



Minutes of the Board of Governors of the Federal Reserve System  
on Monday, November 23, 1959. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman  
Mr. Mills  
Mr. Robertson  
Mr. Shepardson  
Mr. King

Mr. Sherman, Secretary  
Mr. Riefler, Assistant to the Chairman  
Mr. Thomas, Economic Adviser to the Board  
Mr. Young, Director, Division of Research  
and Statistics  
Mr. Noyes, Adviser, Division of Research  
and Statistics  
Mr. Robinson, Adviser, Division of Research  
and Statistics  
Mr. Koch, Associate Adviser, Division of  
Research and Statistics  
Mr. Williams, Associate Adviser, Division of  
Research and Statistics  
Mr. Dembitz, Research Associate, Division of  
Research and Statistics  
Mr. Furth, Associate Adviser, Division of  
International Finance  
Mr. Hersey, Associate Adviser, Division of  
International Finance  
Mr. Landry, Assistant to the Secretary

Messrs. Allen, Brill, Eckert, Fisher, Gehman,  
Keir, Solomon, Weiner, Wernick, and Miss  
Dingle of the Division of Research and  
Statistics

Messrs. Dahl, Irvine, Katz, Maroni, Reynolds,  
and Wood of the Division of International  
Finance

Economic Review. The staffs of the Divisions of International  
Finance and Research and Statistics presented a review of international  
and domestic economic conditions and developments.

11/23/59

At the conclusion of this presentation all of the members of the staff withdrew from the meeting with the exception of Messrs. Sherman, Riefler, Thomas, Young, Noyes, Koch, Dembitz, Landry, and Reynolds.

The following entered the room at this point:

- Mr. Molony, Assistant to the Board
- Mr. Fauver, Assistant to the Board
- Mr. Hackley, General Counsel
- Mr. Farrell, Director, Division of Bank Operations
- Mr. Solomon, Director, Division of Examinations
- Mr. Conkling, Assistant Director, Division of Bank Operations
- Mr. Nelson, Assistant Director, Division of Examinations
- Mr. Collier, Chief, Current Series Section, Division of Bank Operations

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:

|                                                                                                                                                                                                  | <u>Item No.</u> |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|
| Letter to Bankers Trust Company, New York City, approving an extension of time to establish a branch in Kings County.                                                                            | 1               |
| Letter to the Comptroller of the Currency recommending favorably with regard to the application of The Bank of Park Ridge, Park Ridge, Illinois, to convert into a national banking association. | 2               |
| Letter to the Comptroller of the Currency recommending favorably with regard to the application of St. Lucie County Bank, Fort Pierce, Florida, to convert into a national banking association.  | 3               |
| Letter to First State Bank, Spearman, Texas, waiving the six months' notice of withdrawal from membership in the Federal Reserve System.                                                         | 4               |

11/23/59

-3-

Further consideration of vault cash proposals. The Chairman initiated discussion of the question of the most desirable method of adding vault cash to member bank reserves by asking how much would be added to member bank reserves by releasing vault cash in excess of 4 per cent of net demand deposits at country banks and in excess of 2 per cent of net demand deposits at reserve city and central reserve city banks.

Mr. Thomas referred to a memorandum from Mr. Dembitz dated November 20, 1959, which he proceeded to distribute to the meeting and a copy of which has been placed in the files. This memorandum showed that approximately \$250 million of reserves would be released by this method, which was referred to as "Step One" of "Plan A" and was a variant of an earlier proposal made by Governor Robertson at the Board meeting on October 14, 1959. On a question from Governor Robertson as to the basis on which "Step One" was set up, Mr. Thomas commented that the underlying premise of this plan was that the Board wished to end up with a set of reserve requirements that would not involve a wide spread between country and reserve city banks and that a further premise was that the Board did not wish to add a great deal to member bank reserves at this time. With respect to the first premise, he indicated that it would be possible either to lower percentage reserve requirements at reserve city banks or to raise percentage reserves at country banks in order not to have as wide a spread as is represented

11/23/59

-4-

by the current levels of 16-1/2 per cent for the former group and 11 per cent for the latter. He pointed out that this could be accomplished either by releasing to reserves vault cash above a certain percentage of net demand deposits as would be done by the instant proposal or, alternatively, to release a certain amount of vault cash and raise reserve requirements at the same time to offset a portion of the vault cash released. He continued by saying that as a matter of equity it would be undesirable to release vault cash for some banks while raising reserve requirements for others and that banks that had their reserve requirements raised should benefit from some inclusion of vault cash in reserves. He noted that "Step One" postponed raising reserve requirements as an offset to release of vault cash to reserves on the assumption that reserve requirements would be increased over a longer period, such as three years. He concluded by referring to the fact that the total amount of reserves released in all four steps described in the memorandum would be about \$2.5 billion, of which \$2.1 billion represented vault cash and the remainder a decrease in reserve requirements for reserve city and central reserve city banks.

The Chairman then inquired as to how a release of vault cash under "Step One" would tie in with current reserve projections, indicating that it would be desirable to announce this action on the vault cash proposal immediately following the payment date of December 2, 1959, on the \$2 billion 320 day October 17, 1960 Treasury bill announced after the close of the market on Thursday, November 19, 1959. Mr. Thomas said

11/23/59

-5-

that reserve projections indicated a need for about \$600 million from now until mid-December, and he concurred in a comment from Governor Robertson that the vault cash release contemplated would be a moderate offset to the usual seasonal need for reserves in the banking system and that the increased availability of reserves that would result from counting vault cash could appropriately be made effective December 1 for country banks and December 3 for city banks if it was desired to meet this seasonal need.

Governor Mills said that he would be agreeable to adopting "Step One" and forgetting about the remaining steps until the proper time. However, he wondered whether "Step One" was not needlessly complicated. He recalled that Mr. Riefler had raised the question at the Board meeting on November 2, 1959, as to whether supplying the banking system as a whole with reserves this fall through release of vault cash would necessarily supply reserves to the same banks that would benefit from System Open Market purchases at this time of year, and he remarked that if reserves were released through inclusion of vault cash prior to December 2 or December 3, country banks would have time to place these reserves in balances with correspondent banks in reserve cities and central reserve cities. He concluded by stating that another reason for advancing the date for releasing vault cash to reserves was that

11/23/59

-6-

the current strong demand for Treasury bills made this a preferable method of releasing reserves to the money market compared to open market purchases of bills, which would serve to depress bill rates further.

In response to a question from the Chairman concerning the matter of timing the release of vault cash to reserves, Mr. Thomas observed that if desired the release could be made effective as of November 26 for city banks but it would be difficult to fix a date for country banks before December 1, since that would complicate the reserve computation period for that class of banks. He went on to say that the amount of added reserves involved was so small the matter of timing would probably make little difference. With respect to Governor Mills' reference to the current level of Treasury bill rates, he noted that these rates would probably rise seasonally in any event.

Governor Shepardson commented that although "Step One" was probably not the best way of handling the release of vault cash to reserves, it was still essential to arrive at some policy action on this question. He said that he was concerned that "both sides of the picture" should be presented by indicating to the public that there would be some increase in reserve requirements eventually unless it should turn out that the release was spread out over so long a period of time that other factors could substitute for the administrative

11/23/59

-7-

increase in reserve requirements. He then observed that he liked Plan B-1 in Mr. Thomas' memorandum of November 13, 1959, involving a fractional release of vault cash to reserves in the amount of about \$1.1 billion for all banks and a fractional increase in required reserves for reserve city and country banks within the next sixty days. This would indicate that the System was acting in good faith so far as Congress was concerned and would accomplish the purpose of Public Law 86-114. He noted, however, that this perhaps would do more than the rest of the Board would be willing to see done at this time.

The Chairman observed that the problem was the amount of added reserves that would have to be offset, and Mr. Thomas commented that raising reserve requirements by 1 per cent would be a sufficient offset to the release of reserves contemplated by "Step One" of "Plan A". Almost all banks would benefit from some release of vault cash to reserves and few banks would suffer increases in reserve requirements. Mr. Thomas added that the inequities would not be as great under this plan as under Plan B-1, which would not involve any benefit for many banks.

A brief discussion then ensued as to whether the release of vault cash to reserves would necessarily help the reserve positions of individual banks, during which Governor Robertson remarked that an admirable feature of "Step One" was that although some banks might not benefit from it, no banks would be hurt by it. Further, this would permit the Board to go in any direction it wished on this question later



11/23/59

on. With respect to raising reserve requirements subsequently, Governor Robertson noted that this would come only as a last step and that although some banks would be adversely affected by such a move, further developments such as a possible recession might obviate the need to raise reserve requirements later.

After noting that if it were his decision alone he would still not do anything on the vault cash question at this time, the Chairman said he appreciated the advantage of making a gesture on this question because of the political implications and the matter of public relations with the banking community. If he had the option, he would wait until after January 1, 1960, or perhaps until the fall of 1960 before making any move. On the other hand, the "gesture" involved in following "Step One" would not be costly and he thought that it was the best way of working out of a bad situation; especially since it did not commit the Board with respect to the three successive steps outlined in Mr. Dembitz's memorandum of November 20, 1959.

A discussion then followed regarding the impact upon the Treasury and Congress of implementing "Step One". During this discussion Governor Shepardson remarked that he withdrew his objections to "Step One" on the assumption that there would be no serious repercussions from Congress should "Step One" be followed.

The Chairman said that he would undertake to talk to the Treasury with respect to the best timing for releasing vault cash to reserves under this plan and report back to the Board.

11/23/59

-9-

Mr. Thomas then raised the question as to certain details of administration that would need to be worked out if the Board were to go ahead with an actual release of vault cash to reserves, and Mr. Hackley said that he believed the necessary amendments to Regulation D were covered in his memorandum of November 6, 1959. He did note, however, that it would be possible for the Board to avoid a complete revision of the Regulation by using the suggested amendment to Part 204.3(a) of Title 12 of the Code of Federal Regulations which appeared on Page 2 of the attachments to his memorandum of November 13, 1959.

Following a suggestion from Mr. Molony that it might be desirable to avoid making Thanksgiving Day the effective date of the Board's action and a comment from Governor Robertson that Governor Balderston had informed him that he would favor "Step One", the Chairman indicated that this topic should be placed on the agenda for further consideration at the Board meeting on Wednesday, November 25, 1959, by which time the staff should have prepared material regarding the various details that would be necessary to put "Step One" into effect, should the Board decide to take that action.

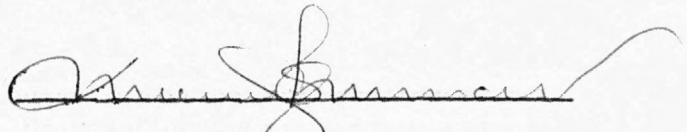
The meeting then adjourned.

Secretary's Note: Pursuant to the recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson today approved on behalf of the Board increases in the basic annual salaries of the following persons on the Board's staff, effective November 29, 1959:

11/23/59

-10-

| <u>Name and title</u>                          | <u>Division</u> | <u>Basic annual salary</u> |           |
|------------------------------------------------|-----------------|----------------------------|-----------|
|                                                |                 | <u>From</u>                | <u>To</u> |
| <u>Office of the Secretary</u>                 |                 |                            |           |
| Constance A. Dyer, Secretary                   |                 | \$4,790                    | \$4,940   |
| M. Elizabeth Jones, Supervisor, Minutes Unit   |                 | 6,735                      | 6,885     |
| Alice E. Rayman, Secretary                     |                 | 4,790                      | 4,940     |
| Sudelle Rice, Indexing and Reference Assistant |                 | 4,790                      | 4,940     |
| <u>Legal</u>                                   |                 |                            |           |
| Eugene C. Harrison, Law Clerk                  |                 | 4,940                      | 5,090     |
| <u>Administrative Services</u>                 |                 |                            |           |
| Mary K. Nantell, Cafeteria Helper              |                 | 2,960                      | 3,055     |

  
 \_\_\_\_\_  
 Secretary

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

Item No. 1  
11/23/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

November 23, 1959.



Board of Directors,  
Bankers Trust Company,  
New York 15, New York.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors extends to February 17, 1960, the time within which Bankers Trust Company may establish a branch in the Kings Bay Shopping Center on Nostrand Avenue between Avenues Y and Z, Brooklyn, Kings County, New York.

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  
11/23/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

November 23, 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 October 12, 1959, regarding the application of The Bank of Park Ridge, Park Ridge, Illinois, to convert into a national banking association. You request 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 Chicago discloses generally favorable findings with respect to the financial history of the bank, its present capital structure, earnings prospects, character of management, and service to the community. Accordingly, the Board of Governors recommends approval of the application to convert into a national banking association.

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.



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

Item No. 3  
11/23/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

November 23, 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 October 6, 1959, enclosing copies of an application of St. Lucie County Bank, Fort Pierce, Florida, to convert into a national banking association.

A field investigation of this application was not made by the Federal Reserve Bank of Atlanta but a report has been furnished based upon a review of the files of the Federal Deposit Insurance Corporation and its examination of the bank made as of April 13, 1959. Information contained in this report discloses generally satisfactory findings with respect to the factors usually considered in connection with such proposals. Accordingly, the Board of Governors recommends approval of the application of the St. Lucie County Bank to convert into a national banking association.

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.

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

Item No. 4  
11/23/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

November 23, 1959.

Board of Directors,  
First State Bank,  
Spearman, Texas.

Gentlemen:

The Federal Reserve Bank of Dallas has forwarded to the Board of Governors your letter of November 9, 1959, and the accompanying resolution signifying your intention to withdraw from membership in the Federal Reserve System and requesting waiver of the six months' notice of such withdrawal.

In accordance with your request, the Board of Governors waives the requirement of six months' notice of withdrawal. Upon surrender to the Federal Reserve Bank of Dallas of the Federal Reserve Bank stock issued to your institution, such stock will be canceled and appropriate refund will be made thereon. Under the provisions of Section 10(c) of the Board's Regulation H, as amended effective September 1, 1952, your institution may accomplish termination of membership at any time within eight months from the date the notice of intention to withdraw from membership was given.

It is requested that the certificate of membership be sent to the Federal Reserve Bank of Dallas for disposition.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.