FR 609
Rev. 10/59

Minutes for February 24, 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 Wednesday, February 24, 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
Miss Carmichael, Assistant Secretary
Mr. Thomas, Adviser to the Board
Mr. Young, Adviser to the Board
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Noyes, Director, Division of Research and Statistics
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Hexter, Assistant General Counsel
Mr. Chase, Assistant General Counsel
Mr. Conkling, Assistant Director, Division of Bank Operations
Mr. Daniels, Assistant Director, Division of Bank Operations
Mr. Nelson, Assistant Director, Division of Examinations
Miss Hart, Assistant Counsel, Legal Division
Mr. Farrell, Assistant Counsel, Legal Division

Discount rates. The establishment without change by the Federal Reserve Bank of Atlanta on February 22, 1960, and the Federal Reserve Bank of Boston on February 23, 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 Cleveland Trust Company, Cleveland, Ohio, approving the establishment of a branch in the City of Parma.	1
Letter to The Provident Bank, Cincinnati, Ohio, approving the establishment of a branch at Fifth and Broadway.	2
Letter to the First State Bank of Porter, Porter, Indiana, approving the establishment of a branch in the town of Pines.	3
Letter to The Provident Bank, Cincinnati, Ohio, approving an investment in bank premises.	4
Letter to the Merchants State Bank, Rhinelander, Wisconsin, waiving the requirement of six months' notice of withdrawal from membership in the Federal Reserve System.	5
Letter to the Federal Reserve Bank of Minneapolis, interposing no objection to the proposal of the First State Bank of Meriden, Meriden, Minnesota, to change its name to Oakdale State Bank of Owatonna and its location to Owatonna, Minnesota.	6
Letter to the Federal Reserve Bank of San Francisco concurring in the view that the proposed relocation by the California Bank, Los Angeles, California, of its Beverly Hills Branch would not require Board approval.	7

Letter to Reserve Banks requesting figures on 1959 debits and deposits (Item No. 8). On February 23 there was distributed a draft

of letter to the Presidents of all Federal Reserve Banks requesting figures within 30 days on bank debits for 1959 and deposits for a thirteen-month period ending December 1959, these figures to be furnished for each bank or banking office that reported bank debits to Reserve Banks. The proposed letter indicated that these figures would be used in making further studies on deposit turnover at individual banks.

Governor Mills said that dispatch of the proposed letter would in effect mean a protracted delay in the setting of standards for the classification of cities and banks for reserve purposes under the 1959 legislation. He referred to articles in the February 23 issue of the American Banker and the February 24 New York Times which were critical of delays in determining these standards and in eliminating the central reserve city classification, stating that the Board was also open to criticism for delays in taking action on certain applications under the Bank Holding Company Act and perhaps on the proceeding against Continental Bank and Trust Company of Salt Lake City, Utah. After expressing concern that business before the Board was dragging, Governor Mills urged that these matters be brought to a prompt conclusion, especially the determination of standards for classifying cities and banks for reserve purposes. He said that if the Board were to drift off into a maze of debits and velocity data which the banks did not understand, it would not be possible to reach a conclusion promptly on this subject and that the Board would invite attacks through the Congress. In response to a

question from Chairman Martin, Governor Mills said that he would not favor sending the letter requesting debits figures and that he would set a brief time limit within which a proposal for a workable and understandable standard for classification of cities and banks for reserve purposes would be put into effect.

Mr. Farrell stated reasons why some members of the staff felt that it would be desirable to have fairly complete information on the matter of velocity before evaluating standards, rather than to base such standards on size of banks alone.

Governor Shepardson noted that, when the question of standards was discussed at a recent meeting of the Board, it had been agreed that Mr. Thomas would have a memorandum prepared setting forth various points that might be considered, together with arguments for and against these points in order that the Board might arrive promptly at a basis for determining classification standards. He had discussed this with Mr. Thomas a few days ago and understood the memorandum was in the course of preparation.

Mr. Thomas reported that progress was being made on the memorandum and he thought it would be completed in a week or two. As for the proposed letter requesting debits, information was needed as to turnover of deposits at banks in current analyses of the banking structure, as to what was going on in the economy, and in many special studies. The question of classification of banks for reserve purposes was only

one of the reasons for requesting the data, but he believed they would be useful and perhaps necessary in that study. Mr. Thomas pointed out that the 1959 legislation provided that the Board base its decisions authorizing banks to carry reduced reserves on the character of their business, stating that it would be difficult to find any data for this purpose that would be more readily available, more acceptable, and more easily analyzed than the debits. The Board could, of course, assume that size of bank was a complete measure of the character of business, but he doubted that this would satisfy the 1959 legislation. For these reasons, he felt it desirable to ask for the debits information, and he was sorry the request had not gone out some time ago.

Chairman Martin said that, regardless of the point made by Governor Mills which was a good one, he felt that the data requested in the proposed letter were needed and should be requested.

Governor Robertson said that he would second Governor Mills' point that the Board should get some action on classification standards. However, he thought the request for debits information was in line with the Board's intent to have various points of view presented in a memorandum such as Mr. Thomas was preparing. He was of the opinion that when Mr. Thomas' memorandum had been completed, the Board should then proceed to determine the general basis on which cities and banks would be classified for reserve purposes. There would be no reason to wait for the debits figures before proceeding with that discussion.

Governor Balderston said he shared the views expressed by Governors Mills and Robertson that the Board ought to proceed with the reclassification of banks, even in the absence of the debits data. However, these figures should be obtained for purposes of further study and refinement. He understood that less than 1,000 of the 6,200 member banks would be asked to supply debits. There would be no classification problem for most member banks, but it would be important in determining standards for the 150-250 borderline cases to have a good basis for their classification.

Chairman Martin indicated that it was important to secure any needed data as soon as possible and stated that he saw no reason to delay sending the proposed letter. He reiterated his earlier comment that Governor Mills' point was a good one, that the staff memorandum should be gotten before the Board at the earliest possible moment, and that the Board should proceed with its study of the problem. He expected that criticism of the Board resulting from delays in determining classification standards would multiply from day to day.

Governor Shepardson expressed some concern over the size of the memorandum, stating that it was his impression that the Board wanted a concise memorandum that would set forth possible points for consideration and indicate arguments for and against these points.

Mr. Thomas indicated the difficulty of making a concise memorandum cover these points, but he said that it would be as concise as possible and would be accompanied by supporting documents.

The letter requesting Reserve Banks to furnish 1959 debits and deposits data, in accordance with the specifications outlined in an accompanying statement, was then approved and a copy is attached to these minutes as Item No. 8.

Mr. Nelson withdrew from the meeting at this point.

Use of real estate brokers for leasing space in Federal Reserve Bank and branch buildings. Under date of January 20, 1960, there had been circulated a memorandum from the Division of Bank Operations with an attached letter from the Federal Reserve Bank of New York commenting on the Board's letter of December 7, 1959, concerning the use of real estate brokers in finding tenants for unused space in new Reserve Bank buildings or additions. The New York Bank apparently was not certain whether the Board's December 7 letter intended that the policy of not employing real estate brokers to obtain tenants should apply to existing buildings and established relationships as well as to temporarily unused space in new buildings or additions. The New York Bank expressed a preference for continuing to use a real estate broker to obtain tenants for a portion of its annex building. Attached to the Division of Bank Operations' memorandum was a draft reply to the New York Bank that would indicate the Board had no objection to the Bank's continuing the practice of using a real estate broker in leasing space, either in the head office building or in the annex building. The draft reply would also indicate that the Board had no objection to the use of a real estate broker at

the Buffalo Branch if the branch's own efforts to find a suitable tenant were unsuccessful.

Mr. Farrell noted that the New York Bank letter touched on two aspects not discussed when consideration was given to an inquiry from the Chicago Reserve Bank as to the possibility of using a real estate broker to rent office space which was expected to become available in about a year. In the December discussions concerning the Chicago Reserve Bank's inquiry, no mention was made of existing arrangements of long standing or of the possible collateral benefits to the Reserve Banks by use of brokers. Mr. Farrell said that the reply proposed by the Division of Bank Operations interposing no objection to the New York Bank's continuing arrangement with a real estate broker appeared logical but that the Board's guidance as to the proper direction was needed. If the Board should object to a continuation of the present arrangement at the New York Bank, he felt that disturbing problems might arise at the Cincinnati Branch and at the Federal Reserve Bank of Kansas City. He pointed out that the Cincinnati Branch had a building manager who operated the building, including the renting of space, and the Reliance Building of the Federal Reserve Bank of Kansas City was completely in the hands of real estate brokers who rented space and collected rents. Mr. Farrell noted that in the case of the Buffalo Branch, the New York Reserve Bank had indicated that it would plan to use a real estate broker only if the branch's own efforts to locate a tenant failed.

Governor Robertson questioned the consistency between the proposed letter to the New York Reserve Bank and the December 7, 1959, letter which was sent following the inquiry from the Chicago Bank. After Mr. Farrell had replied, in response to a question from Governor Robertson, that the New York Bank rented about 60,000 square feet in the annex building, whereas 30,000 square feet were involved in the Chicago Bank, Governor Robertson said that the Board's position should be consistent throughout the System. It should not prohibit the Chicago Bank from having a real estate broker if other Reserve Banks and branches were using such agents. With respect to a comment by Mr. Daniels that new space was involved at the Chicago Bank, whereas at New York no new space was being rented, Governor Robertson said he failed to see the difference between old and new space. He thought it would be preferable for the Board to take the position of suggesting that each Reserve Bank exert its own efforts to lease space and use real estate brokers only when these efforts failed.

Mr. Farrell commented that in the case of old space, the Board would be in the position of telling Banks to break off long-standing arrangements with real estate brokers, whereas in the case of new space the Board would be advising them not to employ brokers.

Governor Mills said that he thought the proposed letter to the New York Reserve Bank was appropriate. He understood the Board's thinking to be that, as a general rule, the Reserve Banks were to rent

their own space through their own personnel and, if there were extenuating circumstances, the Board would not be adamant in prohibiting use of an agent.

Mr. Farrell pointed out that the December 7 letter specified that each situation should be decided on its own merits and that in some instances it might be necessary as a last resort to pay real estate commissions. He observed that in the case of the New York Bank the question was not based solely on obtaining tenants but also on the general services furnished the Bank by the real estate brokers. Chairman Martin was of the opinion that the proposed letter reflected the Board's position with respect to use of real estate brokers.

Governor Balderston stated that some of the Federal Reserve Banks and branches were located in cities where office space was in excess and rentals were hard to make. He wondered whether the Board was justified in taking the position which it had with respect to the Chicago Reserve Bank inquiry. He felt the fundamental question was whether the Board would wish to leave excess office space unrented. If not, he thought it would be preferable to use customary procedures for taking care of rentals. He would not be unhappy if the Board should advise the Federal Reserve Banks to use real estate brokers if they found it advantageous to do so.

Governor Robertson noted this would be a reversal of the thinking back of the December 7 letter. As an alternative, he suggested that the

proposed letter to New York be changed to indicate clearly that the Board assumed that the Bank could not satisfactorily rent the property because of circumstances which prevailed and, consequently, the Board would have no objection to its continuing its present practice of using a real estate broker. That would be consistent with the position taken with Chicago; otherwise, Governor Robertson felt the Chicago position should be reversed.

Chairman Martin expressed some doubt as to the desirability of requiring complete uniformity at all Reserve Banks on a matter such as this. He recognized the responsibility of the directors for management of the Reserve Banks, and his judgment would be for the Board only to express a preference for renting without agents if this could be done. He suggested that the letter be revised in line with Governor Robertson's suggestion and brought back to the Board for further consideration.

Governor Szymczak suggested that, since the directors and Presidents of the Reserve Banks might have a preference for using real estate brokers, it might be desirable to discuss the subject with the Presidents' Conference.

Governor King expressed a preference that the Board not take action on the matter of real estate agents at Federal Reserve Banks, stating reasons why he believed this question might well be left to the judgment of the directors and officers of the Banks.

After some further discussion, it was understood that the letter to the New York Reserve Bank would be revised and considered at a later meeting of the Board.

Messrs. Farrell, Conkling, and Daniels then withdrew from the meeting.

Service of a member bank director as a director of an investment company (Item No. 9). There had been distributed a memorandum dated February 23, 1960, from Mr. Chase, regarding a telegram from Mr. D. W. Hoagland, a lawyer in Denver, Colorado, presenting a question whether a director of a member bank could serve at the same time as a director of a closed-end investment company that was in the process of being organized and commencing business. In a telegram Mr. Hoagland advised the Board that Centennial Fund, Inc. would be a closed-end investment company which did not anticipate issuing any new shares after it had completed the issue of the $10 million par value contemplated in the plan of organization, except shares to be issued to existing stockholders in lieu of dividends or capital gains. The shares would be redeemable but no provision was being made for reissuing shares that had been redeemed.

The Legal Division's memorandum pointed out that the Board had uniformly held that a director or officer of an open-end investment company was prohibited by section 32 of the Banking Act of 1933 from serving at the same time as a director of a member bank in view of the fact that an open-end company would be actively interested at all times

in selling shares of stock. Conversely, the Board has held that an officer or director of a closed-end investment company would not be prohibited by section 32 from serving as a member bank director since the closed-end company would not be engaged in the sale of shares of stock. The memorandum stated that the Board had never ruled on the precise question raised by Mr. Hoagland, but it was felt that the situation being considered would be the same as with an open-end company since directors and officers of Centennial Fund, Inc. would be actively interested in finding customers for the shares while it was being organized, and in that situation it would seem that section 32 would be applicable. A draft of a telegram advising Mr. Hoagland to this effect was attached to the memorandum.

Mr. Chase said that when the question of the application of section 32 to an open-end investment company first was considered, there had been a considerable difference of opinion among members of the staff. However, the Board had decided that section 32 would apply to open-end companies but not to closed-end companies. He said that section 32 was directed at the probability or likelihood (to use the words of the Supreme Court) that a bank director interested in underwriting or distributing securities might use his influence in the bank to involve it or its customers in securities which his security firm was distributing. After commenting on some of the problems of applying section 32, as well as on the terms of the agreement in the case being considered, Mr. Chase

said that at this stage dealers would be out soliciting customers to put money into the fund. Shares of stock were being offered to the public through escrow agreements by which securities now owned by subscribers would be exchanged for shares in Centennial Fund, Inc. His conclusion was that this new closed-end company was so similar during its organizational stage to an open-end company that the same ruling should apply in both instances.

Mr. Hackley said that it was difficult in principle to distinguish the organization of an investment company from that of any other company being initially organized. By the same logic being advanced in this case, it might be held that a member bank director could not be a director of any company that was being organized. However, the proposed telegram to Mr. Hoagland had been prepared on the basis that, once the stock had been sold, the member bank director would then be eligible to serve as a director of Centennial Fund, Inc.

Chairman Martin expressed the opinion that it would seem preferable for the Board to take a restrictive position in a case of this type. He could not see that there would be any material public loss from such a position, although the view had been expressed that restrictive decisions in this area were slowly but steadily starving many companies of management assistance.

After a brief discussion, approval was given to the telegram advising Mr. Hoagland that section 32 of the Banking Act of 1933 would

be applicable to the proposed service of a member bank director as a director of Centennial Fund, Inc. A copy of the telegram is attached as Item No. 9.

Miss Hart then withdrew from the meeting.

Report on S. 2849, prescribing a Federal Code of Administrative Practice (Item No. 10). Pursuant to the discussion at the Board meeting on February 23, 1960, there was distributed a revised draft of a letter to Senator Eastland of Mississippi, Chairman of the Committee on the Judiciary, on the bill S. 2849, "To prescribe a Federal Code of Administrative Practice to govern administrative proceedings of departments and agencies of the United States, and for other purposes." Mr. Hackley indicated that the revised draft incorporated changes suggested on February 23. The proposed letter stated that the specific provisions referred to in it were given merely as illustrations and that the Board was in agreement with the general objectives of the bill, although there was some question as to whether the technical requirements outlined in the bill could be uniformly applied with advantage. The letter pointed out that the Board assumed that the bill would not be applicable to certain functions of the Board but suggested that this be clarified.

After a brief discussion of the proposed letter, Governor Mills stated that he preferred the first version of the letter which was discussed on February 23, although he had no real criticism of this one. The revised draft rather impressed him as a hurried and superficial

review of a very complicated bill, whereas the first draft specifically pointed out matters of legal substance.

Mr. Hackley said that it seemed improbable that any action would be taken on the bill in the near future, that many agencies of government that were much more affected by the bill were submitting reports on its contents, and that these would be studied carefully by the committee staff after which a revised bill would no doubt be prepared. He said that the Legal Division was concerned with the particular provisions of the bill that might have a serious effect on the Board and had not intended to omit specific references from the present letter, although some further language changes seemed desirable.

Governor Balderston called attention to the sentence in the letter which indicated that the Board was in sympathy with its general objectives. He noted that after this sentence, the letter indicated points of difference which suggested that the Board was not actually in agreement with the objectives stated.

Mr. Hackley said he thought that this sentence was sufficiently inconsistent with the rest of the letter to require that it be changed.

During the discussion which followed, several additional changes were suggested and agreed upon. Unanimous approval was then given to a letter to Senator Eastland in the form of attached Item No. 10.

Mr. Chase withdrew from the meeting at this point.

Loans for arbitrage transactions (Items 11 and 12). There had been distributed a memorandum dated February 23, 1960, from the Legal Division concerning two inquiries that had been received, one from the San Francisco Reserve Bank and one from Mr. John E. Wheeler, a Los Angeles broker, as to whether a bank loan for the purpose of purchasing Studebaker-Packard convertible preferred stock as part of an arbitrage transaction was exempt from the General Rule of Regulation U by section 221.2(j). It was understood that the inquiries related to prospective loans and commitments and that no such loans or commitments had yet been entered into.

The memorandum pointed out that on February 17, 1960, the Board decided to interpose no objection to (1) similar loans already granted and (2) performance of commitments for future loans already entered into by Morgan Guaranty Trust Company. However, it was understood that the Board did not intend generally to open the way for loans for the purpose of effecting arbitrage transactions in Studebaker-Packard securities under section 221.2(j), since the preferred stock could not be exchanged for common stock before January 1961, which time did not come within the "reasonable time" concept that had been applied to arbitrage transactions under Regulation T. According to the memorandum, two alternatives were available to the Board: (1) The Board could decide that it would interpose no objection to the future granting of bank loans for arbitrage transactions in Studebaker-Packard securities under section 221.2(j),

on the ground that this would be consistent with the Board's recent action in the Morgan Guaranty situation. (2) The Board might adhere to its previous interpretation of arbitrage transactions exempted under section 221.2(j) of Regulation U, as contained in the Questions and Answers pamphlet explaining the regulation and issued to member banks on June 15, 1959. Under this second alternative, loans for the purpose of purchasing a convertible security as part of an arbitrage transaction might be effected under section 221.2(j) only if such security was convertible within a "reasonable time"; the time until conversion of the Studebaker-Packard preferred stock in the present situations was approximately 10 months which was not a "reasonable time" within the meaning of section 221.2(j); and thus the loans here contemplated could not be granted without regard to the General Rule of Regulation U. It was the opinion of the Legal Division that the second alternative was preferable and draft replies advising the San Francisco Reserve Bank and Mr. Wheeler to this effect were attached to the memorandum.

The Legal Division's memorandum noted that the present case was essentially different from the Morgan Guaranty situation. The present case did not involve outstanding commitments entered into by a bank, whereas in the Morgan Guaranty situation the Board's decision was influenced by the fact that the bank had already entered into loan commitments before receiving notice of only possible violation. Also, the Studebaker-Packard preferred stock held as collateral in the

Morgan Guaranty case constituted about 20 per cent of the entire issue and, accordingly, there was a danger of possible market disruption in Studebaker-Packard securities if corrective measures were required by the Board.

Mr. Hackley stated that the two inquiries being considered were concerned with whether banks could in the future grant loans for the purpose of purchasing stocks as a part of an arbitrage transaction. As had been pointed out in the memorandum, the Morgan Guaranty case was concerned with loan commitments which had already been entered into.

Chairman Martin inquired whether the two inquiries had been discussed with the San Francisco Reserve Bank, and Mr. Hackley replied in the affirmative.

Governor Shepardson asked whether it was clear that no commitments had yet been made, and Mr. Hackley and Mr. Farrell replied that this was the assumption, based on incoming communications and a telephone conversation with Mr. Merritt at the San Francisco Reserve Bank. Governor Robertson was of the opinion that the Board could not take any other position than that suggested by the Legal Division.

Governor Mills questioned whether the second paragraph of the telegram to the San Francisco Bank might be omitted. This paragraph furnished information concerning the position the Board had taken in the Morgan Guaranty situation.

Mr. Farrell said that the Legal Division felt that it was only fair for the San Francisco Bank to be informed of the ruling on the other case, and Mr. Hexter added that in his opinion the second paragraph of the telegram should be retained so that the San Francisco Bank would be adequately informed concerning the Morgan Guaranty loans and also because the information would be helpful if there were any actual existing agreements involving the Studebaker-Packard stock on the West Coast. Mr. Hackley also said that he felt it would be preferable for the San Francisco Bank to have information concerning the Board's ruling on the Morgan Guaranty case.

It being the consensus that it would be preferable to include the second paragraph of the draft telegram in responding to the San Francisco Reserve Bank, approval was then given to a telegram to that Bank and to the letter to Mr. John E. Wheeler, advising them that the arbitrage transactions involving the purchase of Studebaker-Packard preferred stock and the sale of Studebaker-Packard when-issued common stock could not be effected under either Regulations T or U, except in accordance with the general margin requirements thereof. Copies of the telegram and letter are attached as Items 11 and 12.

All of the members of the staff then withdrew with the exception of Messrs. Sherman, Thomas, Young, and Hackley, and Messrs. Koch, Adviser, and Keir, Chief, Government Finance Section, Division of Research and Statistics, entered the room for the purpose of an informal discussion of certain matters preparatory to the meeting of the Federal Open Market Committee to be held on March 1, 1960.

Following this discussion, the meeting adjourned.

Secretary's Notes: Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson today approved on behalf of the Board the appointments of the following persons:

Margaret C. Goodall as Stenographer, Division of Examinations, with basic annual salary at the rate of $3,850, effective February 29, 1960.

Myrtle I. Ellicott as Clerk-Typist, Division of Administrative Services, with basic annual salary at the rate of $3,590, effective February 21, 1960.

On February 24, 1960, Governor Shepardson approved on behalf of the Board a letter to the Federal Reserve Bank of Boston confirming arrangements for Richard Ward, a member of the staff of that Bank, to work in the Economic Editing unit of the Board's Division of Research and Statistics for a two-week period beginning March 7. The letter stated that Mr. Ward would continue on the payroll of the Boston Reserve Bank during this period and would be allowed travel expenses by that Bank in accordance with its travel regulations. The letter also indicated that the Board was prepared to reimburse the Boston Bank for both his salary and travel expenses.

Secretary

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

Item No. 1
2/24/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 24, 1960.

Board of Directors,
The Cleveland Trust Company,
Cleveland, Ohio.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Cleveland, the Board of Governors of the Federal Reserve System approves the establishment of a branch in the Parmatown Shopping Center at the southwest corner of Ridge Road and Ridgewood Drive in the City of Parma, Ohio, by The Cleveland Trust Company. This approval is given provided the branch is established within nine months from the date of this letter and 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 GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 2
2/24/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 24, 1960.

Board of Directors,
The Provident Bank,
Cincinnati, Ohio.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Cleveland, the Board of Governors of the Federal Reserve System approves the establishment of an in-town branch at the southeast corner of Fifth and Broadway Streets, by The Provident Bank. This approval is given provided the branch is established within sixteen months from the date of this letter and 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 GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 3
2/24/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 24, 1960.

Board of Directors,
First State Bank of Porter,
Porter, Indiana.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors of the Federal Reserve System approves the establishment of a branch at the intersection of U.S. Highway 12, and Poplar Street in the town of Pines, Indiana, by First State Bank of Porter, provided that prior to establishment of the branch the bank's capital is increased to $100,000 to conform with Federal statutory requirements, and the branch is established within six months from the date of this letter.

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
2/24/60

February 24, 1960.

Board of Directors,
The Provident Bank,
Cincinnati, Ohio.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Cleveland, 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 $410,000 in bank premises by The Provident Bank, Cincinnati, Ohio, for the purpose of renovating branch office building at Fourth and Main Streets, Cincinnati, Ohio.

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. 5
2/24/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 24, 1960.

Board of Directors,
Merchants State Bank,
Rhinelander, Wisconsin.

Gentlemen:

The Federal Reserve Bank of Minneapolis has forwarded to the Board of Governors your letter, together with the accompanying resolution dated February 3, 1960, 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 Minneapolis 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, your institution may accomplish termination of its membership at any time within eight months of the date the notice of intention to withdraw from membership was given.

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

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. 6
2/24/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 24, 1960.

Mr. H. G. McConnell, Vice President,
Federal Reserve Bank of Minneapolis,
Minneapolis 2, Minnesota.

Dear Mr. McConnell:

Reference is made to your letter of February 4, 1960, with regard to the proposal of First State Bank of Meriden, Minnesota, to change its name to Oakdale State Bank of Owatonna, Minnesota, and change its location to Owatonna, Minnesota. It is understood the Commissioner of Banks of Minnesota has approved the changes in name and location provided the bank increases common capital to $75,000, surplus to $35,000, and undivided profits to $15,000.

It appears that the change in location and name will have no material effect upon the general character of the bank's business; and therefore, the Board will interpose no objection to the proposal.

It is assumed that Counsel for the Reserve Bank will review and satisfy himself as to the legality of all steps taken in changing the name and location of the bank.

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. 7
2/24/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 24, 1960.

Mr. E. R. Millard, Vice President,
Federal Reserve Bank of San Francisco,
San Francisco 20, California.

Dear Mr. Millard:

Reference is made to your letter of February 4, 1960, with respect to the proposed relocation by California Bank, Los Angeles, California, of its Beverly Hills Branch from 9441 Wilshire Boulevard to the northwest corner of Wilshire Boulevard and Camden Drive in the City of Beverly Hills, California. It is understood that the proposed change in location involves a distance of about two blocks.

It would appear that the proposed change would constitute a mere relocation of an existing branch in the immediate neighborhood without affecting the nature of its business or the customers served. Under the circumstances, formal approval of the Board of Governors is unnecessary.

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. 8
2/24/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 24, 1960

Dear Sir:

For use in making further studies of deposit turnover at individual banks, the Federal Reserve Banks are requested to forward certain figures on 1959 debits and deposits, as outlined in the enclosed memorandum. Similar information was obtained for the period 1954-1957 in response to the Board's letter of August 20, 1957; and tabulations based on some of these data were forwarded to the Reserve Banks' research departments on April 22, 1958.

If it is convenient for your Bank to send this material in the form of punch cards, this method is preferable; the memorandum sets forth the arrangement and coding of the cards if they are used. It will be appreciated if the data are forwarded to the Board's Division of Bank Operations within thirty days after the date of this letter.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

TELEGRAM

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 9
2/24/60

February 24, 1960.

D. W. Hoagland,
818 17th Street,
Denver, Colorado.

Your wire, Board is of opinion that section 32 would be applicable to proposed service of director of member bank as director of Centennial Fund, Inc. As you know, Board regards section 32 as applicable to relationship with open-end investment company because it is actively engaged in selling its shares. Board's published ruling that section 32 did not apply to relationship with closed-end company related to company which had completed its organization and sale of its shares. Board believes that closed-end company which is in process of organization and is actively engaged in issuing and selling its shares is in same position relative to section 32 as open-end company.

(Signed) Merritt Sherman

SHERMAN

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 10
2/24/60

OFFICE OF THE CHAIRMAN

February 24, 1960.

The Honorable James O. Eastland, Chairman,
Committee on the Judiciary,
United States Senate,
Washington 25, D. C.

Dear Mr. Chairman:

This is in response to your request for a report on the bill S. 2849, "To prescribe a Federal Code of Administrative Practice to govern administrative proceedings of departments and agencies of the United States, and for other purposes."

It is understood that the objective of the bill is to prescribe rules of practice, similar to the Federal rules of civil procedure, that would apply uniformly in all administrative proceedings. The Board of Governors is in sympathy with the desirability of insuring fair and expeditious administrative proceedings. However, the Board questions whether the numerous detailed and technical requirements with respect to pleadings, parties, depositions, hearings, and similar matters that may be appropriate in judicial proceedings are in all cases suitable or desirable in administrative proceedings. In some instances, such requirements may serve only to prolong administrative proceedings and perhaps impair the effective performance of an agency's functions, without any compensating advantages. In any event, the Board believes that such a comprehensive set of rules should not be made uniformly applicable to agencies of greatly different characteristics without the most careful study of the manner in which it might affect the operations of each agency concerned.

As you know, the principal functions of the Board of Governors are in the fields of monetary and credit policy and bank supervision. With respect to the Board's monetary and credit functions, such as prescribing reserve requirements of member banks and fixing margin requirements for securities transactions, it seems clear that the procedural requirements prescribed by this bill would not be applicable to the exercise of these functions.

As to the Board's bank supervisory functions, it is assumed that such functions likewise are not subject to the requirements of the bill, although this is not entirely clear. These supervisory

functions are generally of a licensing nature. They include, among others, such matters as approval by the Board of applications for membership in the Federal Reserve System, approval of the establishment of branches by State member banks, and passing upon applications by bank holding companies under the Bank Holding Company Act of 1956. Applicability of the procedural requirements of the bill to licensing functions of this kind might, in the Board's opinion, seriously impede the efficient discharge of the Board's statutory functions.

While section 1001 of the bill states that the Code shall govern practice in every "proceeding for relief", the term "relief" is not defined. The Board recommends that it be made clear that the requirements of the bill are not applicable to licensing or adjudication proceedings that are not required by statute to be determined on the record after a hearing.

Provisions of the bill regarding depositions and discovery might unduly interfere with the work of the various Government agencies unless the bill is clarified so as to permit these processes to be directed against members of an agency's staff rather than the head of the agency concerned except where the agency head is the sole source of the information sought.

Section 606 of the bill authorizes each agency to issue subpoenas in connection with proceedings subject to the provisions of the Code. The Board recognizes the desirability of the subpoena power with respect to certain types of proceedings. However, even if, as heretofore suggested, the bill should be clarified to make its provisions, including the subpoena authority, inapplicable to licensing proceedings, the Board would wish to give further study to the question whether, in view of the nature of the Board's functions, authority for the use of subpoenas would be desirable in connection with other types of proceedings conducted by the Board.

Section 1001(b) of the bill provides that all hearings shall be open to the public. Although the Board seldom has occasion to hold formal hearings, any hearings conducted by the Board normally involve banks. The confidentiality of bank examination reports has traditionally been guarded with the utmost care; and much of the evidence that would be produced at a hearing held by the Board would be of a confidential nature, as being related to the affairs of individuals and corporations. The Board believes that public disclosure of such information would not always be consistent with the public interest.

The above illustrations indicate certain respects in which the requirements of the bill might have an adverse impact upon the operations of the Board of Governors. The Board hopes, therefore, the bill will be revised and clarified in the light of further study of its provisions.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

T E L E G R A M
LEASED WIRE SERVICE

Item No. 11
2/24/60

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

February 24, 1960.

Merritt - San Francisco

Reurtel of February 5, 1960, loans to purchase Studebaker-Packard convertible preferred stock against sale of Studebaker-Packard when-issued common as part of arbitrage transaction may not be effected outside the provisions of the general margin account under either section 221.2(j) of Regulation U or section 220.4(d)(2) of Regulation T. The time until conversion of preferred stock, presently approximately 10 months, is not a "reasonable time" within the meaning of these sections.

Same question was recently presented to Board concerning outstanding loans and agreements of an eastern member bank, which had been entered into without regard to margin requirements of regulation, in reliance upon section 221.2(j). In that case Board decided to interpose no objection and stated that it did not intend to take adverse action with respect to the outstanding loans or future loans which might be made pursuant to the outstanding agreements, because it appeared that such loans and agreements had been entered into in good faith and without intent to violate the regulation; and because regulation as presently drawn did not make it entirely clear that such loans would violate regulation. However, no such outstanding loans or agreements exist in the situation described in your telegram.

(Signed) Merritt Sherman

SHERMAN

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

Item No. 12
2/24/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 24, 1960.

Mr. John E. Wheeler,
621 South Spring Street,
Los Angeles 14, California.

Dear Mr. Wheeler:

This is in reply to your letter of February 5, 1960, concerning arbitrage transactions in the securities of the Studebaker-Packard Corporation in which the convertible preferred stock of the Corporation is purchased and the when-issued common stock is sold.

Bona fide arbitrage transactions may be effected outside the General Account under section 220.4(d)(2) of Regulation T; and in the case of bank loans may be effected outside the General Rule of Regulation U under section 221.2(j). However, under section 220.4(d)(2) of Regulation T, such exemption from the general margin account is available only in the case of "a purchase of a security which is, without restriction other than the payment of money, exchangeable or convertible within a reasonable time into a second security together with an offsetting sale of such second security, for the purpose of taking advantage of a disparity in the prices of the two securities." (Emphasis added.) Although this restriction is not explicitly stated in section 221.2(j) of Regulation U with respect to bank loans, it nevertheless has been interpreted to apply in a like manner thereto.

Presently, the period of time until Studebaker-Packard preferred stock becomes convertible is approximately 10 months. In the Board's opinion, this period is not a "reasonable time" for the purposes of Regulations T and U.

For this reason, arbitrage transactions involving the purchase of Studebaker-Packard preferred stock and the sale of Studebaker-Packard when-issued common stock may not be effected under either Regulation T or U except in accordance with the general margin requirements thereof.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.