FR 609
Rev. 10/59

Minutes for February 12, 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 WMM
Gov. Szymczak
Gov. Mills
Gov. Robertson R
Gov. Balderston CCB
Gov. Shepardson
Gov. King

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Minutes of the Board of Governors of the Federal Reserve System on Friday, February 12, 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. Shepardson

Mr. Sherman, Secretary
Miss Carmichael, Assistant Secretary
Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Masters, Associate Director, Division of Examinations
Mr. Nelson, Assistant Director, Division of Examinations
Mr. Goodman, Assistant Director, Division of Examinations
Miss Burr, Associate Adviser, Division of Research and Statistics

Discount rates. The establishment without change by the Federal Reserve Banks of New York, Cleveland, Richmond, Atlanta, St. Louis, Kansas City, and Dallas on February 11, 1960, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

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:

	Item No.
Letter to The Chase Manhattan Bank, New York, New York, authorizing establishment of a branch in the City of Nassau, Bahamas.	1

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Item No.

Letter to the American Commercial Bank, Charlotte, North Carolina, approving an investment in bank premises. 2

Mr. Nelson withdrew from the meeting and Messrs. Young, Adviser to the Board, and Koch, Adviser, Division of Research and Statistics, entered the room.

1959 Annual Report of Board of Governors. Prior to the meeting, galley proof of the text for the Board's 1959 Annual Report had been distributed. Chairman Martin indicated that it was important to have the Annual Report released by March 15, 1960, and inquired whether there were any comments on it.

Mr. Hackley said that at the suggestion of Governor Balderston he had furnished Miss Burr a brief statement concerning The Continental Bank and Trust Company proceedings for inclusion in the section on litigation. Governor Balderston commented that failure to make any reference to this matter would be hard to explain. Mr. Hackley then read the statement which he had furnished.

The text of the Annual Report was approved, with the understanding that necessary minor changes be reported promptly to Mr. Young.

Report on Trust Conference sponsored by Trust Division of the American Bankers Association. Mr. Masters reported that he had attended this week the Mid-Winter Trust Conference sponsored by the Trust Division of the American Bankers Association in New York City.

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He referred to an address made at the conference by Mr. Charles G. Young, Jr., Senior Vice President and Senior Trust Officer of the City National Bank and Trust Company, Kansas City, Missouri, which embodied criticism of the Board for its failure to liberalize the commingling provisions of Regulation F (specifically sections 10(c) and 17) to permit a more imaginative use of common trust funds and other forms of commingling of trust department accounts, as well as a plea for changes in these provisions of the Regulation, which in substance would permit national banks to attract business to their trust departments in a form that would meet the competition of mutual funds and other commingled investment media currently so popular with the investing public. He said that Mr. Young's talk was remarkable for several reasons. (1) Mr. Young had apparently been hand picked by the Trust Division of the American Bankers Association to make this address. He was not among the recognized leaders in trust business and the views he expressed were apparently not entirely representative of the trust industry. Mr. Masters indicated that many trust men attending the conference, in discussing the Young address with him, showed little sympathy with most of the proposals that had thus been advanced. (2) The address further was remarkable, he said, for its absence of reference to the principles which underlay the adoption of the section 17 provisions of Regulation F and their relationship to the tax laws. It stressed only one side of the subject,

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ignoring important conceptual changes which would be involved if the full scope of the proposals was adopted. (3) Apparently the address had not been cleared with and was not consistent with the views of the Common Trust Funds Committee of the American Bankers Association's Trust Division, the group which would normally consider and recommend changes of the kind discussed; as a consequence, it seemed apparent to Mr. Masters that some friction had developed within the American Bankers Association family on this score. (4) The address was also remarkable because it was largely built around a letter which Mr. Masters said had been addressed to him by Mr. Young five years ago, in which Mr. Young had set forth his then informal and personal philosophy concerning the commingling provisions of the Regulation. Reference to this letter in this manner succeeded in creating the impression, Mr. Masters said, that the letter was a formal approach to the Board for reconsideration of section 17 provisions.

The essence of the proposals in Mr. Young's address, Mr. Masters said, concerned an increase in or the elimination of the $100,000 limitation on participation, liberalization or elimination of the present advertising and publicity provisions of section 17, and a further liberalization of restrictions on commingling in section 10(c), directed toward permission to national bank trust departments (and other banks subject to the common trust fund provisions of the Regulation) to compete more aggressively with mutual funds which were viewed in some

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quarters as providing a threat to the future of trust business. Such proposals were rather startling to conventional, conservative trust men and would be at cross purposes with concepts underlying the pertinent provisions of the Regulation, Mr. Masters said.

Mr. Masters further reported that Mr. Young had raised the question of legal validity of section 10(c) and section 17 of the regulation, expressing the view that these provisions failed to recognize the "right of contract," feeling apparently that conditions and limitations of these provisions should properly be waived by settlors of trusts having the contractual power to do so.

As to pending and future actions respecting these provisions of the regulation, Mr. Masters indicated that he understood a New York banker would discuss within a week or two with President Hayes of the New York Reserve Bank a specific proposal to extend the $100,000 limit on participation and that such a proposal would likely reach the Board within a matter of weeks. He also indicated that a question for interpretation of the effect of the existing advertising and publicity restrictions in section 17 had just reached the Board (no connection with the Young address) and that matter would be brought to the Board's attention shortly. He also indicated that it was known that the Common Trust Funds Committee of the American Bankers Association's Trust Division had been for some time formulating amendment proposals to submit to the Board in this connection; that these would include (among possible others)

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a request for an increase or removal of the $100,000 limit and the proposal that common trust funds be opened to participation by agency accounts for charitable organizations. It would be expected that these proposals would be before the Board within a short time. In addition, the staff has under review various considerations with respect to amendment of the provisions of section 10(c) concerning the commingling of trust funds outside the provisions of section 17.

Mr. Masters then inquired whether the Board desired that the staff take specific action as a direct consequence of Mr. Young's address.

Chairman Martin said he thought nothing should be done until the members of the Board had an opportunity to review the text of the Young speech and the letter to which it referred, and Mr. Masters stated that these documents would be distributed later in the day.

During the above discussion Messrs. Shay, Legislative Counsel, Fauver, Assistant to the Board, and Noyes, Director, Division of Research and Statistics, entered the room.

<u>Meeting with Mr. Howard J. Stoddard, President, Michigan National Bank, concerning interest rates.</u> Chairman Martin reported that Governor Mills, Mr. Hackley, and he had met yesterday with Mr. Howard J. Stoddard, President, Michigan National Bank, who had made a plea for a 4 per cent interest rate on time certificates of deposit. Chairman Martin indicated that Mr. Stoddard's request would be considered in connection with the

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Board's study of Regulation Q, Payment of Interest on Deposits, and suggested that it might be considered at the next Federal Advisory Council meeting.

Governor Mills, in commenting on the conference, noted that Mr. Stoddard had taken a lead in the area of promoting time and savings deposits. He proposed a 3 per cent rate on savings deposits and a 4 per cent rate on time certificates of deposit. He felt a 4 per cent rate for time deposits would enable his bank to compete with savings and loan associations, and that he could employ such deposits profitably. Governor Mills was of the opinion that Mr. Stoddard was not speaking from the standpoint of the entire banking field but rather from the viewpoint of his own bank.

Mr. Hackley noted that the Michigan National Bank was the first bank to issue time certificates with alternate maturities and varying interest rates, and for a period of time it paid a higher rate on time certificates than on regular savings. It was pointed out that the rate was now 3 per cent for both types of savings.

A discussion of Mr. Stoddard's proposal followed, during which Governor Shepardson noted that recent discussions with members of the Michigan Bankers Association centered almost entirely on the subject of interest rates. He said that these bankers were concerned not only with competition from savings and loan associations but also with the aggressive competition from the Michigan National Bank.

During the above discussion Mr. Molony, Assistant to the Board, entered the room and Messrs. Young, Shay, Koch, and Miss Burr withdrew from the meeting.

The meeting then adjourned.

Secretary's Notes: Governor Shepardson approved today on behalf of the Board a letter to the Housing and Home Finance Agency designating Ralph A. Young, Adviser to the Board, to represent the Board on the National Voluntary Mortgage Credit Committee and Guy E. Noyes, Director, Division of Research and Statistics, to serve as an alternate for Mr. Young. The designations were made on the basis of provisions in the Housing Act of 1954 as amended by the Housing Act of 1959.

Governor Shepardson also approved today on behalf of the Board a letter to the Presidents of all Federal Reserve Banks inviting them to nominate possible candidates for a training course to be given by the Center for Latin American Monetary Studies in Mexico City from May 2 to August 26, 1960. A copy of the letter sent on February 15 is attached as Item No. 3.

Pursuant to the recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson today approved on behalf of the Board the following actions affecting the Board's staff:

Leave-without-pay

Francis J. McGarvey, Assistant Federal Reserve Examiner, Division of Examinations, granted leave-without-pay from February 23 through April 22, 1960.

Linwood N. Tyndall, Assistant Federal Reserve Examiner, Division of Examinations, granted leave-without-pay from February 15 through March 11, 1960.

Acceptance of resignation

Kathleen E. Scanlon, Charwoman, Division of Administrative Services, effective February 11, 1960.

Secretary

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

Item No. 1
2/12/60

February 12, 1960.

The Chase Manhattan Bank,
Eighteen Pine Street,
New York 15, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System authorizes The Chase Manhattan Bank, New York, New York, pursuant to the provisions of Sections 9 and 25 of the Federal Reserve Act, to establish a branch in the City of Nassau, Bahamas, at the southwest corner of Bay and East Streets, Nassau, and to operate and maintain such branch subject to the provisions of such Sections. The location of the branch may not be changed, after establishment, without the prior approval of the Board of Governors.

Unless the branch is actually established and opened for business on or before February 1, 1961, all rights granted hereby shall be deemed to have been abandoned and the authority hereby granted will automatically terminate on that date.

Please advise the Board of Governors, in writing, through the Federal Reserve Bank of New York, when the branch is opened for business.

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
2/12/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 12, 1960.

Board of Directors,
American Commercial Bank,
Charlotte, North Carolina.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Richmond, the Board of Governors of the Federal Reserve System approves, under the provisions of Section 24A of the Federal Reserve Act, an additional investment of $2,188,000 for the purpose of constructing new bank premises by American Commercial Bank, Charlotte, North Carolina. The amount approved herein is in addition to previous approval in the amount of $6,750,000, as set forth in a letter from the Board of Governors dated March 25, 1959.

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
2/12/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 15, 1960.

Dear Sir:

Reference is made to the Board's letters of January 7, 1959, and to previous correspondence cited therein regarding participation of System personnel in the training course given by the Center for Latin American Monetary Studies in Mexico City.

Nominations are now invited for possible candidates for the 1960 program, which will be held from Monday, May 2 to Friday, August 26. As previously indicated, nominees should have a sufficient command of the Spanish language to be able to participate effectively in the program of the Center and should be in a position to profit from the courses involved. As an indication of the nature of the program, a list (in English) of the courses given last year is attached. The terms and conditions for this year's appointments will be the same as in the past years, as outlined in the Board's letter of January 13, 1958.

Nominations for the 1960 course should be submitted not later than February 29th. Each one should be accompanied by a brief resume of the candidate's training and experience.

Very truly yours,

Merritt Sherman

Merritt Sherman,
Secretary.

Enclosure.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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