

Minutes for September 9, 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>W</i></u>	_____
Gov. Szymczak	x <u><i>AMS</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>[Signature]</i></u>
Gov. King	_____	x <u><i>[Signature]</i></u>

Minutes of the Board of Governors of the Federal Reserve System  
on Wednesday, September 9, 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. Robertson

Mr. Sherman, Secretary  
Mr. Riefler, Assistant to the Chairman  
Mr. Molony, Assistant to the Board  
Mr. Fauver, Assistant to the Board  
Mr. Young, Director, Division of Research  
and Statistics  
Mr. Hackley, General Counsel  
Mr. O'Connell, Assistant General Counsel  
Mr. Masters, Associate Director, Division of  
Examinations  
Mr. Landry, Assistant to the Secretary  
Mr. Brill, Chief, Capital Markets Section,  
Division of Research and Statistics

Collection of data on life insurance company loans (Item No. 1).

There had been distributed to the Board a memorandum from Mr. Young dated September 4, 1959, with a draft of letter to Dr. James J. O'Leary, Director of Economic Research, Life Insurance Association of America, concerning filling a gap in the Board's flow of information on directly placed corporate obligations.

After comments by Messrs. Young and Brill on the background of the proposal that the Life Insurance Association collect yield data on direct placements by life insurance companies active in the field, unanimous approval was given to the letter (attached Item No. 1) to Dr. O'Leary requesting that organization to collect these data on a monthly basis.

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During the foregoing discussion Mr. Conkling, Assistant Director, Division of Bank Operations, entered the room, and at its close Mr. Brill withdrew and Mr. Shay, Legislative Counsel, joined the meeting.

Letter to Mr. Colman (Item No. 2). At the meeting of the Board on September 8, 1959, consideration had been given to a letter from Mr. Joseph H. Colman, President, First Bank Stock Corporation, Minneapolis, Minnesota, requesting that the Board indicate its position on various steps First Bank Stock Corporation might take following the Board's Order of July 21, 1959, to avoid being in violation of section 4(c)(6) of the Bank Holding Company Act of 1956 during the time it took to accomplish divestment of the stock of its subsidiary, First Banccredit Corporation. At that time it was agreed that Mr. Hackley should draft a reply to Mr. Colman for consideration by the Board indicating that the Board would not object to the use of an agency arrangement on a temporary basis, with the understanding that within not more than a year bona fide steps would be taken to provide for divestment by First Bank Stock Corporation of its ownership and control of Banccredit stock.

Mr. Hackley commented on the draft letter that had been distributed and there ensued a discussion during which several changes were made in the letter. The letter to Mr. Colman was then approved in the form attached to these minutes as Item No. 2.

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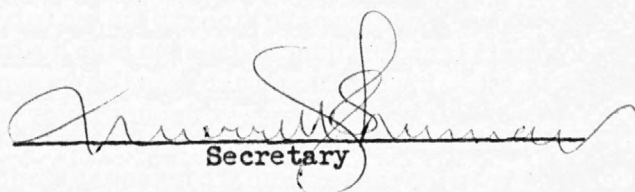
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Letter to Congressman Oliver (Item No. 3). Pursuant to the understanding at the meeting of the Board on September 3, 1959, a revised draft of letter to Congressman James C. Oliver of Maine, replying to his letter of August 17 and referring to Chairman Martin's interim reply of August 21, 1959, had been distributed.

During a discussion of this draft, several changes were agreed upon and the letter was then approved with the understanding that because of the special interest that Governor Shepardson had indicated in the letter when it was considered earlier, it would not be mailed until he had had an opportunity to review it.

Secretary's Note: Governor Shepardson having read and approved the letter upon his return to Washington, it was sent to Congressman Oliver under date of September 11, 1959, in the form attached to these minutes as Item No. 3.

Thereupon the meeting adjourned.

  
Secretary



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 1  
9/9/59

OFFICE OF THE CHAIRMAN

September 9, 1959

Dr. James J. O'Leary,  
Director of Economic Research,  
Life Insurance Association of America,  
488 Madison Avenue,  
New York 22, New York.

Dear Jim:

In its efforts to keep abreast of current trends in the economy and in the financial markets, the research staff of the Board of Governors has recently re-assessed the flow of information available to it. One of the most important gaps in this flow of information relates to the market for directly-placed corporate obligations. As you know, direct placements constitute between 30 and 40 per cent of the gross volume of corporate bond issues. While considerable information is available on the terms and rates of public bond offerings, there is virtually no comparable information on the yields on direct placements.

To assist the Board of Governors in filling this important gap, I am writing you to ask whether your organization would undertake the collection of data on average yields on direct placements by life insurance companies active in this field. It is our belief that such data from life insurance companies, obtained on a regular and frequent basis, would provide a reasonable guide to the trends in this market, and supplement the information already available on the terms of public bond issues. Our analytic needs could be met by combined data showing average yields on direct placements authorized by participating companies during each month, classified by quality group and type of borrower. These data would be used in whatever degree of confidentiality you request.

It is my understanding that members of our research staff have explored this matter with you during the past several months, and that the feasibility of such a reporting system has been tested with a number of life insurance companies. The success of these explorations suggests that a full-scale undertaking would be equally successful. Your Association and the life insurance industry is in a unique position to make a major contribution to the understanding of financial processes, and I hope you can push forward on this project.

Sincerely yours,

*Wm. McC. Martin, Jr.*  
Wm. McC. Martin, Jr.

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

Item No. 2  
9/9/59



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

September 9, 1959

Mr. Joseph H. Colman, President,  
First Bank Stock Corporation,  
Minneapolis 2, Minnesota.

Dear Mr. Colman:

This refers to your letter of August 14, 1959, with an enclosed memorandum, presenting certain questions regarding possible courses of action that might be taken as to future operations of First Banccredit Corporation to effect compliance with the Bank Holding Company Act in the light of the Board's Order of July 21, 1959, pursuant to section 4(c)(6) of that Act. These questions were the subject of discussion at a meeting on September 2 between you and Mr. Robbins and members of the Board's staff.

You inquire among other things whether the Board would approve, on a temporary basis, a change in the operations of First Banccredit Corporation so that its offices would discontinue the purchase of paper as principal and the subsequent sale of such paper to subsidiary banks and, instead, would acquire paper only as agent for such banks in a manner substantially like that followed by "Corporation Y" as described in the Board's interpretive statement in the Federal Reserve Bulletin for April 1958, p. 431. The Board feels that such an agency arrangement on a permanent basis would be undesirable in view of the extensive geographic coverage represented by offices of Banccredit. However, the Board would interpose no objection to the adoption and use of such an agency arrangement, on a temporary basis, for not more than one year following the date of this letter, with the understanding that within that time bona fide measures would be taken to provide for divestment by First Bank Stock Corporation of its ownership and control of Banccredit stock.

In the event your Corporation should decide to effect divestment by a "spin-off" of its Banccredit stock to stockholders of First Bank Stock Corporation, the Board would not consider the existence of common stockholders as between Banccredit and First Bank Stock to be, of itself, an indication of continued control of Banccredit by First Bank Stock or of failure to comply with the statute.

Mr. Joseph H. Colman

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If, after such a spin-off, Bancredit should continue for a reasonable time to sell all or a major portion of its paper to banking subsidiaries of First Bank Stock, the Board would not regard that fact alone as indicating continued control of Bancredit by First Bank Stock so as to constitute the former a "subsidiary" under the Act, provided that there is evidence that bona fide efforts are being made to find other purchasers for such paper as soon as practicable.

In the light of the views above expressed as to the effect of a spin-off involving common stock ownership of Bancredit and First Bank Stock, the Board does not believe that the establishment of a "voting trust" under which Bancredit's stock would be held by trustees for the present shareholders of the holding company would be necessary or desirable. Such a voting trust arrangement might in fact give rise to additional questions under the law.

It should be understood that the views expressed in this letter might be different if it should develop that the resulting factual situation was not in accordance with the proposed arrangements as they have now been presented to the Board.

It will be appreciated if you will advise the Board of your final decision as to the procedure that you expect to follow and if you will also furnish the Board with a complete factual statement regarding the nature of any agency arrangement that may be adopted with respect to the operations of Bancredit.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 3  
9/9/59

OFFICE OF THE CHAIRMAN

September 11, 1959

The Honorable James C. Oliver,  
House of Representatives,  
Washington 25, D. C.

Dear Mr. Oliver:

This refers to your letter of August 17 and my interim reply of August 21.

The questions asked in your letter concerning the Federal Reserve Banks and our replies are set forth below:

Question No. 1

Because of the possibility of uncertainty implied as to public ownership of the Federal Reserve System in your use of the words, "Quasi-Governmental," in your reply of August 4th, will you advise whether or not, in your opinion, the Member Banks' so-called stock in the Federal Reserve Banks gives them any proprietary ownership interest in the system?

The Federal Reserve Banks are unique institutions. Their capital stock is owned by member banks of the System, but such ownership does not give member banks a proprietary ownership interest in the Reserve Banks in the usual sense of the word. In this connection, you may be interested in a statement on this subject that was included in my answers to a 1952 questionnaire submitted by the Subcommittee on General Credit Control and Debt Management (of which Representative Patman was Chairman) of the Joint Committee on the Economic Report (see p. 261 of the enclosed copy).

Question No. 2

With reference to your comment on the earnings of the Federal banks and payment of 3-1/2 billion dollars to the U. S. Treasury from 1947-1958, how much of these earnings consisted of interest paid on government securities, held in the Federal's portfolio of assets? Will you break these payments down by years over the 1947-1958 period?



The Honorable James C. Oliver

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Earnings of the Federal Reserve Banks derived from interest on Government securities amounted to \$5,243,020,093 during the period 1947-1958. This was approximately 97.6 per cent of total earnings of \$5,370,984,620. Claims against total earnings for expenses, the statutory dividend to member banks, payments to U. S. Treasury, and additions to surplus are not assigned according to the source of the earnings. Payments to the U. S. Treasury by years over the 1947-1958 period are shown in Table 7, pages 116-117, of the Board's Annual Report for 1958, a copy of which is enclosed.

Question No. 3

Are any charges made by the "Fed" against Member Bank for services rendered in clearing checks, balancing accounts or any other service for them? If such charges are not made, will you estimate what such services may be worth in terms of dollars? If possible, will you supply these figures by years from 1947-1958?

A primary objective in establishing the Federal Reserve System was the desire to create a more efficient and economical banking system to serve the general public. To this end the Federal Reserve Act authorized the Federal Reserve Banks to provide a number of service functions relating to the transfer of funds from one part of the country to another.

The check collection system is, of course, one of the services to which you refer. Checks which are collected and cleared through the Federal Reserve Banks must be paid in full by the banks on which they are drawn without deduction of fee or charge. That is, they must be paid at par. The Federal Reserve Banks have greatly shortened and simplified the process of clearing and collecting checks. By so doing they have improved the means by which goods and services are paid for and by which monetary obligations are settled; they have also reduced the cost to the public of making payments and transferring funds. (For additional background information on the history of Reserve Bank charges for clearing and collecting checks, see enclosed copy of article from June 1953 issue of the Federal Reserve Bulletin.)

In relation to establishing par transfer of funds, the report of the House Banking and Currency Committee in September 1913 stated:

"Precisely how much difficulty and cost will be incurred by the Federal Reserve Banks in carrying out the provisions of this Act cannot be precisely calculated. It can, however, be positively stated that such expenditures will be very much less than

The Honorable James C. Oliver

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those incurred by banks at the present day in carrying through their exchanges. The proposed provision will eliminate the numerous and well-founded complaints of unjust charges for exchange; and, while it will prevent certain banks from profiting as they now do by exchange transactions, it will correspondingly benefit the community. . . ."

Later, in the course of his final speech on the bill, in relation to the establishment of a nationwide system for clearing checks, Carter Glass said:

"The provision, as it stands, will result in an immense saving to the tradespeople of the United States. It will eliminate the amazing wastefulness incident to many independent collections organizations by substituting one compact collection system. . . ."

These comments indicate that the check collection and other service functions of the Federal Reserve Banks were to be carried out in the interests of providing service to the general public. The contribution of a smooth functioning financial machinery to the economy of this country, and to day-to-day operations of businesses and consumers, is of such a nature that it cannot be measured in terms of dollars; but most certainly it is of such value as to dwarf any incidental benefits that may flow to member banks.

Question No. 4

Are the dollars or other assets, which paid for the so-called stock of the Member Banks, invested while on deposit with the "Fed" and, if so, who benefits from any such returns?

A categorical answer to this question is not possible because all funds received by the Federal Reserve Banks, including payments for capital stock subscriptions, are commingled among their investments and other assets. There is no determinable relationship between a specific source of funds and a specific use of such funds.

The capital stock of the Federal Reserve Banks held by the member banks represents a limited claim on the assets of the Reserve Banks. This claim is limited by the amount of capital stock paid in, which on August 26, 1959 totaled \$382 million or about three-fourths of one per cent of the total assets of all Federal Reserve Banks combined. At present about 51 per cent of these assets consists of Government securities, member bank discounts, and other earning assets; the remaining 49 per cent consists of gold certificate reserves, other cash, cash items in process of collection, and other nonearning assets.

The Honorable James C. Oliver

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The Federal Reserve Act provides that holders of the Federal Reserve Bank stock shall be entitled to receive a cumulative annual dividend of six per cent on the amount paid in.

Question No. 5

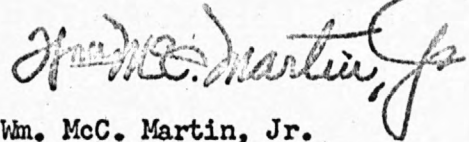
If the "Fed" is publicly-owned, in your opinion, should its operations be publicly audited?

The question of ownership of the Federal Reserve Banks is not particularly relevant in this instance because the Reserve Banks are being publicly audited.

The Federal Reserve Act provides that the Board of Governors, which is a public body, shall be empowered to examine at its discretion the accounts, books, and affairs of each Federal Reserve Bank, and that the Board shall order an examination of each Federal Reserve Bank at least once each year.

In addition to complying with the foregoing statutory directive, the Board has employed an outstanding firm of certified public accountants to observe during one examination each year the procedures followed by the Board's examiners in order to determine whether these procedures are in keeping with the highest standards of the profession.

Sincerely yours,



Wm. McC. Martin, Jr.

Enclosures