

Minutes for August 13, 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><i>MM</i></u>	_____
Gov. Szymczak	x <u><i>MS</i></u>	_____
Gov. Mills	x <u><i>[Signature]</i></u>	_____
Gov. Robertson	_____	x <u><i>R</i></u>
Gov. Balderston	x <u><i>CCB</i></u>	_____
Gov. Shepardson	_____	x <u><i>SS</i></u>
Gov. King	x <u><i>[Signature]</i></u>	_____

Minutes of the Board of Governors of the Federal Reserve System
on Thursday, August 13, 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. King

Mr. Kenyon, Assistant Secretary
Mr. Fauver, Assistant Secretary
Mr. Riefler, Assistant to the Chairman
Mr. Shay, Legislative Counsel
Mr. Johnson, Director, Division of Personnel
Administration
Mr. Farrell, Director, Division of Bank
Operations
Mr. Solomon, Director, Division of Examinations
Mr. Noyes, Adviser, Division of Research and
Statistics
Mr. Sprecher, Assistant Director, Division of
Personnel Administration
Mr. Hexter, Assistant General Counsel
Mr. Hostrup, Assistant Director, Division of
Examinations
Mr. Solomon, Economist, Division of Research
and Statistics
Mr. Young, Assistant Counsel

Discount rates. The establishment without change by the Federal Reserve Bank of Kansas City on August 12, 1959, of the rates on discounts and advances in its existing schedule was approved unanimously, with the understanding that appropriate advice would be sent to the Bank.

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:

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	<u>Item No.</u>
Letter to the Federal Reserve Bank of Boston regarding the statement of purpose required under Regulation U when a bank purchases a collateral loan from a note broker.	1
Letter to the First National Bank & Trust Co., Havre de Grace, Maryland, approving its application for a specific fiduciary power.	2
Letter to the Federal Reserve Bank of St. Louis concurring in the recommendation that no change be made in the classification of Eighth District member banks for the purpose of electing Class A and B directors.	3
Letter to the Federal Reserve Bank of San Francisco approving a change in the classification of Twelfth District member banks for the purpose of electing Class A and B directors.	4
Letter to the Federal Reserve Bank of Boston approving an adjustment in the employees' salary structure.	5

Messrs. Johnson and Sprecher then withdrew from the meeting.

Decision on First Banccredit Corporation. There had been distributed to the members of the Board copies of a memorandum addressed by Mr. Solomon to Chairman Martin under date of August 12, 1959, relating to a telephone call received by the former from Mr. Joseph Colman, President of First Bank Stock Corporation, Minneapolis, Minnesota. The purpose of Mr. Colman's telephone call was to advise that he and attorneys for First Bank Stock would like to come to Washington for discussion with the Board of questions of both law and policy resulting from the recent adverse decision with respect to First Bank Stock's request for a determination under section 4(c)(6) of the Bank Holding

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Company Act with respect to First Bancredit Corporation. Certain possible avenues of compliance with the decision and questions relating to such courses of action were mentioned by Mr. Colman in rather general terms.

Following comments by Mr. Solomon concerning his conversation with Mr. Colman, the view was expressed that the Board would want to be as helpful as it reasonably could in assisting First Bank Stock in resolving the questions resulting from the decision in the section 4(c)(6) case. Reference was made, however, to the difficulties inherent in meeting with Mr. Colman and his associates on problems of a technical and complex nature until after definite proposals had been submitted for consideration. It was suggested, therefore, that Mr. Solomon might respond to Mr. Colman in terms that the Board believed it would be helpful if Mr. Colman would submit a letter or memorandum indicating the nature of his problems. This would not foreclose the possibility of a meeting or meetings at the staff or Board levels after there had been an opportunity to review such issues as might be set forth in the letter or memorandum.

There was agreement with this procedural suggestion, and it was understood that Mr. Solomon would talk with Mr. Colman along the lines indicated.

At this point Mr. Molony, Assistant to the Board, entered the room.

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Report on H.R. 8159 and H.R. 8160 (Item No. 6). Under date of June 1, 1959, the Board reported to a subcommittee of the House Banking and Currency Committee with respect to bills H.R. 6092 and H.R. 6093, both relating principally to national banks. The Board's report raised questions with regard to some of the provisions of the two bills, and certain changes were made which took the Board's comments partially into account. After discussion of the Board's report by Chairman Martin with Subcommittee Chairman Brown, a letter was sent to Mr. Brown on June 23, 1959, indicating that the Board would not wish to insist upon the few changes suggested by it, if to do so would jeopardize favorable consideration of many other provisions of the bills. The original bills, with certain changes, were renumbered as H.R. 8159 and H.R. 8160, following which they were passed by the House of Representatives. In letters dated August 5, 1959, the Senate Committee on Banking and Currency requested a report from the Board on the two bills in the form passed by the House.

A memorandum from Mr. Walter Young, which had been distributed to the Board under date of August 12, 1959, summarized the questions that the Board had raised concerning H.R. 6092 and H.R. 6093, along with the extent to which the Board's comments had been taken into account. Submitted with the memorandum was a draft of letter to the Senate Banking and Currency Committee which would note that the Board had submitted a report to a subcommittee of the House Banking and Currency Committee making certain suggestions. However, in view of the

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letter of June 23, 1959, the proposed report would state that the Board, after review of the legislation in its present form, recommended favorable consideration. Mr. Young's memorandum also dealt with a suggestion to the Senate Banking and Currency Committee by a member bank that there be included in H.R. 8160 an amendment to section 11(m) of the Federal Reserve Act corresponding to an amendment proposed in section 3(c) of the bill which would change paragraph (8) of section 5200 of the Revised Statutes by deleting the words "in the form of notes". The proposed report would recommend that the suggestion of the member bank be incorporated in H.R. 8160 and would note that elimination of "in the form of notes" from paragraph (8) of section 5200 and from section 11(m) of the Federal Reserve Act had been recommended in connection with the proposed Financial Institutions Act of 1957. In essence, the omission of reference to section 11(m) constituted an oversight in the drafting of the pending legislation.

In discussion of the matter, Mr. Shay stated that the Senate Banking and Currency Committee had scheduled hearings on the bills tomorrow, with the Comptroller of the Currency and Mr. Aubrey Lanston as witnesses. He understood that Committee Chairman Robertson was anxious to obtain passage of the bills at this session of Congress and that he might not welcome having to go back to the House for further discussion. Since Mr. Robertson was fully familiar with the circumstances relating to the section 11(m) matter, Mr. Shay felt that the Board might be

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justified in shortening its proposed report to the Senate Committee and making no more than a relatively brief reference thereto.

There being agreement with Mr. Shay's suggestion, unanimous approval was given to a letter to the Senate Banking and Currency Committee in the form attached as Item No. 6.

Mr. Young then withdrew from the meeting.

Firstamerica Corporation (Item No. 7). In a decision rendered under section 3(a)(2) of the Bank Holding Company Act in January 1959, the Board approved the acquisition by Firstamerica Corporation of stock of the California Bank, Los Angeles, California. Thereafter, the Department of Justice initiated a civil antitrust suit on the ground that the stock acquisition and surrounding circumstances involved violations of section 7 of the Clayton Act and section 1 of the Sherman Act. Firstamerica had acquired 97 per cent of the stock of California Bank but had stipulated that California Bank and First Western Bank and Trust Company would not be merged or consolidated until the termination of the antitrust suit. Firstamerica then endeavored to have the suit dismissed on the ground that the Board's approval under the Bank Holding Company Act barred the United States from challenging the stock acquisition, but the United States District Court in San Francisco denied the motion to dismiss. Accordingly, Firstamerica was now attempting to persuade the United States Supreme Court to review the case, reverse the District Court decision, and dismiss the antitrust

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suit. In a letter dated July 7, 1959, Counsel for Firstamerica requested the Board to consider filing a statement asking the Supreme Court to review the District Court's order. While Firstamerica did not request that the Board take a position on the merits of the controversy, it asked the Board to indicate that prompt resolution of the issue would assist the Board by clarifying its authority and duties under the Bank Holding Company Act.

The opinion of the Legal Division, expressed in a memorandum dated August 11, 1959, which had been distributed to the Board, was that a ruling in the antitrust case would not significantly assist the Board by clarifying its authority and duties under the Bank Holding Company Act, for each decision on an application under section 3(a) of the Act must be based on a judgment as to whether the proposed acquisition would be consistent with the objectives of the Act and the public interest. These would be the governing criteria regardless of whether approval by the Board in a particular case would constitute a barrier to Government action under the antitrust laws. Furthermore, it was the view of the Division of Examinations, as stated in an attached memorandum dated August 6, 1959, that delay and uncertainty incident to the antitrust suit would not adversely affect, to a material degree, the public interest in the field of banking or the welfare of either of the two banks concerned. The Legal Division's memorandum also expressed the opinion that the position of the United States, that is, that the Board's prior approval of the

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acquisition would not bar the antitrust proceeding, was correct, so it seemed unlikely that the Supreme Court would dismiss the antitrust suit even if it decided to grant a writ of certiorari and review the matter. In all the circumstances, there appeared to be little or no justification for the Board's participating in the litigation being conducted by the Department of Justice on behalf of the United States. Accordingly, there was submitted for the Board's consideration a draft of reply to Counsel for Firstamerica indicating that the Board had concluded it would not be advisable to comply with Counsel's request and file a statement with the Supreme Court.

After comments by Mr. Hexter in amplification of the memorandum, certain editorial changes in the second paragraph of the proposed letter to Counsel for Firstamerica Corporation were suggested. Unanimous approval then was given to a letter in the form attached as Item No. 7.

Mr. Hostrup then withdrew from the meeting.

Questions of Joint Economic Committee. When Chairman Martin testified before the Joint Economic Committee on July 30, 1959, several questions were raised by Committee members to which it was indicated that written replies would be furnished for the hearing record. At its meeting yesterday, the Board gave preliminary clearance to proposed answers to several of the questions. However, revised drafts were requested with respect to questions by Senator Douglas, Congressman Reuss, and Congressman Coffin. These revised drafts were distributed under date of August 12, 1959.

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Governor Mills, who was not present at the meeting yesterday, stated that he had not yet had an opportunity to review the proposed answers fully. However, a partial review of them raised in his mind questions with respect to the tone of certain of the draft replies, for he thought that the language implied something of a crisis atmosphere and he would consider it preferable to respond to the questions in a completely impersonal and unexcited manner. Governor Mills then indicated changes that he would suggest to contribute to the modification of tone that he considered desirable.

The changes suggested by Governor Mills were acceptable to the other members of the Board. Accordingly, since it was understood that a few days were still available for submission of the answers for incorporation in the hearing record, the Chairman suggested that the staff compile a clean draft of all of the replies for the Board's consideration next Monday.

Discussion then turned to the revised draft of reply to Congressman Reuss' question with respect to the need for consumer credit regulation, and Governor Balderston noted that the issue involved was the posture of the Board as reflected in the concluding sentences of the reply. He recalled that in the discussion yesterday it was considered important that the Board avoid implying that it was not concerned with trends in this area of credit. On the other hand, the Board in 1957, following

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the consumer credit study undertaken at that time, adopted the position that in peacetime any destabilizing impact of instalment credit on the economy was not sufficient to offset the administrative difficulties inherent in the regulation of such credit. The Board yesterday came to about the same conclusion, he noted, but with perhaps a little difference in tone.

There followed a number of suggestions as to how the answer to this question might most appropriately be worded to reflect the basic thinking outlined by Governor Balderston, and it was understood that these comments would be taken into account by the staff in preparing the draft that would be available for the Board's consideration next Monday.

With respect to the question by Representative Coffin concerning the use of the several instruments of monetary policy under varying conditions, the revised draft answer distributed prior to this meeting reflected the suggestion during yesterday's discussion that portions of the two alternative drafts considered at that time be combined.

Further consideration of the matter at this meeting raised the question whether there would not be value in reverting to the more comprehensive type of reply to Representative Coffin's question in an effort to provide the guidance in the philosophy of central banking that the Congressman evidently was seeking when he submitted his question. The suggestion was made that one of the difficulties mentioned yesterday in

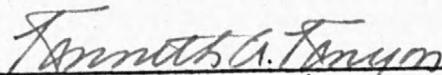
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connection with a comprehensive reply might be overcome by bringing out in the answer that the formulation of monetary policy involved the thinking and analysis of seven members of the Board of Governors, as well as other persons within the System, among whom there might be differing views as to the appropriateness of the use of the several instruments of monetary policy at any given time. At the conclusion of the discussion, it was understood that the draft material to be presented for the Board's consideration next Monday would include a proposed answer to Representative Coffin's question in rather comprehensive form, taking into account the modifications of the original draft answer that were suggested in the course of today's meeting.

The members of the staff then withdrew and the Board met with Mr. Prall, Chairman of the Federal Reserve Bank of Chicago, for consideration of certain matters pertaining to the affairs of the Chicago Bank. At the conclusion of the discussion with Mr. Prall, the meeting adjourned.

Secretary's Note: Governor Balderston, in the absence of Governor Shepardson, today authorized leave without pay for a period of approximately five months beginning August 9, 1959, and ending on or about January 9, 1960, for Ann Van Eckhardt, Statistical Assistant, Division of Research and Statistics.


Assistant Secretary

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

Item No. 1
8/13/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 13, 1959.

Mr. Benjamin F. Groot, Vice President,
Federal Reserve Bank of Boston,
Boston 6, Massachusetts.

Dear Mr. Groot:

This is in reference to your letter of July 14, 1959, which raises a question regarding the statement of purpose provided for by section 221.3(a) of the Board's Regulation U. It is a common practice in your district for banks to purchase collateral loans from note brokers. In many cases these loans are secured by stocks. The lending officer of the bank has no contact with the maker of the note, and in the past banks have usually accepted from the note broker a statement signed by the borrower to the effect that the loan was not for the purpose of purchasing or carrying a registered stock. A bank has inquired whether a similar form may be used in the future, in view of the requirement of the amended section 221.3(a), that if it merely states what is not the purpose of the loan, a statement must not only be "accepted in good faith and signed by an officer of the bank as having been so accepted" but must be "supported by a memorandum or notation of the lending officer describing the purpose of the loan".

It would be desirable, of course, for the note broker to obtain from the borrower and to forward to the bank a full, affirmative signed statement as to the purpose of the loan. Such a statement should go into sufficient meaningful detail to make it possible for a lending officer to accept it in good faith. A mere statement that the loan was intended to "replenish business funds", for example, would not be sufficient.

If the note broker is unable to supply a statement by the borrower which meets these requirements, then the lending officer who must certify that he has accepted the borrower's nonpurpose statement in good faith should be thoroughly fortified by a signed statement from the note broker detailing the circumstances surrounding the loan. To accept a statement of either borrower or broker in good faith, the lending officer must be alert to the general circumstances



Mr. Benjamin F. Groot

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surrounding this and other loans made by the broker. For example, if numerous loans handled by this broker were secured by stock certificates dated within a short time of the loan, or if brokers or dealers were to deliver registered stock to secure this or other loans, or were to receive the proceeds of such loans, the lending officer could not accept the broker's statement without obtaining a reliable and satisfactory explanation.

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
8/13/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 13, 1959.

Board of Directors,
First National Bank & Trust Co.,
Havre de Grace, Md.,
Havre de Grace, Maryland.

Gentlemen:

The Board of Governors of the Federal Reserve System has given consideration to your application for a specific fiduciary power and grants First National Bank & Trust Co., Havre de Grace, Md. authority to act, when not in contravention of State or local law, as trustee under the will of Benjamin Harman. The exercise of such right shall be subject to the provisions of Section 11(k) of the Federal Reserve Act and Regulation F of the Board of Governors of the Federal Reserve System.

A certificate covering such authorization is enclosed.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

Enclosure

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

Item No. 3
8/13/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 13, 1959.



Mr. Delos C. Johns, President,
Federal Reserve Bank of St. Louis,
St. Louis 66, Missouri.

Dear Mr. Johns:

Your letter of August 4, 1959, with regard to the classification of member banks for the purpose of electing Class A and Class B directors in the Eighth District, expresses the view that the present classification, which has been effective since May 12, 1958, is satisfactory. You therefore recommend that no change be made at this time.

The tabulation shown in your letter indicates that the distribution of the member banks has not become out of line with the Board's formula, and the Board therefore concurs in your recommendation.

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
8/13/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 13, 1959.

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

Dear Mr. Mangels:

As recommended in your letter of July 8, 1959, the Board of Governors has changed the classification of member banks in the Twelfth Federal Reserve District, for the purpose of electing Class A and Class B directors, to the following:

<u>Group</u>	<u>Banks with Capital and Surplus of:</u>
1	\$7,000,000 or more
2	In excess of \$700,000 and less than \$7,000,000
3	\$700,000 or less

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

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

Item No. 5
8/13/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 13, 1959.

Confidential (FR)

Mr. J. A. Erickson,
President,
Federal Reserve Bank of Boston,
Boston 6, Massachusetts.

Dear Mr. Erickson:

In accordance with your letter of July 30, 1959, the Board of Governors approves the following minimum and maximum salaries for the respective grades of the employees' salary structure at the Federal Reserve Bank of Boston effective August 12, 1959.

<u>Grade</u>	<u>Minimum Salary</u>	<u>Maximum Salary</u>
1	\$ 2,090	\$ 2,820
2	2,260	3,050
3	2,490	3,360
4	2,730	3,690
5	3,000	4,050
6	3,340	4,510
7	3,700	5,000
8	4,120	5,560
9	4,600	6,210
10	5,140	6,940
11	5,760	7,780
12	6,470	8,730
13	7,270	9,810
14	8,170	11,030
15	9,360	12,600
16	10,340	13,960

The Board approves the payment of salaries to the employees, other than officers, within the limits specified for the grades in which the positions of the respective employees are classified. It is understood that all employees whose salaries are below the minimum of their grades as a result of this structure increase will be brought within the appropriate ranges by December 31, 1959.

Mr. J. A. Erickson

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It is understood that provision has been made in the 1959 budget for the increased salary costs resulting from this salary structure revision.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 6
8/13/59

OFFICE OF THE CHAIRMAN

August 13, 1959.

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

Dear Mr. Chairman:

This is in response to your two letters, each dated August 5, 1959, requesting a report on two bills, H.R. 8159 and H.R. 8160, which, respectively, propose "To amend the national banking laws to clarify or eliminate ambiguities, to repeal certain laws which have become obsolete, and for other purposes" and "To amend the lending and borrowing limitations applicable to national banks, to authorize the appointment of an additional Deputy Comptroller of the Currency, and for other purposes."

At the time H.R. 6092 and H.R. 6093 were being considered by a Subcommittee of the House Banking and Currency Committee, the Board submitted a statement making suggestions regarding certain provisions. These suggestions were adopted, in part, by the Committee and the House. The Board recommends favorable consideration of the pending legislation.

We understand that, following referral of these two bills to your Committee, you received from a member bank a suggestion that there be included in H.R. 8160 an amendment to section 11(m) of the Federal Reserve Act corresponding to the amendment proposed in section 3(c) of the bill, which would amend paragraph (8) of section 5200 of the Revised Statutes by deleting the words "in the form of notes". It will be recalled that S. 1451, 85th Congress (the "Financial Institutions Act of 1957"), would have eliminated "in the form of notes" from both provisions (see title I, section 34(b)(8) and title II, section 39(1); also S. Rep. No. 121, 85th Cong., page 44).

Sincerely yours,

Wm. McC. Martin, Jr.

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

Item No. 7
8/13/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 13, 1959.



Gerhard A. Gesell, Esq.,
Covington & Burling,
Union Trust Building,
Washington 5, D. C.

Dear Mr. Gesell:

On July 7 you wrote the Board of Governors with respect to Firstamerica Corporation's Petition to the Supreme Court for an extraordinary writ of certiorari to review the District Court's denial of a motion to dismiss the pending antitrust suit against Firstamerica. You suggested that the Board consider filing a statement with the Supreme Court asking the Court to review the order of the District Court at this stage of the litigation.

The legal and practical significance of this phase of the litigation, and the information and arguments presented in your letter and Petition, have been considered, and the Board has concluded that it would not be appropriate to file with the Supreme Court a statement of the nature suggested.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.