Minutes for January 18, 1960.

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 Monday, January 18, 1960. 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. Sherman, Secretary
Mr. Shay, Legislative Counsel
Mr. Hackley, General Counsel
Mr. Solomon, Director, Division of Examinations
Mr. O'Connell, Assistant General Counsel
Mr. Nelson, Assistant Director, Division of Examinations
Mr. Landry, Assistant to the Secretary
Mr. Fisher, Economist, Division of Research and Statistics

Discount rates. The establishment without change by the Federal Reserve Bank of Minneapolis on January 15, 1960, 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 or distributed to the Board. The following items, which had been circulated or distributed to the members of the Board and copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:

Letter to the Federal Reserve Bank of New York interposing no objection to the foreign travel plans for officers and members of the staff of that Bank during 1960.
Letter to Manufacturers Trust Company, New York City, approving the establishment of a branch at 2034 Linden Boulevard, Brooklyn.

Letter to The Detroit Bank and Trust Company, Detroit, Michigan, approving the relocation of a branch from 601 Gratiot Avenue to 455 East Lafayette.

Letter to the Bank of Lake Village, Lake Village, Arkansas, approving its application for membership in the Federal Reserve System.

Hearing in Otto Bremer Company case (Item No. 5). There had been distributed under date of January 15, 1960, a memorandum from the Legal Division concerning arrangements for a hearing pursuant to section 4(c)(6) of the Bank Holding Company Act of 1956, in the case of Otto Bremer Co., St. Paul, Minnesota, a bank holding company that had requested a determination under the Act with respect to a proposed new subsidiary, the Foster County Agency, Inc., Carrington, North Dakota, which would carry on an insurance agency business.

Governor Balderston inquired whether a hearing was mandatory in this instance; and Mr. Hackley replied that according to law it was. He went on to say that the present case was similar to that in which the Board, on October 15, 1959, approved a request by First Virginia Corporation for determinations that certain insurance agency subsidiaries were within the provision of section 4(c)(6) of the Act. For this reason, he said, it was anticipated that the questions presented in the Bremer case would have no novel aspects with the result that the hearing could
be accomplished in one day. He noted that it was agreeable to Mr. John Olin, Assistant Counsel for the Federal Reserve Bank of Minneapolis, and to President Deming of that Bank for Mr. Olin to act as Board Counsel in connection with the conduct of the hearing. Furthermore, he said, Mr. Edward H. McMahan, Hearing Examiner with the Interstate Commerce Commission, who had been detailed to the Board for the hearing in the Union Bond and Mortgage Company section 4(c)(6) matter last fall, would be available to conduct the hearing in the present case. Accordingly, the Legal Division recommended that Mr. Olin be designated as Board Counsel for the purpose of the hearing in the Otto Bremer Company matter, that Mr. McMahan be assigned to conduct the hearing, and that the hearing be set down for February 8, 1960, at the Federal Reserve Bank of Minneapolis.

There being no objection, these arrangements were approved unanimously, along with a formal Notice of Otto Bremer Company's Request for Determination and Order for the holding of the hearing. This Notice and Order is attached to these minutes as Item No. 5.

Letter to the Comptroller of the Currency (Item No. 6). Mr. Solomon reported that in accordance with the understanding at the Board meeting on Friday, January 15, he had telephoned Vice President Pondrom of the Dallas Reserve Bank and had ascertained that the latter had nothing to add to his previous report on the application to organize a national bank in Houston, Texas, except to note that President Irons of that Bank
had reviewed the application and reached the conclusion that the application should be disapproved. Mr. Solomon said that Mr. Pondrom had not advanced this view with any particular vigor.

Governor Shepardson observed that banks in Houston had been moving away from the area in which the applicant planned to locate and that he did not know what was behind this movement unless the banks had developed to the point where they believed this site was not adequate. He had been told by an important Houston businessman whose activities were centered in that area of the city that he expected a revitalization of activity there and did not intend to move from that section. In a further observation, Governor Shepardson referred to the continued rapid expansion of Houston and expressed doubt that the city had reached an over-banked condition although he was not certain on this score. He concluded by remarking that the group behind the application for a new national bank in Houston would have a good opportunity to succeed.

Unanimous approval was then given to a letter to the Comptroller of the Currency recommending favorable consideration of the application to organize a national bank in Houston, Texas. This letter is attached as Item No. 6.

Messrs. Thomas, Economic Adviser to the Board, and Noyes, Director, Division of Research and Statistics, entered the meeting at this point.

Letter to the Bureau of the Budget (Item No. 7). There had been circulated to the members of the Board a memorandum dated January 15, 1960,
from Mr. Noyes regarding proposed legislation concerning the Federal Savings and Loan Insurance Corporation, together with a draft of report to the Bureau of the Budget regarding a draft bill to amend Section 404 of the National Housing Act, as amended.

Noting that the Bureau of the Budget had asked the Board to comment not later than today on a draft bill prepared by the Federal Home Loan Bank Board to authorize an increase in the basic insurance premium rate paid by insured institutions to the Federal Savings and Loan Insurance Corporation, Mr. Fisher said that he understood this proposed change was initiated by the Federal Home Loan Bank Board at least partly because that Board felt that the reserves were not building up rapidly enough under the present insurance assessments. He also understood this provision along with certain others contained in the bill would be endorsed by the President in his annual budget message. He added that the draft letter to the Budget Bureau on this question submitted for Board consideration had been discussed by Mr. Noyes informally with Treasury representatives and that the latter felt it was appropriate to raise the points contained in the letter.

Governor Robertson said that he understood the Federal Deposit Insurance Corporation was concerned about this draft bill, which had been prepared by the Federal Home Loan Bank Board, because the bill which the Federal Deposit Insurance Corporation was sponsoring, S. 2609, a bill to provide a report of condition assessment base, involved a change in the rate of assessment on insured commercial banks, and it believed that the Federal Savings and Loan Insurance Corporation bill
might hurt the chances for passage in Congress of the Federal Deposit Insurance Corporation bill. He added that Comptroller of the Currency Gidney also had some reservations about the Federal Savings and Loan Insurance Corporation bill.

Mr. Noyes commented that the Bureau of the Budget was requesting a report from each agency having an interest in this legislation and that both the Federal Deposit Insurance Corporation and the Comptroller of the Currency presumably would submit their comments to the Budget Bureau. In response to a question from Governor Balderston, Mr. Noyes also said that it would be unlikely that the borrowing authority provided in the bill would be employed except in the event the Federal Savings and Loan Insurance Corporation found it necessary to obtain funds to meet insurance claims against savings and loan associations.

During a discussion of this portion of the proposed bill, which would restore Federal Savings and Loan Insurance Corporation's authority to borrow money from sources other than the Treasury, consideration was given to the possible difference in economic effects on the capital markets and the cost to the Federal Government of agencies tapping the market directly through their own issues as compared with borrowing by the Treasury from the market in their behalf.

Mr. Molony, Assistant to the Board, entered the meeting during the foregoing discussion.
Following further discussion relating to the wording of the letter to the Budget Bureau, unanimous approval was given to a letter in the form attached as Item No. 7.

The meeting then adjourned.

Secretary's Note: Pursuant to the recommendation contained in a memorandum from Mr. Noyes, Director, Division of Research and Statistics, Governor Shepardson today approved the promotion of Robert Solomon from the position of Senior Economist to the position of Chief of the Capital Markets Section in that Division, with no change in his basic annual salary at the rate of $13,370, effective the date he assumes his new duties.
January 18, 1960

Mr. Alfred Hayes, President,
Federal Reserve Bank of New York,

Dear Mr. Hayes:

Your letter of January 5 regarding foreign travel plans of officers and members of the staff of your Bank during the current year has been brought to the attention of the Board of Governors. The Board has no objection to the plans approved by your directors.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.
January 18, 1960

Board of Directors,
Manufacturers Trust Company,
New York, New York.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors approves the establishment of a branch at 2084 Linden Boulevard, Brooklyn, New York, by Manufacturers Trust Company, New York, New York. This approval is given provided the branch is established within one year from the date of this letter, and that formal approval of State authorities is effective at the time the branch is established.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
Board of Directors,
The Detroit Bank and Trust
Company,
Detroit, Michigan.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors of the Federal Reserve System approves the removal of the branch operated by The Detroit Bank and Trust Company at 601 Gratiot Avenue, Detroit, Michigan, to 455 East Lafayette, Detroit, Michigan, provided the branch is established at the new location within nine months from the date of this letter.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
Board of Directors,
Bank of Lake Village,
Lake Village, Arkansas.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the application of Bank of Lake Village, Lake Village, Arkansas, for stock in the Federal Reserve Bank of St. Louis, subject to the numbered conditions hereinafter set forth:

1. Such bank at all times shall conduct its business and exercise its powers with due regard to the safety of its depositors, and, except with the permission of the Board of Governors of the Federal Reserve System, such bank shall not cause or permit any change to be made in the general character of its business or in the scope of the corporate powers exercised by it at the time of admission to membership.

2. The net capital and surplus funds of such bank shall be adequate in relation to the character and condition of its assets and to its deposit liabilities and other corporate responsibilities.

In connection with the foregoing conditions of membership, particular attention is called to the provisions of the Board's Regulation H, regarding membership of State banking institutions in the Federal Reserve System, with especial reference to Section 7 thereof. A copy of the regulation is enclosed.

If at any time a change in or amendment to the bank's charter is made, the bank should advise the Federal Reserve Bank, furnishing copies of any documents involved, in order that it may be determined whether such change affects in any way the bank's status as a member of the Federal Reserve System.
Acceptance of the conditions of membership contained in this letter should be evidenced by a resolution adopted by the Board of Directors and spread upon its minutes, and a certified copy of such resolution should be filed with the Federal Reserve Bank. Arrangements will thereupon be made to accept payment for an appropriate amount of Federal Reserve Bank stock, to accept the deposit of the required reserve balance, and to issue the appropriate amount of Federal Reserve Bank stock to the bank.

The time within which admission to membership in the Federal Reserve System in the manner described may be accomplished is limited to 30 days from the date of this letter, unless the bank applies to the Board and obtains an extension of time. When the Board is advised that all of the requirements have been complied with and that the appropriate amount of Federal Reserve Bank stock has been issued to the bank, the Board will forward to the bank a formal certificate of membership in the Federal Reserve System.

The Board of Governors sincerely hopes that you will find membership in the System beneficial and your relations with the Reserve Bank pleasant. The officers of the Federal Reserve Bank will be glad to assist you in establishing your relationships with the Federal Reserve System and at any time to discuss with representatives of your bank means for making the services of the System most useful to you.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

Enclosure.
BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

NOTICE OF REQUEST FOR DETERMINATION
PURSUANT TO SECTION 4(c)(6) OF
BANK HOLDING COMPANY ACT OF 1956 AND
ORDER FOR HEARING THEREON

Notice is hereby given that request has been made to the
Board of Governors of the Federal Reserve System, pursuant to sec-
and section 5(b) of the Board's Regulation Y [12 CFR 222.5(b)], by
Otto Bremer Company, St. Paul, Minnesota, a bank holding company, for
a determination by said Board that Foster County Agency, Inc.,
Carrington, North Dakota, and the proposed activities thereof are
of the kind described in those provisions of the Act and the
Regulation so as to make it unnecessary for the prohibitions of
section 4 of the Act with respect to shares in nonbanking organizations
to apply in order to carry out the purposes of the Act.

Inasmuch as section 4(c)(6) of the Bank Holding Company Act
of 1956 requires that any determination pursuant thereto be made by
the Board after due notice and hearing and on the basis of the
record made at such hearing,
IT IS HEREBY ORDERED That pursuant to section 4(c)(6) of the Bank Holding Company Act of 1956 and in accordance with sections 5(b) and 7(a) of the Board's Regulation Y [12 CFR 222.5(b), 222.7(a)], promulgated under the Bank Holding Company Act of 1956, a hearing with respect to this matter be held commencing on February 8, 1960 at 10:00 a.m., at the offices of the Federal Reserve Bank of Minneapolis, Minneapolis, Minnesota, before a duly selected hearing officer, such hearing to be conducted in accordance with the Rules of Practice for Formal Hearings of the Board of Governors of the Federal Reserve System [12 CFR Part 263]. The right is reserved to the Board or such hearing officer to designate any other date or place for such hearing or any part thereof which may be determined to be necessary or appropriate for the convenience of the parties. The Board's Rules of Practice for Formal Hearings provide, in part, that "All such hearings shall be private and shall be attended only by respondents and their representatives or counsel, representatives of the Board, witnesses, and other persons having an official interest in the proceedings; Provided, however, That on the written request of one or more respondents or counsel for the Board, or on its own motion, the Board, when not prohibited by law, may permit other persons to attend or may order the hearing to be public."

Any person desiring to give testimony in this proceeding should file with the Secretary of the Board, directly or through the Federal Reserve Bank of Minneapolis, on or before February 1, 1960,
written request relative thereto, said request to contain a
statement of the reasons for wishing to appear, the nature of the
Petitioner's interest in the proceeding, and a summary of the
matters concerning which said petitioner wishes to give testimony.
Such request will be presented to the designated hearing officer
for his determination in the matter at the appropriate time.
Persons submitting timely requests will be notified of the hearing
officer's decision in due course.

Dated at Washington, D. C. this 18th day of January 1960.

(Signed) Merritt Sherman
Merritt Sherman,
Secretary.
January 19, 1960

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

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

Dear Mr. Comptroller:

Reference is made to a letter from your office dated May 20, 1959, enclosing copies of an application to organize a national bank at Houston, 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 favorable findings with respect to the proposed capital structure and management of the bank. While it is reported that the prospects for profitable operations may be somewhat borderline and some doubt is expressed as to the need for the bank, its favorable local sponsorship and support would appear to indicate reasonable prospects for successful operations. Accordingly, the Board of Governors recommends favorable consideration 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,

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

Dear Mr. Hughes:

The Bureau of the Budget has asked in its referral memo-
randum of January 8, 1960, for the Board's view on the draft bill,
dated January 7, 1960, "To amend Section 404 of the National Housing
Act, as amended, and for other purposes."

In view of the rapid recent growth in the amount of shares
subject to insurance by the Federal Savings and Loan Insurance Cor-
poration, the Board believes that an increase in the insurance premium,
as proposed in the draft bill, is in accord with sound financial
principles. The Board questions, however, whether a reduction in the
premium rate should be permitted after the Corporation's statutory
reserve has reached 1 per cent, as provided in the draft bill. This
would have the effect of slowing down the rate at which the Federal
Savings and Loan Insurance Corporation could attain its total potential
reserve requirement.

The Board also questions whether it is desirable to author-
ize a reduction in the total potential reserves of the Federal Savings
and Loan Insurance Corporation, or to restore FSLIC's authority to
borrow from the public, as the draft bill would provide. The marked
recent expansion in FSLIC's contingent liabilities argues for no change
in its potential reserves, much less a reduction. In any event, there
would seem to be no urgency in this matter; consideration of any
liberalization in the Corporation's statutory reserve limit might
well await a later date when its reserves are relatively larger and
when we have had further experience with respect to its contingent
liabilities.
Rather than permitting FSLIC to borrow from the public as well as the Treasury, the Board believes that its existing authority to borrow from the Treasury, coupled with a program to accumulate adequate reserves, should serve its liquidity needs. Moreover, the Board feels that restoration of authority to borrow from private sources would not in reality reduce the potential dependence of the Corporation on the Federal Government.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.