The attached set of minutes of the meeting of the Board of Governors of the Federal Reserve System on September 11, 1959, which you have previously initialed, has been amended at the request of Governor Mills to make a change in paragraph 1 on page 10.

If you approve the minutes as amended, please initial below.

Gov. Szymczak
Gov. Robertson
Gov. Balderston
Minutes for September 11, 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 9 Approval of a discount rate of 4 per cent for the Federal Reserve Banks of Boston, Atlanta, and Minneapolis

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, please initial below. If you were present at the meeting, your initials will indicate approval of the minutes. If you were not present, your initials will indicate only that you have seen the minutes.

Chm. Martin
Gov. Szymczak
Gov. Mills
Gov. Robertson
Gov. Balderston
Gov. Shepardson
Gov. King
Minutes of the Board of Governors of the Federal Reserve System on
Friday, September 11, 1959. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman 1/
Mr. Balderston, Vice Chairman 2/
Mr. Szymczak 2/
Mr. Mills
Mr. Robertson
Mr. Shepardson
Mr. King 2/
Mr. Sherman, Secretary
Mr. Thomas, Economic Adviser to the Board
Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Noyes, Adviser, Division of Research and Statistics
Mr. Hexter, Assistant General Counsel
Mr. Masters, Associate Director, Division of Examinations
Mr. Benner, Assistant Director, Division of Examinations
Mr. Landry, Assistant to the Secretary
Mr. Brill, Chief, Capital Markets Section, Division of Research and Statistics
Miss Hart, Assistant Counsel
Mr. Farrell, Legal Assistant
Mr. Huning, Review Examiner, Division of Examinations

Pursuant to the understanding at the meeting on September 3, 1959, arrangements had been made for representatives of the New York Clearing House Association to present to the Board their views with respect to the Association's proposed statement of "working principles" regarding Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Registered Stocks, as amended effective June 15, 1959. Messrs. Crosse, Assistant Vice President, and McEvoy, Senior Analyst, Reports and Analysis Division, Bank Examinations Department, Federal Reserve Bank of New York, were present for this purpose, but since the arrival of the Clearing House representatives had been delayed, Vice Chairman Balderston

1/ Attended afternoon session only.
2/ Attended morning session only.
suggested that the Board proceed to consider other items on the agenda.

Request from Budget Bureau for Board comment on amended Housing Act of 1959 (Item No. 1). Vice Chairman Balderston referred to a letter from the Budget Bureau asking for Board comments on enrolled bill S. 2654, the Housing Act of 1959. This bill represented the third housing bill presented to the President by the Congress during this session, the two earlier versions (S. 57 and S. 2539) having been vetoed. The Board's letters of June 26 and August 31, 1959, had commented on the two bills that had been vetoed.

Mr. Noyes indicated that he had not studied in detail the bill now before the Board for comment but that he understood some of the features about which the Board had expressed reservations in the earlier bills had been modified. He also noted press reports to the effect that the bill in its present form apparently represented a compromise between the Administration and the Congress and that it could be expected to be enacted into law. Accordingly, the draft letter to the Budget Bureau that had been prepared did not go into details of the bill but indicated that the Board had nothing to add to its earlier comments on housing legislation.

At Governor Mills' suggestion, it was understood that the draft letter would be changed to incorporate reference to the reasoning that the Board had advanced in its June 26 and August 31 letters on housing legislation and that it would indicate that the Board had no further comments to make.
Thereupon, unanimous approval was given to a letter to the Budget Bureau in the form attached as Item No. 1.

Letter to Budget Bureau on H.J. Res. 493 (Item No. 2). Mr. Hackley referred to H.J. Res. 493, an enrolled joint resolution that would make a technical correction in Section 5136 of Revised Statutes (relating to national banks).

Mr. Hackley said that he assumed the Board would have no objection to the necessary technical correction, which would supply a deficiency resulting from two recent amendments to Section 5136, and none of the members of the Board indicated a different view.

Thereupon, unanimous approval was given to a letter to the Budget Bureau in the form attached as Item No. 2.

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

Item No. 3

Item No. 4
Letter to the Comptroller of the Currency recommending unfavorably with respect to an application to organize a national bank in Azle, Texas.

Mr. Noyes left the meeting at this point and Messrs. Crosse and McEvoy, who had withdrawn from the room during consideration of the
foregoing matters pending the arrival of the representatives of the New York Clearing House Association, reentered the room at 10:20 a.m. along with the following Clearing House representatives.

Paul R. Fitchen, Executive Vice President
Robert H. Brome, Resident Counsel, Bankers Trust Company
Roy C. Haberkern, Jr., Milbank, Tweed, Hope & Hadley, Attorneys for Chase Manhattan Bank

Meeting with representatives of the New York Clearing House Association. The Board then heard the representatives from the New York Clearing House Association present their views with respect to the "working principles" developed by them and transmitted to the Federal Reserve Bank of New York on August 5, 1959. The New York Reserve Bank, in turn, forwarded the Association's "working principles" to the Board under date of August 10, pointing out some apparent conflicts between certain of those principles and a draft of a proposed Board interpretation of Section 221.3(b)(1) of Regulation U. That section deals with the question of determining when a loan by a bank is for the purpose of "carrying" registered stock, and the draft interpretation had been sent to all Reserve Banks on August 5 with a request for their comments. The Reserve Bank's August 10 letter also called attention to the request of the Clearing House Association that its representatives have a prior opportunity to discuss the matter in the event the Federal
Reserve proposed to take a position not wholly consistent with any of the "working principles" developed by the Association. Subsequently, a copy of the draft of Board interpretation had been furnished by the Reserve Bank to the Clearing House Association, and the discussion at this meeting, therefore, included comments of the Association on the proposed Board interpretation as well as on the "working principles". A complete transcript of this presentation and of the discussion that followed has been placed in the Board's files.

The discussion with the Clearing House representatives was completed at 11:25 a.m. and they, along with Messrs. Crosse and McEvoy, then withdrew from the room, as did Messrs. Thomas, Masters, Benner, Brill, Huning, and Farrell.

Governor Balderston referred to the inquiry by Mr. Haberkern regarding making the Board's draft of interpretation available to the New York Stock Exchange and to banks other than those whose representatives had seen it because of their connection with the Clearing House. The Board members expressed the view that if copies were to be made available to the Stock Exchange or others, that should be done by the Federal Reserve and not by the Clearing House banks. In this case, however, it was the consensus that, in view of the probability of significant revisions in the draft interpretation that had been sent to the Reserve Banks on August 5 for comment, it would not be desirable to have the present draft given further distribution. It was also
understood that, when a revised draft of interpretation was prepared, the Board would consider whether it would be desirable to have it published in the Federal Register for comment by all interested persons.

The Secretary was then requested to notify Mr. Fitchen, Executive Vice President of the New York Clearing House Association, of the Board's views that no further distribution of the present interpretation should be made.

The Board also requested the staff to prepare a digest of the meeting with the Clearing House representatives along with such comments as the staff might wish to make to assist the Board in its further consideration of the matter. In this connection, Governor Shepardson suggested that some indication be given of the amount of stock market credit the Board might reach by an interpretation such as that under discussion, and whether the more restrictive definition of "carrying" that became effective June 15, 1959, was believed to cause the regulation to reach a substantial amount of stock market credit that was not being reached under the previous definition.

Procedure for handling advices of discount rate changes. Vice Chairman Balderston referred to the understanding at yesterday's meeting that if additional Federal Reserve Banks submitted discount rate increases within the pattern approved yesterday, the Secretary was authorized to advise such Banks that their rates were approved and to enter in the
minutes appropriate records of such approval. He noted that Governor Mills had not been present at the meeting yesterday and inquired whether he would concur in this procedure.

Governor Mills stated that, not having been present at the meeting when action was taken to approve increases in the rates from 3-1/2 per cent to 4 per cent, he would wish to have an opportunity to make a statement of his views if any of the four Reserve Banks still having the 3-1/2 per cent rate were to submit increases for the Board's approval. Accordingly, it was agreed that the authority given to the Secretary at the meeting on September 10 with respect to entering in the minutes approval of such rate increases was rescinded.

During the foregoing discussion, Governor King, Messrs. Solomon and Hexter, and Miss Hart withdrew from the meeting, and Mr. Nelson, Assistant Director, Division of Examinations, entered the room.

Letters to Comptroller of the Currency regarding organization of national banks (Item No. 5). There had been circulated to the Board a draft of letter to the Comptroller of the Currency that would recommend approval of an application to organize a national bank in Sandy Springs, Georgia, provided the management factor was resolved to the satisfaction of the Comptroller. This letter was approved unanimously in the form attached to these minutes as Item No. 5.

There also had been circulated a draft of letter to the Comptroller recommending that an application to organize a national bank in Houston,
Texas, not be approved, the basis for this recommendation being that the State of Texas banking authorities had granted a charter for a State bank in the same community and there was not sufficient need to justify establishment of two banks in the area at this time.

Governor Shepardson stated that he had raised with Mr. Nelson the question whether this was a case of the State authorities failing to observe the usual procedure with respect to priority of applications based on the time of filing, and Mr. Nelson had indicated this appeared to be the case. Later, it developed that the national bank charter also had been approved. Governor Shepardson's inquiry was whether the circumstances called for any action on the part of the Board with respect to establishing priority of applications for bank charters.

Governor Robertson said that he had discussed this particular case with the Comptroller who had indicated that there was nothing he could do under the circumstances but grant the application for the national bank charter. He went on to say that the Texas Banking Board did not recognize the priority procedure although he understood the Texas Commissioner of Banking would be willing to do so. This was a matter between the Comptroller and the State Banking authorities, Governor Robertson noted, and the principle still stood that the Comptroller would work with any State on the basis of giving priority to the first applicant for a charter in a given community.
With reference to the present case, Governor Robertson suggested that, since the Comptroller had already granted the charter in question, there was no purpose in the Board's submitting a recommendation one way or the other, and there was agreement with his suggestion that the Board's file be closed without sending a letter to the Comptroller of the Currency.

The meeting then recessed and reconvened at 3:00 p.m. with Chairman Martin, Governors Mills, Robertson, and Shepardson, and Messrs. Sherman and Riefler present.

Discount rates. Chairman Martin stated that he had asked that the Board meet to consider advices that had been received from the Federal Reserve Banks of Boston, Atlanta, and Minneapolis stating that the directors of those Banks had fixed their rates of discount under Sections 13 and 13a at 4 per cent per annum subject to the approval of the Board. He noted that Governor Mills had not been present at yesterday's meeting when the Board approved increases in discount rates to the 4 per cent level at other Federal Reserve Banks, adding that this meeting was being held in order to provide Governor Mills with an opportunity to record his views as to the proposed action.

Governor Mills stated that, as he regarded the situation, the technical conditions in the money market completely justified the increase in the discount rate of the Federal Reserve Banks from 3-1/2 per cent to 4 per cent. However, as he had explained in presenting his
views at the meeting of the Federal Open Market Committee held on September 1, 1959, it was his judgment that a Federal Reserve System monetary and credit policy, about which he had strong reservations, had been instrumental in creating the market conditions that brought about the reasons that would stand in favor of the proposed action on the discount rates. Accordingly, Governor Mills stated that he wished to be recorded as abstaining from voting on the proposed changes in the discount rates that were before the Board at this meeting.

Chairman Martin noted that with four members of the Board present there was a quorum but that with Governor Mills abstaining from voting the number of affirmative votes that would be cast on the proposed action would be less than a quorum of the Board. At his request, Mr. Hackley, General Counsel, joined the meeting and, in response to the Chairman's inquiry, Mr. Hackley expressed the view that with a quorum of the Board in session, a general rule would be that actions taken, in order to be legal, must be by a majority of those present. Therefore, his conclusion, which he would like to check further, was that affirmative votes by three of the four members present would constitute a legal action. During further discussion of the matter, Mr. Hackley reiterated the view that the validity of actions taken by a majority of a quorum of the Board could not be challenged because one of the members present abstained from voting.
Thereupon approval was given to the discount rates as submitted by the Federal Reserve Banks of Boston, Atlanta, and Minneapolis, with Chairman Martin and Governors Robertson and Shepardson voting to approve, and Governor Mills abstaining from voting on the action for the reasons he had indicated.

Secretary's Note:

In accordance with the foregoing action wires were sent to the Federal Reserve Banks of Boston, Atlanta, and Minneapolis approving the rates established by those Banks effective September 14, 1959. The rates were as follows:

On discounts for and advances to member banks under Sections 13 and 13a--4 per cent; on advances to member banks under Section 10(b) --4-1/2 per cent; on advances to individuals, partnerships, and corporations other than member banks under last paragraph of Section 13--5 per cent.

A press statement in the usual form was issued at 4:00 p.m. EDST, all Reserve Banks and branches were notified by telegram, and arrangements were made for publication of a notice in the Federal Register.

Thereupon the meeting adjourned.

Secretary's Note: Following the meeting Mr. Hackley sent to the members of the Board a memorandum, a copy of which is attached to these minutes as Item No. 6, with respect to the legality of action taken by the Board when a member abstained from voting.
Secretary's Note: Acting in the absence of Governor Shepardson, Governor Robertson approved on behalf of the Board on September 9, 1959, the following items:

Memorandum dated September 4, 1959, from Mr. Young, Director, Division of Research and Statistics, recommending the appointment of Kathryn Boylan Kissane as Statistical Clerk in the Division of Research and Statistics, with basic annual salary at the rate of $4,040, effective the date she assumes her duties.

Letter to the Federal Reserve Bank of Richmond (attached Item No. 7) approving the appointment of Edward William Giesecke as assistant examiner.

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

Salary increases, effective September 20, 1959:

Jo Ann L. Murray, Secretary, Division of Research and Statistics, from $4,340 to $4,490 per annum.

Edwin J. Swindler, Economist, Division of Research and Statistics, from $7,030 to $7,270 per annum.

Robert B. Hamilton, Personnel Technician, Division of Personnel Administration, from $5,280 to $5,430 per annum.

Patricia L. Gannon, Secretary, Office of Defense Planning, from $4,640 to $4,790 per annum.

Acceptance of resignation

Mary E. Cumberland, Substitute Nurse, Division of Personnel Administration, effective September 4, 1959.

Leave without pay

Dorothy Drake, Editorial Clerk, Division of Research and Statistics, from October 2, 1959, and ending on or about November 13, 1959.
Commission as Federal Reserve Examiner

Frederic Solomon, Director, Division of Examinations, commissioned as a Federal Reserve Examiner, effective today.

Secretary
Mr. Phillip S. Hughes,
Assistant Director for Legislative Reference,
Bureau of the Budget,
Washington 25, D. C.

Dear Mr. Hughes:

This is in response to your request of September 10, 1959, for the Board's comments on enrolled bill S. 2654, Housing Act of 1959.

The Board has nothing further to add to the reasoning expressed in its letters of June 26, 1959 and August 31, 1959, on housing legislation passed earlier in the present session of Congress.

Sincerely yours,

C. Canby Balderston.
Mr. Philip S. Hughes,
Assistant Director for
Legislative Reference,
Bureau of the Budget,
Washington 25, D. C.

Dear Mr. Hughes:

This is in response to your communication of September 10, 1959, requesting the views of the Board on an enrolled joint resolution, H.J. Res. 493, "Making a technical correction in section 5136 of the Revised Statutes (relating to national banks)."

This technical amendment to section 5136 of the Revised Statutes would supply a deficiency resulting from two recent amendments to this section, one of which relates to obligations of the Tennessee Valley Authority and the other to obligations of the Inter-American Development Bank. The two amendments made the limitations and restrictions as to dealing in and underwriting investment securities by national banks inapplicable to such obligations. Because the time elapsing between approval of the two bills was so short the deficiency resulted.

The Board recommends that the President approve this legislation.

Sincerely yours,

Wm. McC. Martin, Jr.
Mr. V. E. Rockhill, Executive Vice President,
Chase International Investment Corporation,
18 Pine Street,

Dear Mr. Rockhill:

In accordance with the request contained in your letter of July 13, 1959, transmitted through the Federal Reserve Bank of New York, and on the basis of the information furnished, the Board of Governors grants its consent for Arcturus Investment & Development, Ltd., Montreal, Canada, a wholly owned subsidiary of Chase International Investment Corporation, to purchase, at an approximate cost of US$378,000, and hold 135,000 shares, par value NL 1 each, of the capital stock of a textile manufacturing company to be organized under the laws of the Federation of Nigeria, provided such stock is acquired within one year from the date of this letter. The Board also grants its consent for Arcturus to acquire and hold, in consideration for financial services rendered and to be rendered to the company, an additional 16,875 shares of such stock.

It is understood that, so long as Arcturus owns stock in the Nigerian company, the Nigerian company will not engage in the general business of buying or selling goods, wares, merchandise, or commodities in the United States or transact any business in the United States except such as would be incidental to its international or foreign business. It is also understood that Arcturus will dispose of its holdings of stock in the Nigerian company as promptly as practicable in the event that the operations of the Nigerian company should at any time be inconsistent with these understandings. Section 25(a) of the Federal Reserve Act, or regulations thereunder relating to corporations whose stock is owned by an Edge corporation. Accordingly, the Board's consent to purchase and acquire and to hold stock in the Nigerian company is granted with such understandings.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
September 11, 1959.

Attention Mr. G. W. Garwood,
Deputy Comptroller of the Currency.

Dear Mr. Comptroller:

Reference is made to a letter from your office dated May 12, 1959, enclosing copies of an application to organize a national bank at Azle, Texas, and requesting a recommendation as to whether or not the application should be approved.

A report of investigation of the application made by an examiner for the Federal Reserve Bank of Dallas indicates that a capital structure of $150,000 would be provided for the bank instead of $100,000 shown in the application. This revised capital structure would appear to be adequate. From the information available, it appears that the proposed directors of the bank as a group might be acceptable provided a strong managing officer was employed, but some doubt is expressed as to whether the officer selected has enough experience to operate the institution satisfactorily. While a bank in the community would no doubt provide more convenient services for the residents, the available volume of business would not appear to be sufficient to support profitable operations of the institution. In the circumstances, the Board of Governors does not feel justified in recommending approval of the application.

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

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
September 11, 1959.

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

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

Dear Mr. Comptroller:

Reference is made to a letter from your office dated March 19, 1959, enclosing copies of an application to organize a national bank at Sandy Springs, Georgia, and requesting a recommendation as to whether or not the application should be approved.

A report of investigation of the application made by an examiner for the Federal Reserve Bank of Atlanta indicates that the proposed capital structure of the bank would be adequate for the volume and character of business. While the earnings prospects appear to be only fair at this time and the need for additional banking services may not be urgent, there seems to be sufficient potential growth in the area to support the future profitable operations of the bank. Although the usual information was not given the investigating examiner relative to proposed executive officers and directors, it is understood that a close relationship is contemplated with The Citizens and Southern National Bank of Atlanta, Atlanta, Georgia, and The Citizens and Southern Holding Company, Savannah, Georgia.

It is further understood that the holding company will not acquire more than five per cent of the capital stock of the bank, and accordingly, the acquisition would not require the Board's approval under the Bank Holding Company Act of 1956. However, attention is called to the fact that, if the election of a majority of the directors of the bank is controlled by the holding company, the bank would be a subsidiary of the holding company within the meaning of that term as defined in section 2(d) of the Act, and accordingly, would be subject to the provisions of section 6(a) of the Act dealing with prohibited transactions involving the holding company and subsidiaries of such company.
If arrangements are made for management satisfactory to your office, the Board of Governors would feel justified in recommending approval of the application.

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

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
Subject: Validity of Board action
where quorum is present but one or more members abstain from voting

The following supports the oral opinion expressed by me regarding the above question at the Board meeting this afternoon.

It appears to be a well-settled general rule as to actions by public bodies that "when a quorum is present the act of a majority of the quorum is the act of the body." United States v. Ballan, 144 U.S. 1 (1894). This position has been taken by the courts with respect to Federal administrative agencies such as Interstate Commerce Commission, the United States Tariff Commission and the Securities and Exchange Commission.

Where a quorum is present as a prerequisite for legal action, the affirmative vote of a majority of the quorum constitutes legal action by a public body. Frischer and Co. v. Bakelite Corp., 39 F. 2d 247, cert. den., 282 U.S. 652 (1930). As stated in another case, "the vote of a majority of those present, there being a quorum, is all that is required." (Barnett v. City of Patterson, 6 Atl. 15 (1886)).

This general rule applies even though a member of the body present abstains from voting. In an early English case (Oldknow v. Wainwright, 2 Burr. 1017), Lord Mansfield stated that "whenever electors are present and don't vote at all they virtually acquiesce in the election made by those who do." This doctrine of acquiescence by nonvoting members has been followed by American courts; the fact that a member present refuses to vote has been regarded as immaterial where a quorum was present. For example, in a 1923 New Jersey case, it was held that action by a city commission was valid where three of the five members were present and two voted in the affirmative with the remaining member not voting. Houseman v. Earle, 120 Atl. 738.

Yours truly,

[Signature]

Mr. Hackley
September 9, 1959.

Mr. N. L. Armistead, Vice President,
Federal Reserve Bank of Richmond,
Richmond 13, Virginia.

Dear Mr. Armistead:

In accordance with the request contained in your letter of September 3, 1959, the Board approves the appointment of Edward William Giesecke as an assistant examiner for the Federal Reserve Bank of Richmond, effective today.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.