be used when considering applications of individual banks to carry reduced reserves. Accordingly, it would appear desirable as a general rule to defer consideration of applications by individual banks until the standards for the classification of cities can be established. However, it is recognized that in the meantime your Bank may receive applications from some member banks that have been denied requests for reduced reserves on the basis of their location. It is suggested that such cases as you feel to be fully justified and of an urgent nature, because of hardship or other reasons, be forwarded to the Board along with your recommendations. Please include in your recommendation a full discussion of the factors upon which the recommendation is based.

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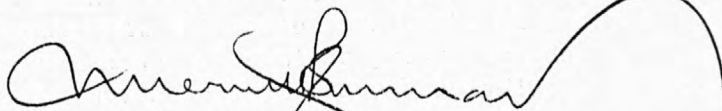
Basically, it appears that the criteria for the reclassification of individual banks should include most of those set forth in F.R.L.S. #6050 but should be much broader in scope with greater emphasis upon nature of deposits other than interbank. Relevant additional items might include the following:

1. Volume of debits against deposit accounts, and turnover ratios, in comparison with other banks in the same or similar cities.
2. Distribution of ownership of demand deposits, similar to figures obtained in the annual surveys of ownership.
3. Average ratios of excess reserves to required reserves.
4. Activity in the markets for Federal funds, Treasury bills, and bankers' acceptances, and use of the credit facilities of the Reserve Banks in maintaining reserve positions.
5. Ratios of commercial and industrial loans, of loans to brokers and dealers in securities, and of loans to nonbank financial institutions to total loans or to total assets.

The last three of these considerations are being used in the selection of the new "money market" subseries of the weekly reporting series as set forth in an attachment to the Board's letter of May 20, 1959.

The various alternatives and technical questions regarding the counting of vault cash as reserves are being studied and will be referred to in a separate communication.

Very truly yours,



Merritt Sherman,  
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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

Item No. 11  
7/31/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD



August 4, 1959

Dear Sir:

Following the recent amendment of Section 19 of the Federal Reserve Act, one of the subjects now under study here is that of permitting member banks to count vault cash as reserves. In this connection, it is desired to assemble certain data relating to the vault cash holdings of each individual member bank.

It will therefore be appreciated if your Bank will forward, to reach the Board by August 17, the material indicated in this letter and its attachment. In general, as indicated in the attachment, your Bank is requested to provide, in punched card form, data on vault cash and certain related items for the semi-monthly period ending July 31 (for each country bank) or for the week ending July 29 (for each central reserve or reserve city bank). The calculating of ratios and other processing of these data will be done here, using the Board's electronic computer.

In addition to data for these periods, further data will be desired with respect to individual banks showing especially high or low holdings of vault cash in relation to their deposits, in order to determine whether or not the high or low ratios shown by such banks in July were also typical of other periods. After the July 1959 data have been received here and ratios have been calculated, there will be sent to your Bank a list of the member banks for which further data will be requested. For each such bank, it is planned to ask that your Bank forward a set of similar punched cards covering the rest of the period from November 1958 through July 1959, or selected dates in that period.

Very truly yours,  
  
(Signed) Merritt Sherman  
Merritt Sherman,  
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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

Item No. 12  
7/31/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 31, 1959

Mr. William H. Braun, Jr.,  
Secretary,  
Federal Reserve Bank of New York,  
New York 45, New York.

Dear Mr. Braun:

This is in reply to your letter of July 20, 1959, concerning the extension of leave of absence without pay granted to Mr. Merlyn N. Trued, enabling him to complete his assignment with Day & Zimmermann, Inc., as a member of a team of engineers and specialists to advise the Industrial Development Center in Viet Nam.

It is understood that Mr. Trued's leave of absence without pay has been extended for an additional period of two months beyond the present termination date in November 1959.

The Board of Governors interposes no objection to the arrangements outlined in your letter.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

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

Item No. 13  
7/31/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 31, 1959



Mr. Bert R. Prall,  
Chairman of the Board and  
Federal Reserve Agent,  
Federal Reserve Bank of Chicago,  
Chicago 90, Illinois.

Dear Mr. Prall:

In accordance with the request contained in your letter of July 20, 1959, the Board of Governors approves the appointment of Mr. Harvey J. Wishart as an additional Alternate Assistant Federal Reserve Agent at the Federal Reserve Bank of Chicago in anticipation of the retirement of Assistant Federal Reserve Agent Schelling on March 31, 1960. The Board also approves the designation of Mr. Wishart as Assistant Federal Reserve Agent at the time of Mr. Schelling's retirement.

This approval is given with the understanding that Mr. Wishart will be solely responsible to the Federal Reserve Agent and the Board of Governors for the proper performance of his duties except during the absence or disability of the Federal Reserve Agent or a vacancy in that office. If this eventuality should occur while he is serving as Alternate Assistant Federal Reserve Agent, his responsibility will be to the Assistant Federal Reserve Agent and the Board of Governors, and if it should occur while Mr. Wishart is serving as Assistant Federal Reserve Agent, his responsibility will be solely to the Board of Governors.

When not engaged in the performance of his duties as Alternate Assistant or Assistant Federal Reserve Agent, the appointee may, with the approval of the Federal Reserve Agent and the President, perform such work for the Bank as will not be inconsistent with his duties for the Agent's office.

Mr. Bert R. Prall

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

It is assumed that Mr. Wishart will execute the usual Oath of Office which will be forwarded to the Board of Governors and that his appointment to each of these positions will become effective on the date of execution of the oath.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.