

Minutes for December 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, 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.

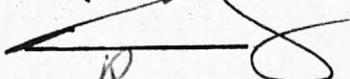
Chm. Martin



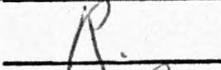
Gov. Szymczak



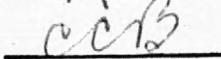
Gov. Mills



Gov. Robertson



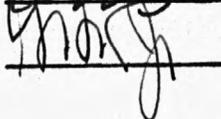
Gov. Balderston



Gov. Shepardson



Gov. King



Minutes of the Board of Governors of the Federal Reserve System on  
Wednesday, December 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. Robertson  
Mr. Shepardson  
Mr. King

Mr. Sherman, Secretary  
Miss Carmichael, Assistant Secretary  
Mr. Thomas, Economic Adviser to the Board  
Mr. Shay, Legislative 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. Conkling, Assistant Director, Division of  
Bank Operations  
Mr. Nelson, Assistant Director, Division of  
Examinations  
Mr. Eckert, Chief, Banking Section, Division of  
Research and Statistics  
Mr. Fisher, Economist, Division of Research and  
Statistics

Discount rates. The establishment without change by the Federal Reserve Bank of Boston on December 14, 1959, of the rates on discounts and advances in its existing schedule was approved unanimously, with the understanding that appropriate advice would be sent to that Bank.

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:

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	<u>Item No.</u>
Letter to The Mogadore Savings Bank, Mogadore, Ohio, approving the establishment of a branch in the Village of Lakemore.	1
Letter to the American Bank of Carlsbad, Carlsbad, New Mexico, approving an investment in bank premises.	2

Daily information on deposits and related items from member

banks (Items 3, 4, and 5). There had been circulated to the Board a draft of a letter to the Federal Reserve Bank of Philadelphia approving that Bank's proposal to obtain daily information on deposits and related items from member banks. Under the Bank's proposal the information would be obtained from member banks on the remittance form already being mailed to the Reserve Bank each day. At the end of each reserve period the Bank would tabulate the information for each member bank, compute the reserve position, and mail the information to the member bank. The Philadelphia Bank, in a letter to the Board, noted that the proposal had two objectives: (1) producing daily data for purposes of policy formulation and execution several weeks sooner than is now possible; (2) providing operating procedures that are more efficient for this Bank and member banks alike. Under the Bank's plan, the reporting form (F.R. 414) furnished with the Board's letter of November 30, 1959, would not be used. The Bank pointed out, however, that the proposal would not call for any information other than that required on the regular form.

In considering the proposed letter to the Philadelphia Bank, reference was made to the concern expressed at the joint meeting of

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the Presidents of the Reserve Banks with the Board on December 15, 1959, that bank relations problems might result from the increase in country bank reporting requirements as outlined in the Board's November 30 letter. In this connection, there had been distributed to the Board a draft of telegram to all Reserve Banks permitting some discretion in the collection of weekly data.

Governor Robertson asked whether the sending of the proposed telegram as well as the letter to the Federal Reserve Bank of Philadelphia would indicate that the Board was revoking the use of the form furnished with the November 30 letter. Mr. Conkling said that it would not, and Mr. Thomas noted that the proposal of the Philadelphia Bank involved another means of securing the same information on a daily rather than a weekly basis.

Governor Robertson inquired whether the plan for securing daily figures was so clearly preferable to obtaining weekly figures that it should be followed by all Reserve Banks.

Mr. Conkling replied that it would seem desirable to have an experimental program at one Bank before considering such a program for all Banks. In the Philadelphia District, Mr. Conkling noted, the member banks consider the proposal an additional service of the Reserve Bank. He said that it was too early to know whether the Philadelphia system would work in other districts. Mr. Farrell added the comment that the Philadelphia Bank now had processing equipment that enabled it to

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undertake the program it has proposed, while this was not the case at Reserve Banks generally.

Governor Robertson said that he would have no objection to a trial period in the Philadelphia District, with the thought that consideration would be given to the possibility of extending the practice to other districts at some future date.

Governor Mills raised a question as to whether more member banks might fall into a deficient reserve position if they waited for the Reserve Bank to make the reserve computations, to which Mr. Conkling replied that it was thought member banks in the Philadelphia District would get reserve position data more promptly under the proposed system than at present.

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

A discussion followed concerning individual views expressed by Presidents of the Reserve Banks while at the Board this week, during which Chairman Martin noted that it was important not to minimize the public relations problem involved in requesting country member banks to furnish weekly data on deposits and related items.

In response to a question from Governor Shepardson as to whether it was clear that weekly figures on deposits and related items are needed from country banks, Mr. Thomas noted that the Trading Desk uses daily figures of deposits and related items, based on reports from city banks, and that the decision to ask all banks to supply weekly figures was a compromise.

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Governor Balderston expressed the view that the System should have the figures daily, and Governor King said that during the experimental period he felt the individual Reserve Banks should use their discretion in determining the procedure which should be used in securing the required data.

Thereupon approval was given to sending the proposed letter to the Federal Reserve Bank of Philadelphia. Also approved was a letter to all Federal Reserve Banks, transmitting a copy of the letter to the Federal Reserve Bank of Philadelphia. Copies of the letters are attached hereto as Items 3 and 4.

After incorporating changes suggested at the meeting, the Board also approved sending a telegram to all Reserve Banks, advising them to use their discretion as to the extent to which they insist on weekly reporting of deposits and related items by country banks during an experimental period. A copy of the telegram is attached to these minutes as Item No. 5.

Messrs. Farrell and Conkling then withdrew from the meeting.

Date for oral argument (Item No. 6). Pursuant to Board action on October 2, 1959, an order was issued granting a request by First Bank Stock Corporation for oral argument relating to approval for acquisition of shares of Eastern Heights State Bank of St. Paul, St. Paul, Minnesota, pursuant to section 3(a)(2) of the Bank Holding Company Act. At that time, the Board deferred setting the date for

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such oral argument. A memorandum from the Legal Division, which was circulated to the Board under date of December 14, 1959, indicated that January 6 or 7, 1960, would be acceptable dates for the oral argument.

Governor Mills asked if the hearing would be open to the public, and he also inquired as to the form of notice to be used. He noted that, if the hearing is to be open, some notice should be given to all interested parties.

Mr. Solomon replied that the hearing would be open to the public. The possibility of issuing a press release was mentioned.

Approval was given to a letter to the counsel of First Bank Stock Corporation, attached hereto as Item No. 6, indicating that on January 6, 1960, the Board would hear oral argument in the matter of its application for prior approval of the acquisition of shares of Eastern Heights State Bank of St. Paul, St. Paul, Minnesota, pursuant to section 3(a)(2) of the Bank Holding Company Act. It was understood that all interested parties would be appropriately notified.

Mr. Fauver, Assistant to the Board, entered the room during the foregoing discussion and Mr. Nelson withdrew at this point.

Letter to Senator Robertson regarding S. 1342 (Item No. 7).

There had been distributed to the Board a memorandum dated December 14, 1959, from Mr. Noyes with a summary of the main provisions of S. 1342, Federal Limited Profit Mortgage Corporation Act, which was introduced

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on May 9, 1959, by Senator Javits of New York. Attached to the memorandum was a draft of a reply to Senator Robertson of Virginia, Chairman of the Senate Banking and Currency Committee, who had requested the Board's views on S. 1342. This bill would create a Federal Limited Profit Mortgage Corporation authorized to issue up to \$2 billion in tax-exempt obligations for the purpose of making long-term mortgage loans to assist in providing new housing for moderate-income or elderly households.

It was noted that the Board had recently received a letter from Senator Javits making inquiry concerning the Board's report on the bill. Mr. Shay suggested that a letter be sent to Senator Javits enclosing a copy of the Board's letter to Senator Robertson.

After incorporating a number of suggested changes, a letter to Senator Robertson was approved in the form attached hereto as Item No. 7.

Messrs. Thomas, Shay, Noyes, and Fisher then withdrew from the meeting.

Appointment of a branch director at Birmingham. Mr. Fauver read to the Board a wire from Mr. Jack W. Warner accepting appointment as a director of the Birmingham Branch. In the wire Mr. Warner said he would take a "leave of absence from the board of directors of the First National Bank of Tuscaloosa." It was agreed by the Board that Mr. Warner's plan to take a leave of absence would be in line with the

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practice of not having a Board-appointed branch director serve at the same time as a director of a commercial bank.

Appointment of a branch director at Denver. In response to a question from Governor Shepardson, Chairman Martin reported on the status of the appointment of a director at the Denver Branch.

Reserve Bank capital accounts. Governor Balderston raised a question as to the procedure for handling the matter of Reserve Bank capital accounts. Chairman Martin stated that the first item on the Agenda of the Board's December 17 meeting would be a report on this subject by Mr. Herz of Price Waterhouse & Company. Following a general discussion, it was understood that the question of Reserve Bank capital accounts would be considered by the Board after hearing from Mr. Herz.

The meeting then adjourned.

Secretary's Notes: Pursuant to the suggestion contained in a memorandum dated December 14, 1959, from Mr. Allison, Special Consultant to the Board, Governor Shepardson today approved on behalf of the Board a change in Mr. Allison's status as Special Consultant from a full-time to an intermittent basis, effective January 1, 1960, with compensation at the rate of \$15 per day for each day worked for the Board either in Washington or outside Washington, plus actual necessary traveling expenses in accordance with the Board's regulations for all time in travel status, and with Orange, Virginia, as his headquarters for purposes of travel.

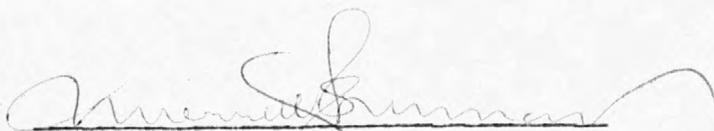
12/16/59

Pursuant to the recommendations contained in memoranda from Mr. Young, Director, Division of Research and Statistics, dated December 10, 1959, Governor Shepardson also approved today on behalf of the Board:

- (1) the appointment of Paul F. Smith as Consultant on a temporary contractual basis, effective today through December 31, 1960, for consultation concerning the 1960 Survey of Finance Companies, with the understanding that for purposes of travel his headquarters would be his home or office; and
- (2) the reappointment of Gertrude Weiss as Consultant on a temporary contractual basis, effective January 1, 1960, through December 31, 1960, for consultation in connection with consumer surveys, with the understanding that for purposes of travel her headquarters would be her home.

These actions were taken with the understanding that compensation for both consultants would be at the rate of \$50 per day for each day worked for the Board either in Washington or outside the city, and, in accordance with the Board's travel regulations, transportation and a per diem in lieu of subsistence in the amount of \$12 for time spent in travel status in connection with their assignments.

Pursuant to the recommendation contained in a memorandum from Mr. Kern, Assistant Director, Division of Administrative Services, dated December 16, 1959, Governor Shepardson also approved today on behalf of the Board the payment of a night differential to members of the Board's night labor force working from 1:00 p.m. to 5:00 p.m. on December 24, 1959, rather than 5:15 p.m. to 1:15 a.m.

  
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 Secretary

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

Item No. 1  
12/16/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD



December 16, 1959.

Board of Directors,  
The Mogadore Savings Bank,  
Mogadore, Ohio.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Cleveland, the Board of Governors approves the establishment of a branch at 1500 Canton Road in the Village of Lakemore, Summit County, Ohio, by The Mogadore Savings Bank, Mogadore, Ohio. This approval is given provided the branch is established within six months from the date of this letter and formal approval of State authorities is effective at the time the branch is established.

It is understood that action has been taken to request the stockholders at the next annual meeting to authorize the sale of an additional 7,000 shares of capital stock at \$25 per share which will produce \$175,000 of new capital.

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  
12/16/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

December 16, 1959.

Board of Directors,  
American Bank of Carlsbad,  
Carlsbad, New Mexico.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Dallas, the Board of Governors of the Federal Reserve System approves, under the provisions of Section 24A of the Federal Reserve Act, an additional investment in bank premises of \$37,500 by American Bank of Carlsbad, Carlsbad, New Mexico. This approval refers specifically to that purchase of property by the bank referred to in your letter of November 30, 1959, to the Federal Reserve Bank of Dallas.

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  
12/16/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

December 16, 1959.

Mr. Karl R. Bopp, President,  
Federal Reserve Bank of Philadelphia,  
Philadelphia 1, Pennsylvania.

Dear Mr. Bopp:

This refers to your letter of December 9 setting forth an alternative method of obtaining reports of deposits and related items which would not require use of a weekly or biweekly reporting form such as that enclosed with the Board's letter of November 30, 1959.

The Board is in complete accord with your objectives and approves the proposal.

Copies of your letter and of this reply are being forwarded to the other Federal Reserve Banks. It would be helpful if you would keep the Board and other Reserve Banks advised from time to time of progress on your proposal, particularly with respect to the reactions of the member banks, the relative costs to your Bank, and any special problems and their solutions that might be helpful to any other Reserve Bank in considering a similar procedure.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.



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

Item No. 4  
12/16/59

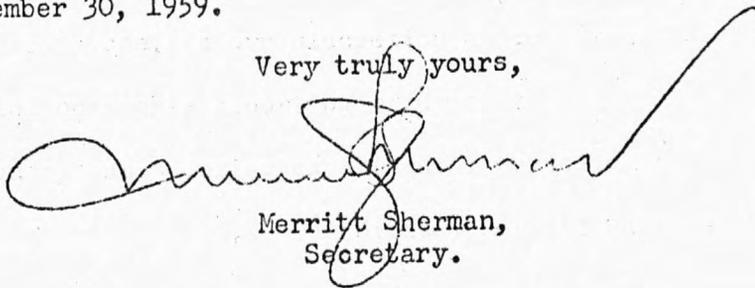
ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

December 16, 1959.

Dear Sir:

For your information, there are enclosed copies of self-explanatory letters regarding a plan of one of the Federal Reserve Banks to obtain daily information on deposits and related items from member banks. This would make unnecessary the use of the suggested reporting form forwarded with the Board's letter of November 30, 1959.

Very truly yours,



Merritt Sherman,  
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

TELEGRAM  
LEASED WIRE SERVICE

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTON

December 16, 1959.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

At joint meeting of Presidents with Board on December 15, 1959, concern was voiced that bank relations problems might be caused in certain districts if Reserve Banks insisted on weekly reporting of reserve data by country banks as provided for in Board's letter of November 30.

Board's letter of November 24 (S-1716) indicated that reliable preliminary estimates of deposits and related items would satisfactorily serve desired purposes. Accordingly, Board suggests that, where adequate bases for estimates are otherwise available, each Reserve Bank use its own discretion as to extent to which it should insist on weekly reporting of deposits for reserve purposes by country banks during experimental period.

(Signed) Merritt Sherman

SHERMAN

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

Item No. 6  
12/16/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

December 21, 1959.



AIR MAIL REGISTERED  
RETURN RECEIPT REQUESTED

Mr. John G. Dorsey,  
Dorsey, Owen, Scott, Barber & Marquart,  
First National Soo Line Building,  
Minneapolis, Minnesota.

Dear Mr. Dorsey:

Reference is made to the Board's Order of October 2, 1959, granting to First Bank Stock Corporation an opportunity for oral argument before the Board in the matter of its application for prior approval of the acquisition of shares of Eastern Heights State Bank of St. Paul, St. Paul, Minnesota, pursuant to section 3(a)(2) of the Bank Holding Company Act of 1956.

The Board will hear oral argument, on behalf of the applicant in the above-mentioned matter, on January 6, 1960, at 10 a.m., at the Board's offices, 20th Street and Constitution Avenue, N. W., Washington, D. C. It is requested that oral arguments on behalf of the applicant be completed within one hour. Said oral argument will be open to the public. However, no general announcement is being made, although certain bank supervisory officials and interested banking institutions have been advised.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 7  
12/16/59

OFFICE OF THE CHAIRMAN

December 17, 1959

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

Dear Mr. Chairman:

This is in reply to a request for the Board's views on S. 1342, introduced March 9, 1959, a bill relating to a proposed Federal Limited Profit Mortgage Corporation.

The Board is especially concerned by the provisions of S. 1342 that would authorize an increase in the amount of outstanding tax-exempt obligations by as much as "an aggregate annual amount not to exceed \$500,000,000 except that with the approval of the President such aggregate annual amount may be increased at any time or times on or after July 1, 1960, by additional amounts aggregating not more than \$1,500,000,000 . . ."

This is not the time to complicate current fiscal problems further by exempting a substantial volume of new obligations, as the bill would authorize, "both as to principal and interest, from all taxation imposed by the United States, or any State, county, municipality, or local taxing authority." Such a proposal would place generally upward pressures on interest rates in capital markets by offering what would in effect be federally-guaranteed tax-exempt obligations to compete with municipal bonds as well as taxable direct obligations of the United States Government, not to mention corporate securities issued to finance growth in productive capacity, and various types of mortgages. In our judgment, such an effort to aid moderate income families or the elderly by increasing the volume of tax-exempt securities available to the wealthy is questionable, and would result in a diversion of savings into this type of activity.

Apart from the aspect of tax exemption, the Board also questions the appropriateness of so considerably increasing the contingent liabilities of the Federal government through a guaranty of the kind proposed in S. 1342.

The Honorable A. Willis Robertson -2-

The Board notes that a number of provisions of the Housing Act of 1959 were designed specifically to offer further assistance toward providing nonprofit moderate-income housing and housing for the elderly, backed by the existing system of FHA mortgage insurance. The Board believes that it would be desirable to observe the effectiveness of these measures before determining whether additional legislation might be needed.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.