

Minutes for May 6, 1960

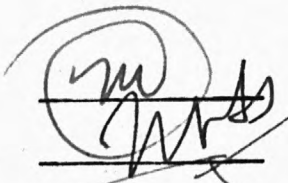
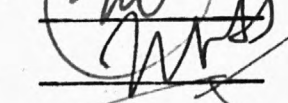
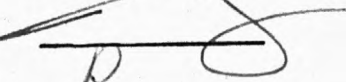
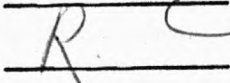
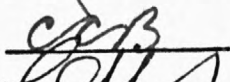

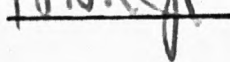
To: Members of the Board

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 Friday, May 6, 1960. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Balderston, Vice Chairman
Mr. Szymczak
Mr. Robertson
Mr. Shepardson
Mr. King

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. Hexter, Assistant General Counsel
Mr. O'Connell, Assistant General Counsel
Mr. Koch, Adviser, Division of Research and
Statistics
Mr. Kiley, Assistant Director, Division of
Bank Operations
Mr. Hostrup, Assistant Director, Division of
Examinations
Mr. Nelson, Assistant Director, Division of
Examinations
Mr. J. C. Smith, Assistant Director, Division of
Examinations
Mr. Ramsay Wood, Senior Economist, Capital Markets
Section, Division of Research and Statistics
Mr. Massey, Chief, Reserve Bank Operations Section,
Division of Bank Operations

Discount rates. The establishment without change by the Federal Reserve Banks of New York, Philadelphia, and San Francisco on May 5, 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

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of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:

Item No.

Letter to the Johnson County Bank, Tecumseh, Nebraska, granting its request for permission to exercise fiduciary powers.

1

Letter to the Seattle Trust and Savings Bank, Seattle, Washington, approving an investment in bank premises.

2

Letter to Northwest Bancorporation, Minneapolis, Minnesota, granting an extension of time pursuant to section 4(a) of the Bank Holding Company Act of 1956 within which it may retain ownership or control of the voting shares of Northwestern Mortgage Company, Minneapolis, Minnesota; The Shawmut Company, Duluth, Minnesota; and DeWitt Seitz Company, Duluth, Minnesota.

3

Letter to The Farmers & Mechanics Trust Company, Childress, Texas, granting an extension of time pursuant to section 4(a) of the Bank Holding Company Act of 1956 within which it must comply with the provisions of section 4(a)(2) of the Act.

4

Letter to Montana Shares, Incorporated, Havre, Montana, granting an extension of time within which it must comply with section 4(a)(2) of the Bank Holding Company Act of 1956.

5

Letter to attorney for Brenton Companies, Des Moines, Iowa, granting an extension of time within which it must comply with section 4(a)(2) of the Bank Holding Company Act of 1956.

6

Messrs. O'Connell, Hostrup, and Nelson then withdrew from the meeting.

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Report on S. 1955 (Item No. 7). There had been distributed a memorandum dated April 21, 1960, from Mr. Shay indicating that under date of May 18, 1959, the Senate Committee on Banking and Currency requested a report on S. 1955, a bill to amend the public facility loan program of the Community Facilities Administration of the Housing and Home Finance Agency, and for other purposes. Subsequently, the request was filed without reply in view of the receipt of informal advice that the Committee had no plans at that time for consideration of the bill. On April 21, 1960, Mr. Shay was advised by a member of the staff of the Committee's Subcommittee on Housing that the Subcommittee planned to start active consideration of the bill, along with other bills, beginning May 9, 1960, and that a report on the bill should be submitted not later than that date. A draft letter to the Senate Committee on Banking and Currency was attached to the memorandum. After a brief discussion, during which several changes in wording were suggested, the letter to the Senate Committee on Banking and Currency was approved. It is attached as Item No. 7.

Messrs. Hexter and Wood withdrew from the meeting at this point.

1959 budget experience of the Federal Reserve Banks. Under date of April 25, 1960, the Division of Bank Operations distributed to the Board an analysis of the budget experience of the Federal Reserve Banks and branches for 1959. This was prepared on the basis of reports received from the individual Banks. The principal purpose of the report,

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which was furnished under a procedure established in 1953, was to draw attention to and explain significant differences between the budget provisions and actual expenses in the various object and functional categories. In commenting on the report, Mr. Farrell noted that all of the Reserve Banks except Boston had for the second straight year overbudgeted total operating expenses, the principal area being in the field of salaries.

Mr. Farrell stated that it had not been the practice of the Board to send the Federal Reserve Banks copies of the budget experience report. However, in view of the trend among the Reserve Banks in the direction of overbudgeting the amount provided for salaries, he suggested it might be desirable to send a copy to each Reserve Bank calling attention to what has been happening and urging the Banks to make their budgets as realistic as possible.

Governor Robertson was of the opinion that the Reserve Bank Presidents would welcome the opportunity to see the report, and Chairman Martin indicated that he favored sending the report to them. Governor Balderston also expressed his approval of furnishing the report to the Banks and referred to the tendency of those submitting budgets to overestimate their requirements in order to be prepared for unforeseen situations that might arise.

After a brief discussion, it was the consensus that it would be desirable to send a copy of the budget experience report to the Presidents of all Reserve Banks.

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Governor Shepardson then referred to comments at the Board meeting on August 31, 1959, with regard to the procedure followed in connection with the 1959 and 1960 budgets of having preliminary discussions of each Reserve Bank's budget with the President of that Bank by a budget committee consisting of three Board members. At the August 31 meeting, it was understood that the budget committee procedure would be reviewed after consideration of the 1960 budgets had been completed. Since the time for preliminary consideration of 1961 budgets was approaching, Governor Shepardson suggested that the budget procedure be considered within the next few weeks. It was his opinion that the method of handling the review of Reserve Bank budgets followed during the last two years had been constructive, and he was disposed to feel that it should be continued.

Governor Balderston suggested that the Board might wish to send the budget experience report to the President of each Reserve Bank with a letter commending the Reserve Banks for the economies they had effected, as measured by the budget experience report, and expressing the hope that cushions for unforeseen expenses would not be provided in next year's budgets. His concept of a budget, he said, was that it should be a target representing the best possible advance planning.

Governor Robertson noted that the following three suggestions had been made during the discussion of this subject: (1) continue the present procedure of having Reserve Bank budgets reviewed by a budget

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committee of the Board; (2) send the budget experience report to the Reserve Banks; and (3) include a transmittal letter setting forth suggestions with respect to the 1961 budgets. He said that he concurred in all three suggestions, and there was no indication of a different view.

The discussion then turned to the membership of the Board's budget committee. It was noted that the committee responsible for review of the 1960 budgets was composed of Governors Balderston, Mills, and King, and that at the August 31, 1959, meeting of the Board, Governor Mills had expressed some doubt as to the desirability of continuing the procedure of having a budget committee review Reserve Bank budgets prior to their consideration by the Board as a whole.

Chairman Martin expressed the opinion that the budget committee system should be continued since, as a practical matter, it was not possible for the Board as a whole to devote the time required for the preliminary reviews of the individual Reserve Bank budgets, particularly during August and early September when such reviews must take place if they were to be undertaken at all. At the same time, he agreed that the preliminary reviews had been helpful and should be continued.

Governor Szymczak also favored continuation of the budget committee arrangement, having in mind that the committee should study the Reserve Bank budgets on an informal basis even though the budgets would subsequently come before the full Board for consideration.

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Governor Balderston said that he had served on the budget committee for two years and that it might be desirable for him to withdraw from it. He indicated that Governor Mills had expressed views on the functions of the budget committee and the significance of a budget authorization. In the circumstances, Governor Balderston suggested that the sending of a letter to the Reserve Banks relating to budget procedures be deferred until Governor Mills returned and had an opportunity to express his opinion.

After several further comments, it was understood that the budget committee procedure for handling preliminary discussions with the Reserve Banks would be considered at a meeting during the week beginning May 23 when Governor Mills was present and that a draft of letter that would transmit to the Reserve Bank Presidents the 1959 budget experience report would be prepared for consideration by the Board at that time.

Mr. Hexter reentered the room during the foregoing discussion, and at its conclusion Messrs. Koch, Kiley, and Massey withdrew from the meeting.

Authority of Federal Reserve Banks to purchase United States obligations directly from the Treasury. At the May 5, 1960, meeting, Chairman Martin reported that the Treasury Department planned to request Congress to extend for a two-year period the authority of Federal Reserve Banks to purchase United States obligations directly from the Treasury.

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Pursuant to discussion at the May 5 meeting, Mr. Hexter had been asked to review the list of criteria for the exercise of the direct purchase authority which had been prepared by the Treasury Department for inclusion in its request for extension of this authority.

Mr. Hexter reported that he had talked further with Mr. Mayo, Assistant to the Secretary of the Treasury, who had advised him that the word "criteria" in the draft letter prepared by the Treasury should be changed to "considerations." Mr. Hexter noted that several other changes had been made in the proposed letter.

It was then agreed that the Board would have no suggestions for change in the letter that the Treasury Department planned to send to the President of the Senate and the Speaker of the House of Representatives regarding the extension of the authority of Federal Reserve Banks to purchase United States obligations directly from the Treasury.

Mr. Molony, Assistant to the Board, entered during the foregoing discussion, and at its conclusion Mr. Hexter withdrew.

Service as a director of a small business investment corporation.

Chairman Martin stated that he had received a number of inquiries from local member banks as to whether section 32 of the Banking Act of 1933 was applicable to a director of a member bank serving as a director of a small business investment corporation.

Mr. Hackley observed that the inquiry probably arose as a result of a Board ruling published in the April 1960 Federal Reserve Bulletin

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to the effect that section 32 was applicable to a director of a member bank serving as a director of a closed-end investment company which was in process of organization and was actively engaged in issuing and selling shares of stock. The applicability of section 32 to member bank directors serving as directors of small business investment corporations had been raised informally with members of the Legal Division by representatives of the Small Business Administration, and Mr. Hackley noted that a letter from that Administration would probably be received today requesting the Board's opinion in this matter.

There was a general discussion of the question raised and also of the procedure by which it could be handled. Mr. Hackley stated that the Board could dispose of the matter by issuing a ruling or by amending Regulation R, Relationships with Dealers in Securities under Section 32 of the Banking Act of 1933. He noted that if the Board did not take a position in the matter, an amendment might be introduced to the pending bill (S. 2611) to amend the Small Business Investment Act of 1958 and for other purposes. He felt that it would be desirable to avoid an amendment to the statute on this point since, under the present law, the Board had authority to exempt small business investment corporation directors from the provisions of section 32 of the Banking Act of 1933. He also pointed out that it had been the intent of Congress in enacting the Small Business Investment Act of 1958 that banks would take an active part in the formation of small business investment corporations

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and that exemption of bank officers and directors from the section 32 provisions insofar as small business investment corporations were concerned would be a logical result.

It was understood that the Board would consider again at an early date the question whether section 32 of the Banking Act of 1933 would be applicable to an officer, director, or employee of a member bank serving as a director of a small business investment corporation.

During the foregoing discussion Mr. Chase, Assistant General Counsel, and Miss Hart, Assistant Counsel, entered the room. At its conclusion they withdrew along with Miss Carmichael.

Report of examination of Federal Reserve Bank of St. Louis. Before this meeting there had been circulated to the Board the report of examination of the Federal Reserve Bank of St. Louis as of January 25, 1960. At Chairman Martin's request, Mr. Smith commented on the examination report, including in his remarks the statement that nothing in the report appeared to call for action by the Board at this time. There followed a discussion of the report, particularly of factors that might affect the administration of the discount operations at that Bank and its branches. At the conclusion of the discussion, Mr. Smith withdrew from the meeting.

Meeting with representatives of Firstamerica Corporation and Department of Justice. Mr. Hackley stated that Mr. Carothers, an attorney with Covington and Burling representing Firstamerica Corporation, had asked to come over to discuss with him the anticipated settlement of the

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antitrust litigation between Firstamerica Corporation and the Department of Justice, last discussed at the meeting of the Board on April 18, 1960. Mr. Carothers had indicated that representatives of the Department of Justice and Firstamerica Corporation hoped to have a meeting next week with Board representatives in connection with the proposed consent decree. Mr. Hackley went on to say that when this matter was discussed at the meeting on February 19, 1960, he had commented that, if a meeting were requested by the Department of Justice and Firstamerica Corporation with representatives of the Board to discuss the proposed settlement, it might be preferable for members of the Legal Division not to be present at the meeting since the discussion presumably would relate primarily to bank supervisory matters and to the soundness of the proposed new bank that might be set up to acquire branches from the existing California Bank and First Western Bank and Trust Company. His reason for mentioning the question at this time was to ascertain whether the Board felt that it would be undesirable for representatives from the Legal Division to attend the meeting that Mr. Carothers had indicated would be arranged for next week. It was assumed that the purpose of this meeting was not to get any legal advice but rather to consider the banking soundness and financial condition of the proposed bank. While the Legal Division had no objection to attending such a meeting, Mr. Hackley stated that there might be a question of propriety in having the Legal Division present.

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Mr. Solomon stated that unless there were objection on the part of the Board to having the Legal Division participate in the proposed meeting, his view would be that it would be helpful to have such representatives present even though the purpose of the meeting related to bank supervisory matters.

In response to a question from Governor Robertson, Mr. Hackley stated that Mr. Carothers had indicated that it would be agreeable both to the Department of Justice and to Firstamerica Corporation representatives if representatives from both the Legal Division and the Examinations Division of the Board were present.

During the ensuing discussion, Governor Robertson stated that he could see no harm in having a representative of the Legal Division present although the primary responsibility for the financial soundness of the proposed bank to be spun off from Firstamerica Corporation was in the Examinations Division. He added that he felt it would be unfortunate if a proposal were to reach a point where the Department of Justice and Firstamerica Corporation were ready to enter into a consent decree and it then was found that the Board could not appropriately approve the arrangement. His preference would be that the Board not be in a position of having to approve or disapprove any such banking arrangement.

Mr. Solomon stated that it appeared that at some stage certain aspects of the proposed settlement would require either approval or disapproval of the Board, to which Governor Robertson responded that this might be true but

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that, for reasons which he expressed, he still would prefer that the Board not have to take a position in connection with the proposed spin off of a new bank from present assets of Firstamerica Corporation.

Chairman Martin then stated that he took it there was no objection to having a member of the Legal Division attend the proposed meeting with representatives of Firstamerica Corporation and the Department of Justice, and no objection to this statement was indicated.

The meeting then adjourned.

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

Memorandum dated April 26, 1960, from Mr. Noyes, Director, Division of Research and Statistics, recommending that Paul W. Kuznets, Economist in that Division, be granted leave without pay for the period September 14, 1960 to July 1, 1961.

Memorandum from the Division of Administrative Services dated April 29, 1960, recommending that the Chief Librarian, Division of Research and Statistics, or in her absence, the Assistant Chief Librarian, be authorized to sign purchase orders for the Research Library and the Board Members' Special Library covering books and subscriptions, subject to certain procedural requirements set forth in the memorandum, and that the signature of the Director or Assistant Director of the Division of Administrative Services no longer be required.

Memorandum from Mr. Kelleher, Director, Division of Administrative Services dated April 21, 1960, recommending that an additional temporary position with the title Operator, Tabulating Equipment, be authorized in the Automatic Data Processing and Telegraph Section of that Division for the summer of 1960.

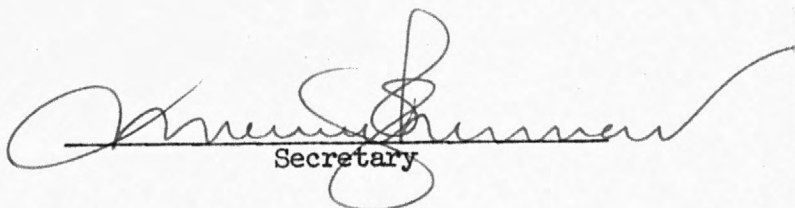
Memorandum from Mr. Kelleher, Director, Division of Administrative Services, dated April 28, 1960, recommending that a new position of Clerk-Stenographer be authorized in the Procurement Section of that Division,

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that the position of Senior Purchasing Assistant be abolished, and that the procurement supervisory responsibilities heretofore assigned to the Chief of Office Services be transferred to the Supervisor of the Procurement Section.

Letters to the Federal Reserve Bank of New York (attached Items 8 and 9) approving the appointment of Lester P. Philp, Jr., Charles W. Ruskin, and Kenneth B. Winters as assistant examiners.


Secretary

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

Item No. 1
5/6/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 6, 1960



Board of Directors,
Johnson County Bank,
Tecumseh, Nebraska.

Gentlemen:

This refers to your request for permission, under applicable provisions of your condition of membership numbered 1, to act in certain fiduciary capacities.

Following consideration of the information submitted, the Board of Governors of the Federal Reserve System grants permission to Johnson County Bank to act as executor and administrator of the estates of deceased persons as prescribed by the laws of the State of Nebraska, with the understanding that your bank will not accept fiduciary appointments of other kinds without first obtaining the permission of the Board.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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

Item No. 2
5/6/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 6, 1960

Board of Directors,
Seattle Trust and Savings Bank,
Seattle, Washington.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of San Francisco, the Board of Governors of the Federal Reserve System approves, under Section 24A of the Federal Reserve Act, an investment in bank premises by Seattle Trust and Savings Bank of not to exceed \$350,000 for the purpose of expanding, remodeling, and/or improving main office and branch premises.

It is to be understood that this amount includes (1) investments made since June 1958, (2) \$111,500 estimated additional expenditures to be made on main office premises, and (3) \$85,500 estimated expenditures for branch drive-in facilities and other branch improvements.

Attention is called to the fact that it will be necessary for the bank to obtain prior approval of the Board of Governors for any additional expenditures as long as the aggregate investment in bank premises exceeds the bank's capital stock.

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
5/6/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 6, 1960

Mr. John A. Sweeney, Vice President,
Northwest Bancorporation,
1215 Northwestern Bank Building,
Minneapolis 40, Minnesota.

Dear Mr. Sweeney:

This refers to your Corporation's application, pursuant to section 4(a) of the Bank Holding Company Act of 1956, for extension, for one year from May 9, 1960, of the period within which it may retain direct or indirect ownership or control of voting shares of:

Northwestern Mortgage Company,
Minneapolis, Minnesota,

The Shawmut Company,
Duluth, Minnesota,

DeWitt Seitz Company,
Duluth, Minnesota.

In accordance with the provisions of section 4(a) of the Act, the Board has granted the requested extension to and including May 9, 1961.

Attention is drawn to the provisions of section 4(a) of the Act, pursuant to which no further extension may be granted by the Board and which require compliance with section 4 by May 9, 1961. Your Corporation's application for extension of time until that date raised certain questions as to possible means of compliance with respect to Northwestern Mortgage Company and The Shawmut Company. These matters are under consideration and will be the subject of further communication with you in the near future.

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
5/6/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 6, 1960



Mr. J. M. Crews, President,
The Farmers & Mechanics Trust Company,
Childress, Texas.

Dear Mr. Crews:

This refers to your Company's application for extension, for one year from May 9, 1960, of the period within which it must comply with the provisions of section 4(a)(2) of the Bank Holding Company Act of 1956.

Attention is drawn to the fact that the time for accomplishing compliance with section 4(a)(2) of the Act cannot be extended beyond May 9, 1961. In this connection, it is noted that the Company has not yet decided upon the procedure it will follow to accomplish such compliance, and that some of the alternative actions being considered might require a period of time for consummation. Accordingly, the Board has granted an extension of time for six months from May 9, 1960, rather than the one-year period requested by the Company, with the thought that the shorter period should allow sufficient time for further consideration of a plan of action. An application for an additional extension, if that should prove to be necessary, would, of course, be considered in the light of the then existing circumstances.

This extension is effective with respect to the period of time specified in section 1101(e)(2)(B) of the Internal Revenue Code of 1954 (as amended by section 10(a) of the Bank Holding Company Act) as well as the period specified in section 4(a) of the Bank Holding Company Act.

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
5/6/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 6, 1960



Mr. Charles W. Rubie, President,
Montana Shares, Incorporated,
Havre, Montana.

Dear Mr. Rubie:

This refers to your corporation's application, pursuant to section 4(a) of the Bank Holding Company Act of 1956, for an extension for six months from May 9, 1960, of the period within which Montana Shares, Incorporated, Havre, Montana, must comply with the provisions of section 4(a)(2) of the Bank Holding Company Act of 1956.

In accordance with the provisions of section 4(a) of the Act, the Board has granted an extension to and including November 9, 1960.

Attention is drawn to the provisions of section 4(a) of the Bank Holding Company Act, pursuant to which your corporation must effect compliance with section 4 of the Act not later than May 9, 1961. It is understood that Montana Shares, Incorporated, plans to proceed promptly with respect to obtaining a determination as to the insurance agency interests listed in its application, dated April 22, 1960, for the extension of time granted herein.

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
5/6/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 6, 1960

Mr. Walter R. Brown,
Swift and Brown,
Attorneys at Law,
702 Hubbell Building,
Des Moines 9, Iowa.

Dear Mr. Brown:

This refers to your letter of May 2, 1960, to Vice President Diercks of the Federal Reserve Bank of Chicago, requesting on behalf of Brenton Companies, Des Moines, Iowa, an extension to December 31, 1960, of the time within which Brenton Companies must comply with the provisions of section 4(a)(2) of the Bank Holding Company Act of 1956.

In accordance with section 4(a) of the Act, the Board has granted the requested extension.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.





BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 7
5/6/60

OFFICE OF THE CHAIRMAN

May 6, 1960

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

Dear Mr. Chairman:

This is in response to your request for the Board's views on S. 1955, cited as the "Community Facilities Act of 1959."

This bill, as explained in the Senate at the time of its introduction, would make five principal changes in existing law relating to the public facility loan program of the Community Facilities Administration of the Housing and Home Finance Agency. It would (1) remove restrictions which have caused the rejection of loan applications filed by communities with a population in excess of 10,000; (2) remove language from existing law which in practice has limited loans primarily to projects for water and sewer systems; (3) increase the loan fund from \$100 million to \$1 billion and permit \$400 million to continue on a revolving basis; (4) provide an interest rate formula requiring a charge to borrowers of one-quarter per cent added to the current average yields on all outstanding marketable obligations of the United States; and (5) raise the maximum loan term from 40 to 50 years, with provision for a two-year postponement of principal and interest payments where circumstances warrant such action.

The past few decades have witnessed not only large increases in the population of the United States, but also substantial extensions of urban and suburban areas and a growth in the complexity of these areas. In this period, old problems of State, local, and metropolitan government have been intensified and new ones created. Solutions for these problems deserve serious thought.

The Board has grave doubts that the approach represented by S. 1955 is sound either for taking care of immediate problems or as a basis for longer-run solutions. It questions whether the solution for these problems is to be found in a further shift of

The Honorable A. Willis Robertson

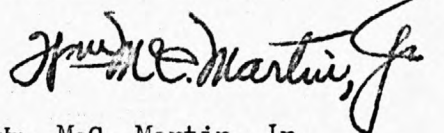
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responsibility from State and local governments to the Federal Government. The time when Federal credit could be used, practically without cost, to carry new burdens is past, as recent developments in debt management and credit management have demonstrated.

If, after careful consideration, the decision is made that the use of Federal credit is to be extended further along the lines of S. 1955, the Board suggests that the Congress turn its attention to means of defraying the costs that will clearly arise, remembering that such programs, once enacted, are more likely to expand than to contract. The most obvious means of meeting such costs is to increase Federal taxes, thereby requiring Federal taxpayers to yield the necessary economic resources to the Federal Government for re-apportionment among State and local governments. Another approach, supplementing the first, might be to require substantially faster repayment of the loans contemplated in S. 1955 so that taxpayers of the borrowing governments may help other jurisdictions toward solution of their problems.

If, as we all hope, the American economy is going to continue to yield an increasingly high output of goods and services, we should expect to be confronted by a relative scarcity of capital for some time. Should Congress decide that an increasing share of the available capital must go for public facilities of the type that would be financed under S. 1955, it must also face the need to keep other uses--private capital formation, for consumption, for example--from bidding for this capital. Otherwise, public debt management and credit management will become even more difficult than they have been in the recent past.

Sincerely yours,



Wm. McC. Martin, Jr.

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

Item No. 8
5/6/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 6, 1960



Mr. John F. Pierce, Chief Examiner,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Pierce:

In accordance with the request contained in your letter of May 2, 1960, the Board approves the re-appointment of Lester P. Philp, Jr., as an assistant examiner for the Federal Reserve Bank of New York. Please advise as to the date on which the reappointment is made effective.

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. 9
5/6/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 6, 1960

CONFIDENTIAL (FR)

Mr. Howard D. Crosse, Vice President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Crosse:

In accordance with the request contained in your letter of May 2, 1960, the Board approves the appointment of Charles W. Ruskin and Kenneth B. Winters as assistant examiners for the Federal Reserve Bank of New York. Please advise as to the dates on which the appointments are made effective.

It is noted that Mr. Ruskin is indebted to The First National City Bank of New York, New York, New York. Accordingly, it is understood that Mr. Ruskin will not participate in any examination of that bank until his indebtedness has been liquidated.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

