

Minutes for September 16, 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>[Signature]</i></u>	_____
Gov. Szymczak	x <u><i>[Signature]</i></u>	_____
Gov. Mills	x <u><i>[Signature]</i></u>	_____
Gov. Robertson	<u><i>[Signature]</i></u>	x _____
Gov. Balderston	x <u><i>[Signature]</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 16, 1959. The Board met in the Board Room at
 10:00 a.m.

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

Mr. Sherman, Secretary
 Mr. Riefler, Assistant to the Chairman
 Mr. Young, Director, Division of Research
 and Statistics
 Mr. Hackley, General Counsel
 Mr. Solomon, Director, Division of Examinations
 Mr. Noyes, Adviser, Division of Research and
 Statistics
 Mr. Daniels, Assistant Director, Division of
 Bank Operations
 Mr. Landry, Assistant to the Secretary
 Mr. Young, Assistant Counsel
 Miss Hart, Assistant Counsel

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

	<u>Item No.</u>
Letter to the Federal Reserve Bank of San Francisco stating that the proposed drive-in facilities to be offered by the Fidelity Bank, Los Angeles, California, need not be classified as a branch requiring Board <u>approval.</u>	1
Letter to the Federal Reserve Bank of San Francisco interposing no objection to the rental of parking space for night employees of the Los Angeles Branch.	2

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	<u>Item No.</u>
Letter to the Bureau of the Budget reporting on enrolled bills H. R. 7244, "To promote and preserve local management of savings and loan associations", and S. 2517, "To amend section 7 of the Federal Home Loan Bank Act, as amended."	3
Letter to the Bureau of the Budget reporting on enrolled bill H. R. 8599, providing additional funds for the Small Business Administration.	4
Letter to the Bureau of the Budget reporting on enrolled bill H. R. 9035, relating to increased interest rates on E and H bonds.	5

Reply to letter from the Atlantic National Bank of Jacksonville

(Item No. 6). In the course of a discussion of a draft reply to an inquiry from Atlantic National Bank of Jacksonville, Jacksonville, Florida, as to whether a loan for the purpose of buying a hotel was a loan for "carrying" under section 221.3(b)(1) of Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Registered Stocks, where the loan was secured by listed stock received in exchange for unlisted shares in a wholly-owned company, Miss Hart suggested certain revisions intended to shorten and simplify the Board's answer. She noted that the Board's approval of the principle of "tacking" of holding periods for stock under the one-year rule involved in this instance was a liberalizing one to which none of the Reserve Banks had objected.

There was concurrence in Miss Hart's suggestion, and the letter to the Atlantic National Bank in the form attached as Item No. 6, was approved unanimously.

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Mr. Walter Young withdrew during the foregoing discussion and Miss Hart withdrew at this point, while Mr. Koch, Associate Adviser, Division of Research and Statistics, entered the room.

Letter to Congressman Vanik. Congressman Vanik, of Ohio, had sent a telegram to Chairman Martin on September 10, 1959, commenting on the recent discount rate actions of the Federal Reserve Banks, and a draft reply had been prepared indicating that these rate actions had been required by "developments in the credit and capital markets." Governor Balderston questioned whether the draft reply was in terms that Congressman Vanik would understand. Governor Mills commented to the same effect, adding that the letter seemed to beg the question as to whether the System had provided an adequate base for credit. He pointed out that he had challenged this assumption previously and could not agree with the tone of the letter.

Governor King suggested that the Board's reply to Congressman Vanik refer explicitly to the effects of the steel strike on the credit situation, since this point had been raised in the Congressman's telegram, and several additional suggestions for change were made by other members of the Board.

At the conclusion of the discussion, during which Mr. Molony, Assistant to the Board, had entered the room, it was understood that the draft would be revised and resubmitted for the Board's consideration.

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Collection of retail trade statistics at the national level.

Mr. Young referred to a letter dated September 2, 1959, from Raymond T. Bowman, Assistant Director for Statistical Standards, Bureau of the Budget, suggesting the possibility of Federal Reserve-Bureau of the Census cooperation in the collection of retail trade statistics at the national level by the Bureau and at the local and regional levels by the Federal Reserve. Mr. Bowman raised the question because statistical budgets for fiscal 1961 were in preparation and, if an agreed program were presented to the Congress as part of the fiscal 1961 budget, previous objections by the Board and the Reserve Bank Presidents to proposals for transferring responsibility for collection of retail trade data to Census might be overcome. Mr. Young explained that the two points for Board consideration were: (1) should the System cooperate in such an undertaking, and (2) should the System provide funds for the regional aspects of the program. He also reported that he had informed Mr. Irons, Chairman of the Presidents' Conference Committee on Research and Statistics, of this matter and that both Chairman Irons and his associates on the Committee would favor such a program, since it would involve no loss for the System should a Congressional appropriation not be forthcoming but would entail a sizable potential saving in the cost of the System's statistical program should the appropriation be made.

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Governor Shepardson recalled that earlier proposals for transfer and improvement of department store statistics were not acceptable to the Board or the Reserve Bank Presidents, at least partly because of the fear that the System would become a party to a Census Bureau program for which financing would not be provided through Congressional appropriations and which might thus depend on Federal Reserve financing for its continuance. The current proposal, he said, appeared to offer hope of getting the program into the Census Bureau's budget and he would favor exploring it.

There being general agreement with Governor Shepardson's view, the staff was authorized to explore the matter further with representatives of the Bureau of the Budget and the Bureau of the Census and report back to the Board.

Mr. Robinson, Adviser, Division of Research and Statistics, and Mr. Harris, Coordinator of Defense Planning, entered the room.

Report from Mr. Harris summarizing the Board's defense mobilization activities during the past year (Item No. 7). On September 10, 1959, there had been distributed to the Board a proposed reply to a letter dated August 10, 1959, from the Honorable Paul Brown, Chairman of the Joint Committee on Defense Production, requesting a summary of mobilization activities for the past year. The proposed reply summarized the three major programs encompassed by these activities; namely, (1) the program for the continuity of the essential functions of the Federal

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Reserve System in the event of an attack on the United States, (2) the commercial bank preparedness program, and (3) the V-loan program.

In commenting on the report, Mr. Harris indicated that the description of the program for the continuity of essential functions was new and had been included both because of its importance to the System's mobilization activities and because the staff of the Joint Committee had expressed an interest in having this information. Mr. Harris stated that the Office of Civil and Defense Mobilization desired a similar report covering System activities in this area for the fiscal year ended June 30, 1959, but it had indicated that a duplicate of the report under consideration which covered activities up to August 15, 1959, would meet its needs.

Mr. Daniels questioned the inclusion of a statement contained on page 2 of the proposed report to the effect that the Federal Reserve Banks "have built up an emergency supply of Federal Reserve notes, equivalent to a two and one-half years' supply based on current use". He noted that this statement differed from the two-year supply originally contemplated under the program, and he also said he was not aware that the figure had been made public before.

Chairman Martin commented that he had used the figure of a two and a half year supply in a report that he had given regarding defense plans and that he felt it of some interest to include it in the absence of real objection.

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Mr. Daniels stated that this would remove any reservations he had as to inclusion of the figure. He then noted that the wording of the second paragraph on page 2 of the report implied that in the event any Reserve Bank should be unable to communicate with the Board or the interim Board, it should be automatically delegated to act "for the Board." He stated that he understood the delegation was for a Reserve Bank to act in matters related to its activities in the event it was unable to communicate with the Board, and Mr. Hackley stated that this was his understanding of the authority given to the Reserve Banks.

Governor King stated that he also had questioned the implication of this wording, and at his suggestion the sentence was revised to eliminate any indication that Reserve Banks were given general authority to act for the Board.

After further discussion, a letter to the Honorable Paul Brown, Chairman of the Joint Committee on Defense Production, in the form attached to these minutes as Item No. 7, was approved unanimously, with the understanding that a copy would be sent to Mr. Hoegh, Director of the Office of Civil and Defense Mobilization.

The meeting then adjourned.

Secretary's Note: On September 15, 1959, Governor Shepardson approved on behalf of the Board a letter to the Federal Reserve Bank of Cleveland (attached Item No. 8) approving the designation of four persons as special assistant examiners.

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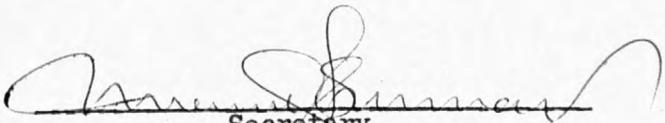
Governor Shepardson today approved on behalf of the Board the following items:

Memorandum dated September 1, 1959, from Mr. Young, Director, Division of Research and Statistics, recommending an increase in the basic annual salary of Joyce Ann Meyer from \$4,135 to \$4,340, with a change in title from Clerk-Stenographer to Secretary in that Division, effective September 20, 1959.

Letter to the Federal Reserve Bank of Richmond (attached Item No. 9) approving the appointment of Duncan MacIntyre Bevan as assistant examiner.

Pursuant to recommendations contained in memoranda from Mr. Kelleher, Director, Division of Administrative Services, dated September 15, 1959, Governor Shepardson today approved on behalf of the Board the following actions affecting the management and operation of the Board's barber shop and beauty salon:

- (1) Acceptance of the termination notice of Rufus M. Cordell as Manager of the Board's barber shop, effective September 15, 1959;
- (2) Agreement with Ralph Montgomery to take over the management of the barber shop subject to a satisfactory investigation by the Division of Personnel Administration, with the understanding that the agreement contained a reduction in the concession fee charged the manager from 10 per cent to 5 per cent, and the deletion of the need for a D. C. Barber's License; and
- (3) Reduction in the concession fee charged the manager of the Board's beauty salon from 8 per cent to 5 per cent. It was understood that the effective date would be September 21, 1959.


Secretary

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

Item No. 1
9/16/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 16, 1959.



Mr. E. R. Millard, Vice President,
Federal Reserve Bank of San Francisco,
San Francisco 20, California.

Dear Mr. Millard:

Reference is made to your letter of September 1, 1959, with respect to the proposed drive-in facilities to be offered by the Fidelity Bank, Los Angeles (Mar Vista), California at its head office location, and requesting advice as to whether or not such facilities should be classified as a branch.

It is understood that the drive-in facilities are to be located at the basement level of the building to be occupied by the bank and will be connected to the building as well as a lower level parking garage by stairways. Inasmuch as the area to be occupied by the drive-in facilities would appear to be part of the building occupied by the bank, it is felt that such facilities need not be classified as a branch requiring approval of the Board. It is noted that the California State Banking Department does not require its permission to operate such facilities.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 2
9/16/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 16, 1959.



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

Dear Mr. Mangels:

This refers to your letter of September 2, 1959 concerning arrangements at the Los Angeles Branch for renting night parking space at a parking lot immediately across from the Branch building at a monthly rental of \$150.

It is noted that the principal need for the parking space is to provide the Branch with a facility which will enable it to expand night transit operation by continuing the requirement that employees have automobile transportation available. It is noted also that the rental will be on a month-to-month basis, subject to cancellation at any time at the Bank's pleasure.

The Board has no objection to the arrangement for renting automobile parking space, as outlined in your letter.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 3
9/16/59

OFFICE OF THE CHAIRMAN

September 16, 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 of September 14, 1959, requesting the Board's views on the enrolled bills, H. R. 7244, "To promote and preserve local management of savings and loan associations by protecting them against encroachment by holding companies" and S. 2517, "To amend section 7 of the Federal Home Loan Bank Act, as amended."

The Board endorsed proposals that led to the enactment in 1956 of legislation to regulate holding companies of commercial banks; and, in principle therefore, the Board in its report to Congress on H. R. 7244 stated that it would favor similar legislation with respect to holding companies of savings and loan associations if Congress found that such companies had developed to such an extent as to justify regulation. The Board believes that such legislation would be desirable in order to maintain the local community character of such associations and therefore recommends approval of H. R. 7244.

Also, the Board has no objection to approval of S. 2517 which authorizes the Federal Home Loan Bank Board to increase the number of elective directors, not exceeding thirteen, of any Federal home loan bank having a district which includes five or more States.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 4
9/16/59

OFFICE OF THE CHAIRMAN

September 16, 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 of September 14, 1959, requesting the Board's views on the enrolled bill, H. R. 8599, "To amend the Small Business Act, and for other purposes."

The enrolled bill would provide an additional \$75 million for the Small Business Administration's regular business loan program, and would continue authority to expend funds beyond 1960 for studies, research, and counseling concerning the operation of small business enterprises. It is understood that the \$75 million increase provided in the bill is an interim measure which will enable the Small Business Administration to function until the Congress has an opportunity to review its operations in 1960.

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

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 5
9/16/59

OFFICE OF THE CHAIRMAN

September 16, 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 of September 14, 1959, requesting the Board's views on the enrolled bill, H.R. 9035, "To permit the issuance of series E and H United States savings bonds at interest rates above the existing maximum, to permit the Secretary of the Treasury to designate certain exchanges of Government securities to be made without recognition of gain or loss, and for other purposes."

While the bill falls short of granting the authority that the Board believes to be necessary for effective management of the public debt, the provisions that would permit an increase in the interest rates on series E and H savings bonds and that would authorize the Secretary of the Treasury to designate certain exchanges of Government securities to be made without recognition of gain or loss for tax purposes are both needed. Accordingly, the Board recommends that the President approve H.R. 9035.

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
9/16/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 16, 1959



Mr. C. C. Space, Vice President,
The Atlantic National Bank of Jacksonville,
Jacksonville 3, Florida.

Dear Mr. Space:

This refers to your letter of September 1, 1959, which asks whether a loan for the purpose of buying a hotel, to be secured by stock which is listed on a national exchange, is a loan for "carrying" that stock under section 221.3(b)(1) of Regulation U. You state that the prospective borrower has owned the listed stock for only a few weeks, but that he received the listed stock in exchange for stock which he had owned free of any encumbrance for a period of several years preceding the loan application. The listed stock has been owned free of any encumbrance since he received it.

Since the stock pledged for the loan was received in exchange for stock that had been owned by the borrower free of lien for more than a year, the Board would not regard the loan as a loan for "carrying" under section 221.3(b)(1) of Regulation U.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 7
9/16/59

OFFICE OF THE CHAIRMAN

September 16, 1959.

The Honorable Paul Brown, Chairman,
Joint Committee on Defense Production,
Congress of the United States,
Washington 25, D. C.

Attention Mr. Harold J. Warren,
Clerk & Counsel,
Room 459,
Old Senate Office Building,
Washington 25, D. C.

Dear Mr. Brown:

In response to your letter of August 10, 1959, attached is a factual summary covering mobilization activities of the Board of Governors for the past year.

The summary covers three programs--the program for the continuity of the essential functions of the Federal Reserve System in the event of an attack on the United States, the commercial bank preparedness program, and the V-loan program.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Attachment.

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

Item No. 8
9/16/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 15, 1959.



Mr. Paul C. Stetzelberger, Vice President,
Federal Reserve Bank of Cleveland,
Cleveland 1, Ohio.

Dear Mr. Stetzelberger:

In accordance with the request contained in your letter of September 3, 1959, the Board approves the designation of the following employees as special assistant examiners for the Federal Reserve Bank of Cleveland for the purpose of participating in examinations of member banks except the bank listed immediately above their names.

The Provident Bank
Cincinnati, Ohio

Vincent J. Comarata

The Central Trust Company
Cincinnati, Ohio

Donald Ashcraft

Peoples First National Bank & Trust Company
Pittsburgh, Pennsylvania

Stephen C. Morovich, Jr.
Albert J. Wolff

The authorizations heretofore given your Bank to designate these employees as special assistant examiners are hereby canceled. Appropriate notations have also been made in our records of the other names to be deleted from the list of special assistant examiners.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 9
9/16/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 16, 1959.



CONFIDENTIAL (FR)

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 11, 1959, the Board approves the appointment of Duncan MacIntyre Bevan as an assistant examiner for the Federal Reserve Bank of Richmond, effective today.

It is noted that Mr. Bevan is indebted to Virginia Trust Company, Richmond, Virginia, a nonmember bank, in the amount of approximately \$1,440 payable in monthly instalments. Accordingly, the Board's approval of the appointment is given with the understanding that he will not participate in any examination of that bank until his indebtedness has been liquidated.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.