The attached set of minutes of the meeting of the Board of Governors of the Federal Reserve System on February 2, 1960, which you have previously initialed, has been amended at the request of Governor Balderston to make certain revisions in his comments as stated on pages 3 and 8.

These minutes have also been amended at the request of Governor Shepardson to make certain revisions in his comments as stated on pages 8 and 9.

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

Chairman Martin __________

Governor Szymczak __________

Governor Mills __________

Governor Robertson __________

FR 609
Rev. 10/59

Minutes for February 2, 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 WM
Gov. Szymczak
Gov. Mills
Gov. Robertson R
Gov. Balderston CCB
Gov. Shepardson
Gov. King

Minutes of the Board of Governors of the Federal Reserve System on Tuesday, February 2, 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. King

Mr. Sherman, Secretary
Mr. Young, Adviser to the Board
Mr. Shay, Legislative Counsel
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Noyes, Director, Division of Research and Statistics
Mr. Solomon, Director, Division of Examinations
Mr. Johnson, Director, Division of Personnel Administration
Mr. Hexter, Assistant General Counsel
Mr. Daniels, Assistant Director, Division of Bank Operations
Mr. Nelson, Assistant Director, Division of Examinations
Mr. Landry, Assistant to the Secretary
Mr. Knipe, Consultant to the Chairman

Discount rates. The establishment without change by the Federal Reserve Bank of Atlanta on February 1, 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 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.

Letter to the Liberty Bank of Buffalo, Buffalo, New York, approving the establishment of a branch in the Town of Hamburg. 1

Letter to Mr. Treiber, First Vice President, Federal Reserve Bank of New York, noting the arrangements made for Mr. Clifton R. Gordon to remain in active service until age 70, after assuming duties as Director of the Relocation Office at Ithaca, New York. 2

Messrs. Thomas, Adviser to the Board, O'Connell, Assistant General Counsel, and Ford, Economist, Division of Research and Statistics, entered the meeting at this point.

Letter to Chairman Spence. There had been distributed under date of January 29, 1960, a draft of letter to Congressman Spence, Chairman of the House Banking and Currency Committee, reporting on H. R. 9511, "To provide for the retirement of $15 billion of the interest bearing debt of the United States," introduced by Congressman Patman. This letter took the position that the Board opposed enactment of H. R. 9511 providing for issuance by the Treasury to each Federal Reserve Bank of non-interest bearing demand notes in exchange for the interest bearing securities transferred from that Bank. The reasons stated for the Board's position were (1) that enactment of the bill would lead to no reduction in the net interest cost of the public debt, because the Federal Reserve Banks now follow the practice of paying to the Treasury all income over and above the sum of their expenses, and statutory dividends paid to member banks, and amounts needed to keep their surplus accounts equal to subscribed capital and (2) that such a reduction in the Federal Reserve's holding of Government securities involved the risk of threatening the System's ability to carry out open market operations or leaving it with earnings insufficient to cover operating expenses.

Chairman Martin called for comment on the draft letter.

During the ensuing discussion the view was expressed that the Board's opposition to the enactment of H. R. 9511 should not be based on the mechanistic aspects of Congressman Patman's proposal as was done in the draft letter, but should instead be based upon the broad philosophical position that the proposal constituted a step toward monetization of the debt.

Governor Balderston recalled that Congressman Oliver of Maine had telephoned him last year to ask about his reaction to the proposal in question and that he had replied that, for a small saving of interest for the Treasury (which in 1958 would have amounted to about $80 million but which under present procedures would be zero), the international position of the dollar might be endangered through a lessening of confidence in it.

The discussion then turned to the answer that Chairman Martin might give to Congressman Patman this afternoon, when he (Chairman Martin) appeared before the Joint Economic Committee in connection with hearings on the 1960 economic report of the President, since

Mr. Patman could be expected to ask the Chairman about his views on H. R. 9511. During this discussion Mr. Molony suggested that the Chairman might reply that Chairman Spence had asked the Board for a report on this bill, that it had serious implications and would receive serious Board study, that a full report would be given to the House Banking and Currency Committee, and that copies of this report would be available to the Joint Economic Committee.

Mr. Shay added that Congressman Patman was familiar with the letters sent by Chairman Martin on June 24, 1959, to Chairman Mills of the House Committee on Ways and Means, on June 26, 1959, to Congressman Hiestand of California, and on July 9, 1959, to Congressman Budge of Idaho, all pertaining to similar proposals made by Mr. Patman in the past.

Mr. Daniels recalled that about 25 years ago Father Coughlin, a widely known critic of the Federal Reserve, had made a suggestion similar to Representative Patman's when he proposed that $25 billion of the Treasury's marketable debt be canceled with non-interest bearing notes being substituted for the portion canceled.

The Chairman commented that his off-hand reaction before the meeting to the Patman proposal had been that it was simply a device to make it possible for the Government to avoid doing what needed to be done with respect to sound debt management and credit policy.

Following further discussion during which Governor Szymczak emphasized the importance of maintaining confidence in the securities markets by seeing to it that the Treasury borrowed on terms similar to general market terms for borrowers, it was agreed that a redraft of the letter to Congressman Spence should be prepared for further consideration by the Board at a later meeting.

Messrs. Molony, Knipe, Daniels, Nelson, and Ford then withdrew from the meeting.

Letter to Senator Frear (Item No. 3). There had been distributed a memorandum dated February 1, 1960, from Mr. Hackley concerning a request last summer from Senator Frear of Delaware for the Board's views on a possible amendment to section 31 of the Banking Act of 1933 to increase the maximum number of directors of a member bank from 25 to 27 or 30. The memorandum noted that Senator Frear's interest in the question arose from the fact that the Farmers Bank of the State of Delaware of which he is a director is required by State law to have 27 directors and therefore is ineligible for membership in the Federal Reserve System under the present law. Although this bank was organized under a special charter requiring the naming of nine of its directors by the State legislature with the State itself owning between 50 per cent and 57 per cent of the bank's outstanding stock, some interest had been indicated in System membership.

In commenting on the memorandum, Mr. Hexter recalled that the Financial Institutions Act as it passed the Senate in March 1957 included a provision, apparently proposed by Senator Frear, which would have made the limitations on number of directors of a state member bank inapplicable "to a bank or trust company a majority of whose stock is owned by a state." He said that an amendment of this kind would avoid an increase in the maximum for all member banks and yet would seem to achieve Senator Frear's objective, assuming that a majority of the stock of Farmers Bank is owned by the State of Delaware. Such an amendment might be justified on the theory that stock ownership by the State would provide sufficient protection against the evils intended to be prevented by the statute limiting the number of directors. On the other hand, Mr. Hexter commented, it could be argued that even State ownership of the bank's stock did not warrant an exception to the general limitation. He concluded with the observation that there were attached to the memorandum alternative drafts of letters to Senator Frear: "Alternative A" would question the desirability of a general increase in the maximum limitation but indicate no objection to an amendment like that contained in the Financial Institutions Act; "Alternative B" would question even an amendment that would make an exception in the case of State ownership of stock.

Chairman Martin remarked that the letter indicating that the Board still saw no objection to the provision contained in section 23(e) of Title II of the proposed Financial Institutions Act as passed by the Senate on March 21, 1957, making inapplicable the limitations of the number of directors to "a bank or trust company a majority of whose stock is owned by a State", would be consistent with the Board's previous position on this question.

Following a discussion of the alternatives carried in the memorandum, it was unanimously agreed to send the letter to Senator Frear designated as "Alternative A", a copy of which is attached to these minutes as Item No. 3.

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

Further consideration of BancOhio Corporation matter. Pursuant to the understanding arrived at during the Board's meeting on Monday, February 1, 1960, regarding the application of BancOhio Corporation, Columbus, Ohio, for prior approval of its acquisition of a minimum of 80 per cent of 1,000 voting shares of the Hilliard Bank, Hilliards, Ohio, Mr. Solomon reported that he had telephoned Vice President Stetzelberger of the Cleveland Reserve Bank to inform him that the Board was considering issuing a notice of tentative decision denying the application of BancOhio. He said that he had received a return telephone call from Mr. Stetzelberger this morning following the latter's discussion of this matter with President Fulton of the Cleveland Bank. Mr. Stetzelberger had said that he fully understood the possibility of the Board's taking an adverse view of the application and that neither he nor Mr. Fulton was surprised at the Board's views; and he had assured Mr. Solomon that neither he nor Mr. Fulton had any strong feelings regarding this case. Mr. Solomon went on to say that he also had checked with Mr. Haggard, Chief National Bank Examiner in the Comptroller's Office, and had ascertained that two of the branches of National Banks referred to in the Division of Examinations' longer memorandum of December 23, 1959, to the Board had been approved and that the third branch would probably be approved.

Governor Balderston said that he concurred with the views of the majority of the Board on the application of BancOhio, since when a bank acquired more than 50 per cent of the deposits in an area the probability of its injuring competition increased geometrically. He went on to say that looking at the country as a whole, he could not conceive of how small banks could take full advantage of mechanization. This would place them under increasingly greater competitive pressure. He then suggested that it might be desirable to have a study of this problem, which would become aggravated as time passed. The Board might anticipate receiving an increasing number of applications involving the absorption of these independents, regardless of its rulings under the Bank Holding Company Act.

Governor Shepardson commented that there was a somewhat analogous situation in the growth in size and reduction in number of farms necessitated by technological developments but that this had not meant that family farm units were being displaced by corporation farms as some had feared. By the same token, he would not visualize denial of the BancOhio application as precluding desirable growth through acquisition of Hilliard by some other less dominant bank in the area. So far as minimum size for efficient operation was concerned, it did not necessarily follow, once an efficient economic unit was established, that further additions would necessarily increase efficiency.

Governor Balderston replied that Governor Shepardson's point was illustrated by the Board's action in approving a branch of the Liberty Bank in Buffalo in preference to applications from larger banks in that City.

Governor Szymczak observed that the Board's stand for free enterprise in banking was especially important in New York State where large banks dominated branch banking; and Governor Robertson added that it was essential to provide competition in banking which did not necessarily mean keeping all banks small.

Unanimous approval was then given to the drafting by the Legal Division of a tentative decision denying the application of BancOhio Corporation for the Board's prior approval of its acquisition of a minimum of 80 per cent of the 1,000 voting shares of The Hilliard Bank, Hilliards, Ohio.

The meeting then adjourned.

Secretary's Notes: Governor Shepardson today approved on behalf of the Board the following items:

Memorandum from Mr. Kern, Assistant Director, Division of Administrative Services, recommending the appointment of Margaret E. Jenkins as Cafeteria Helper in that Division, at the hourly rate of $1.57 when actually employed, effective the date she assumes her duties.

Memoranda from Messrs. Farrell and Connell, dated February 1 and 2, 1960, respectively, recommending that an additional clerk-stenographer position be established in the Call Report Section of the Division of Bank Operations at Grade F.R. 4, with the understanding that in the event the Flexowriter machine is transferred from that Division to the Division of Administrative Services, the clerk-stenographer position will be abolished in the Division of Bank Operations and transferred to the Division of Administrative Services, provided the need for such a position exists in that Division. It was also understood that provision for this position was made in the 1960 budget for the Division of Bank Operations.

Letter to the Federal Reserve Bank of Richmond (attached Item No. 4) approving the designation of Franklin S. Clark as special assistant examiner.

Governor Shepardson also approved today on behalf of the Board certain technical revisions in the Board's Personnel Security Regulation effective January 15, 1960, with the understanding copies of the revised Regulations would be placed in the Board's files and given appropriate distribution within the staff.

Secretary

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

Item No. 1
2/2/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 2, 1960

Board of Directors,
Liberty Bank of Buffalo,
Buffalo, New York.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors of the Federal Reserve System approves the establishment of an out-of-town branch at the southeast corner of Southwestern Boulevard and Rogers Road, Town of Hamburg, New York, by Liberty Bank of Buffalo, Buffalo, New York, provided the branch is established within one year from the date of this letter and formal approval of State authorities is in effect as of the date of the establishment of the branch.

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
2/2/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 2, 1960

Confidential (FR)

Mr. William F. Treiber,
First Vice President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Treiber:

With reference to your letter of January 8, 1960, the Board notes the arrangements that have been made for Mr. Clifton R. Gordon, presently Assistant Counsel of your Bank, to take over the duties of the Director of the Relocation Office at Ithaca, New York, on June 1, 1960, in a nonofficial status.

It is also noted that upon his retirement on December 1, 1960, he will be reemployed at a salary of $12,000 per annum, and it is understood that the pension portion of his retirement allowance was taken into consideration in fixing this annual salary. It is also understood that the Bank contemplates his retention up to the age of 70 and that his employment could be terminated at an earlier date at the discretion of the Bank.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 3
2/2/60

OFFICE OF THE CHAIRMAN

February 2, 1960

The Honorable J. Allen Frear, Jr.,
United States Senate,
Washington 25, D. C.

Dear Allen:

Last Summer you discussed with me the matter of amending section 31 of the Banking Act of 1933 to increase the maximum number of directors permitted for a member bank from 25 to 27 or possibly 30. In my letter of July 29, 1959, I promised to take the question up with the Board and advise you of its attitude.

An unduly large board of directors may, of course, tend to make directors' meetings unwieldy and, by diluting the sense of responsibility, enable a few active members of the board to take over the actual direction of the affairs of the bank. Presumably it was for these reasons that Congress limited the number of directors to 25. Consequently, unless need for such action is demonstrated the Board of Governors would question the desirability of increasing the maximum for member banks generally.

As you will recall, the proposed "Financial Institutions Act" (S. 1451) that passed the Senate on March 21, 1957, contained in section 23(e) of Title II a provision that would have made the maximum and minimum limitations on the number of directors inapplicable to "a bank or trust company a majority of whose stock is owned by a State." An amendment of this kind, to which the Board would see no objection, might serve to meet your problem and yet avoid an increase in the maximum limitation that would apply to national and State member banks generally.

Sincerely yours,

Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

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

Item No. 4
2/2/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 2, 1960

Mr. John L. Nosker,
Assistant Vice President,
Federal Reserve Bank of Richmond,
Richmond 13, Virginia.

Dear Mr. Nosker:

In accordance with the request contained in your letter of January 26, 1960, the Board approves the designation of Franklin S. Clark as a special assistant examiner for the Federal Reserve Bank of Richmond for the purpose of participating in examinations of all banks except First and Merchants National Bank of Richmond, Richmond, Virginia; The Central National Bank of Richmond, Richmond, Virginia; and The Bank of Virginia, Richmond, Virginia.

The authorization heretofore given your bank to designate Mr. Clark as a special assistant examiner is hereby canceled.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.