

Minutes for June 7, 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	<u><i>TM</i></u>
Gov. Szymczak	<u><i>MS</i></u>
Gov. Mills	<u><i>[Signature]</i></u>
Gov. Robertson	<u><i>R</i></u>
Gov. Balderston	<u><i>CCB</i></u>
Gov. Shepardson	<u><i>[Signature]</i></u>
Gov. King	<u><i>[Signature]</i></u>

Minutes of the Board of Governors of the Federal Reserve System
on Tuesday, June 7, 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. King

Mr. Sherman, Secretary
Miss Carmichael, Assistant Secretary
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of
Bank Operations
Mr. Nelson, Assistant Director, Division
of Examinations

Items circulated to the Board. The following items, which had
been circulated to the Board and copies of which are attached to these
minutes under the respective item numbers indicated, were approved
unanimously:

	<u>Item No.</u>
Letter to the Comptroller of the Currency recommending unfavorably with respect to an application to organize a national bank in Daytona Beach, Florida.	1
Letter to the Central National Bank of Rockford, Rockford, Illinois, approving its application for fiduciary powers.	2
Letter to the Security State Bank, Mount Ayr, Iowa, waiving the requirement of six months' notice of withdrawal from membership in the Federal Reserve System.	3
Letter to the Federal Deposit Insurance Corporation regarding the application of County Trust Company of Maryland, Glen Burnie, Maryland, for continuation of deposit insurance after withdrawal from membership in the Federal Reserve System.	4
Letter to the Federal Deposit Insurance Corporation regarding the application of Heights State Bank, Houston, Texas, for continuation of deposit insurance after withdrawal from membership in the Federal Reserve System.	5

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With respect to Item No. 5, Mr. Nelson reported that Mr. Pondrom, Vice President, Federal Reserve Bank of Dallas, had advised by telephone that Heights State Bank had now decided not to withdraw from membership in the Federal Reserve System. This decision resulted from a requirement for investment of \$300,000 in new capital which the Federal Deposit Insurance Corporation planned to impose in connection with the continuation of deposit insurance after withdrawal from membership in the System. Mr. Nelson thought, however, that it was appropriate to reply to the letter from the Federal Deposit Insurance Corporation regarding the application from Heights State Bank for continuation of deposit insurance, and there was concurrence in this view.

Report on S. 1571 and H.R. 7024 (Item No. 6). Pursuant to discussion at the Board meeting on June 6, there was distributed a redraft of letter to Senator McClellan, Chairman of the Senate Committee on Government Operations, reporting on S. 1571, a bill to establish a Department of Consumers in order to secure within the Federal Government effective representation of the economic interests of consumers; to coordinate the administration of consumer services by transferring to such Department certain functions of the Department of Health, Education, and Welfare, the Department of Labor, and other agencies; and for other purposes. After a brief discussion, during which two changes in wording were suggested and accepted, the letter to Senator McClellan was approved and a copy is attached as Item No. 6. It was understood that a similar report would be sent in response to a request

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of Chairman Dawson of the House Committee on Government Operations regarding an identical bill, H.R. 7024.

Telegram to Reserve Banks regarding coin shortage. There had been distributed a proposed telegram to the Presidents of all Reserve Banks asking for suggestions at the forthcoming Presidents' Conference as to what, if any, System action might be desirable to improve coin supply in the future.

Mr. Farrell described reports from several Reserve Banks as to the shortage of coin. For example, the Philadelphia Reserve Bank recently reported that that Bank had on hand less than a day's supply of pennies, nickels, and dimes. Mr. Farrell noted that this was not a new situation, adding that following a conversation several weeks earlier with Mr. Mangels, President of the Federal Reserve Bank of San Francisco, he had discussed the matter with Mr. Brett, Director of the Mint, who had indicated that nothing could be done about the problem until after the beginning of the new fiscal year.

After commenting on some of the suggestions that had been made for easing the coin shortage, Mr. Farrell expressed the view that the Presidents of the Reserve Banks would no doubt like to discuss the problem with the Board and that they might have some suggestions for System action.

Following a discussion, during which Chairman Martin commented that the Treasury Department was still somewhat concerned about the

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effect that further releases of vault cash to be counted toward reserve requirements might have on the supply of coin, unanimous approval was given to a telegram to the Presidents of all Federal Reserve Banks stating that the Board would be glad to have suggestions at the forthcoming Presidents' Conference as to what, if any, System action might be desirable to improve coin supply in the future.

Application of Hempstead Bank to establish a branch (Item No. 7).

There had been distributed a memorandum dated June 3, 1960, from the Division of Examinations regarding an application of Hempstead Bank, Hempstead, New York, to establish a branch at 72 East Old Country Road in the Incorporated Village of Mineola, Nassau County, New York. The branch would be approximately two and one-half miles north of the applicant's head office in Hempstead in a heavily populated area with numerous commercial and industrial enterprises. From a banking standpoint the importance of Mineola was not questioned. The largest commercial bank in Nassau County and the only savings bank in the county had applied for permission to relocate their main offices in Mineola, and the memorandum suggested that it would appear reasonable to permit Hempstead Bank, a relatively large and aggressive competitor of the banks already located in the Village, to compete within the same corporate limits. Attached to the memorandum was a draft letter that would approve the establishment of the branch.

In response to a comment by Governor Mills that permission to establish the branch apparently had not yet been granted by the New York

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State authorities, Mr. Nelson said that he had learned from the New York Reserve Bank this morning that it was expected the branch would be approved by the State Banking Board at its meeting today. Mr. Nelson pointed out that under the new State banking law of New York no branch may be opened in a city or village in which is already located the principal office of another bank, trust company, or national banking association. As indicated at the meeting on May 27, 1960, the Franklin National Bank of Long Island, Franklin Square, New York, had received preliminary approval from the Comptroller of the Currency of a proposal to relocate its principal office in Mineola, which proposal was to be submitted to the shareholders of Franklin National on June 9, 1960. The Hempstead Bank wished to open its proposed branch on June 8 before formal approval was given to the relocation of the Franklin National Bank head office.

Governor Balderston observed that when Mr. Clark, New York State Superintendent of Banks, visited the Board recently, he indicated that he gave considerable attention to the matter of spacing branches, and he (Governor Balderston) wondered whether the Reserve Banks had similar standards for the spacing of banking offices.

Mr. Nelson replied that the Reserve Banks have no precise formula of the type mentioned by Governor Balderston. In the case of Hempstead Bank's application, he noted that offices of Franklin National and Long Island Trust Company were located seven-tenths and six-tenths miles,

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respectively, from the site of the proposed branch. However, he said there had been a number of cases where the Board had given approval to the establishment of branches across the street from other banks. The Reserve Banks as well as the Board took into consideration the question whether there was sufficient business to support an additional bank or banking office, as well as competitive factors.

Unanimous approval was then given the letter to Hempstead Bank approving the establishment of a branch, with the understanding that the letter would not be mailed until word was received that the branch had been approved by the New York State Banking Board. Following receipt later in the day of advice to that effect, the letter was sent and a copy is attached as Item No. 7.

Letter from Republican Policy Committee (Item No. 8). There had been distributed a letter dated June 2, 1960, from Arthur E. Burgess, Secretary and Staff Director of the Republican Policy Committee of the United States Senate, requesting information regarding the accomplishments or advances made by the Board during the past seven and one-half years. The letter indicated that this information would be used by 35 Republican Senators.

After Chairman Martin outlined the kind of response he thought might be made to this inquiry, there was general discussion of the procedure that might be followed in handling a letter of this type, which requested information regarding Board actions to be used for

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partisan political purposes. During this discussion the suggestion was made that the matter might be discussed by Chairman Martin with Senator Bush or Senator Bennett, who are Republican Party members of the Senate Banking and Currency Committee, with a view to ascertaining whether the request of the Committee might be withdrawn, and that in the meantime a draft of possible reply would be prepared. There was general agreement with this proposal.

Secretary's Note: Under date of June 13, 1960, Chairman Martin sent a letter to Mr. Burgess in the form of attached Item No. 8.

Maximum rates of interest under Regulation Q. Governor Robertson expressed the opinion that, if the Board was going to take any action changing the maximum rate of interest under Regulation Q, Payment of Interest on Deposits, such action should be taken in time to be effective for the interest period beginning July 1, 1960. Chairman Martin suggested that this topic be placed on the agenda for tomorrow's meeting and there was concurrence in this suggestion.

Advance refunding of Treasury notes and bonds. Governor Robertson quoted from a Treasury Department press release of June 6, 1960, relating to an offering of 3-3/4 per cent Treasury notes maturing May 15, 1964, or 3-7/8 per cent Treasury bonds maturing May 15, 1968, in exchange for 2-1/2 per cent Treasury bonds maturing November 15, 1961, on a par for par basis. As a result of legislation approved September 22, 1959, the

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Treasury Department was for the first time offering holders of a specific issue of marketable bonds an option in advance of maturity to exchange the bonds for either a marketable note or a bond of longer maturity. Prior to the legislation this type of advance exchange was prohibited because of tax considerations. Under the new law, the tax effect of the transaction was deferred until the investor disposed of the securities accepted in exchange.

Governor Robertson said that Mr. Baird, Under Secretary for Monetary Affairs, Treasury Department, had called some time ago indicating that, in connection with advance refunding, it was thought it would be helpful if banks were authorized to carry an exchanged security at the same book value as the security previously held, thereby recognizing no gain or loss for income tax purposes. On the basis of a discussion of this subject with Mr. Hackley and Mr. Masters, Governor Robertson had advised Mr. Baird that there would appear to be no reason for not following this procedure. There had been no further discussion of this matter with the Treasury Department, he said, but the June 6 press release contained the following paragraph:

The Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation have indicated that they intend to issue rulings advising banks under their supervision that they may place the securities received in exchange on their books at an amount not greater than the amount at which the securities being tendered by them for exchange are carried on their books.

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To implement this procedure, Governor Robertson said that the Division of Examinations proposed to send a letter to the Vice Presidents in Charge of Examinations at all Federal Reserve Banks referring to the June 6 Treasury exchange offering and indicating that the Secretary of the Treasury had declared that no gain or loss should be recognized on the exchange for Federal income tax purposes. It would also state that State member banks availing themselves of the exchange opportunity could place the securities received in exchange on their books at an amount not greater than the amount at which the securities being tendered by them were carried on their books. Governor Robertson said that he was bringing this to the attention of the Board for its information and to afford an opportunity for suggestions that any of the members of the Board might have before the letter was dispatched.

No objection was indicated to the procedure outlined by Governor Robertson.

Application forms for bank mergers and consolidations. Mr. Masters reported that a letter dated June 1, 1960, had been received from the Department of Justice transmitting suggestions as to information bearing on the competitive features of bank mergers that might be included in applications submitted to bank supervisory agencies under Public Law 86-463. The content of the letter had been discussed yesterday at a meeting with representatives of the Federal Deposit Insurance Corporation and the Comptroller of the Currency, both of which agencies had received

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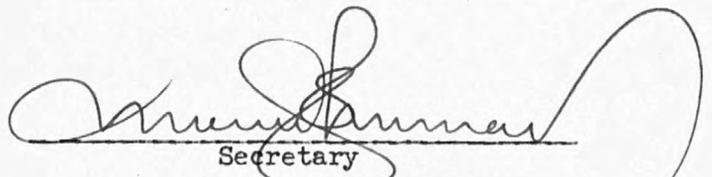
similar letters from the Department of Justice. Some of the suggestions of Justice appeared useful, some were questionable, and a number were unacceptable, Mr. Masters said, and another meeting was being scheduled, probably for later this week, with representatives of the Department of Justice and the three Federal bank supervisory agencies in order to work out some suitable application form for banks to use in connection with mergers and consolidations. In the meantime, Mr. Masters suggested that an acknowledgment be sent to Justice indicating that the suggestions of that Department were being studied, and it was understood that this procedure would be followed.

The meeting then adjourned.

Secretary's Note: Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Robertson, acting in the absence of Governor Shepardson, today approved on behalf of the Board the appointments of the following persons, effective in each case on the date of entrance upon duty:

Peggy Richman as Research Assistant in the Division of Research and Statistics, with basic annual salary at the rate of \$4,980, from about June 1 to about September 15, 1960.

Sandra Jean Rider as Clerk-Stenographer in the Division of Personnel Administration, with basic annual salary at the rate of \$3,755.


Secretary

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

Item No. 1
6/7/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 7, 1960



Comptroller of the Currency,
Treasury Department,
Washington 25, D. C.

Attention Mr. W. M. Taylor,
Deputy Comptroller of the Currency.

Dear Mr. Comptroller:

Reference is made to a letter from your office dated January 19, 1960, enclosing copies of an application to organize a national bank in the South Peninsula Section of Daytona Beach, Florida, and requesting a recommendation as to whether or not the application should be approved.

Information contained in a report of investigation of the application made by an examiner for the Federal Reserve Bank of Atlanta indicates that the proposed capital structure of the bank would be adequate and that satisfactory arrangements could be made for management. However, the prospects for profitable operations of the institution are not very favorable and there does not appear to be sufficient need for the bank at this time. Accordingly, the Board of Governors does not feel justified in recommending approval of the application.

The Board's Division of Examinations will be glad to discuss any aspects of this case with representatives of your office if you so desire.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

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

Item No. 2
6/7/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 7, 1960

Board of Directors,
Central National Bank of
Rockford,
Rockford, Illinois.

Gentlemen:

The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers and grants Central National Bank of Rockford authority to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the State of Illinois. The exercise of such rights shall be subject to the provisions of Section 11(k) of the Federal Reserve Act and Regulation F of the Board of Governors of the Federal Reserve System.

A formal certificate indicating the fiduciary powers that your bank is now authorized to exercise will be forwarded in due course.

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. 3
6/7/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 7, 1960



Board of Directors,
Security State Bank,
Mount Ayr, Iowa.

Gentlemen:

The Federal Reserve Bank of Chicago has forwarded to the Board of Governors your letter, together with the accompanying resolution dated May 18, 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 Chicago 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 Chicago 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. 4
6/7/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 7, 1960

The Honorable Jesse P. Wolcott, Chairman,
Federal Deposit Insurance Corporation,
Washington 25, D. C.

Dear Mr. Wolcott:

Reference is made to your letter of May 26, 1960, concerning the application of County Trust Company of Maryland, Glen Burnie, Maryland, for continuance of deposit insurance after withdrawal from membership in the Federal Reserve System.

No corrective programs that the Board of Governors believes should be incorporated as conditions to the continuance of deposit insurance have been urged upon or agreed to by 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. 5
6/7/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 7, 1960



The Honorable Jesse P. Wolcott, Chairman,
Federal Deposit Insurance Corporation,
Washington 25, D. C.

Dear Mr. Wolcott:

Reference is made to your letter of May 26, 1960,
concerning the application of the Heights State Bank, Houston,
Texas, for continuance of deposit insurance after withdrawal
from membership in the Federal Reserve System.

No corrective programs which the Board believes
should be incorporated as conditions to the continuance of
deposit insurance have been urged upon or agreed to by the
bank.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 6
6/7/60

OFFICE OF THE CHAIRMAN

June 7, 1960

The Honorable John L. McClellan,
Chairman,
Committee on Government Operations,
United States Senate,
Washington 25, D. C.

Dear Mr. Chairman:

This is in response to your request for a report on the bill, S. 1571, "To establish a Department of Consumers in order to secure within the Federal Government effective representation of the economic interests of consumers; to coordinate the administration of consumer services by transferring to such Department certain functions of the Department of Health, Education, and Welfare, the Department of Labor, and other agencies; and for other purposes."

While the Board is sympathetic with efforts to protect the economic interests of consumers, it questions whether the proposed separate executive department of Government would be desirable or effective for this purpose. Existing public agencies should be guided in their decisions by due consideration of consumers as well as other interests, all included under the general welfare. To the extent that any serious problems may exist in the consumer field, the Board believes that it would be preferable to consider legislation addressed directly to these specific problems rather than to the creation of a new department whose statutory responsibilities might be difficult to define.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

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

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Item No. 7
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ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 7, 1960



Board of Directors,
Hempstead Bank,
Hempstead, New York.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors of the Federal Reserve System approves the establishment of a branch by Hempstead Bank, Hempstead, New York, at 72 East Old Country Road in the Incorporated Village of Mineola, Nassau County, New York. This approval is given provided the branch is established within one month from the date of this letter and the branch is actually opened and occupied within such time as such action is permissible under Subdivision 1(b) of Section 105 of the New York State Banking Law.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 8
6/7/60

OFFICE OF THE CHAIRMAN

June 13, 1960.

Mr. Arthur E. Burgess,
Secretary and Staff Director,
Republican Policy Committee,
United States Senate,
Washington 25, D. C.

Dear Mr. Burgess:

I have discussed your nice letter of June 2 with the members of the Board and while we are always glad to be of assistance whenever we can, it seems to us unwise, both from your point of view and from ours, to attempt to summarize the activities of the Board on monetary policy during any specific period of time.

During the time that this Administration has been in power our relationships with the Federal Treasury have been very good, as indeed they were during the year and a half of the preceding Administration when, as now, I was privileged to be Chairman. Since the Board is clearly non-political in its concept, it would be a disservice to relate any achievements, other than the continued maintenance of this non-political position, to the past 7 and a half years. It would be more proper, historically speaking, to relate them to the entire period since the Treasury-Federal Reserve Accord of March 4, 1951, when the principle of flexible monetary policy was reintroduced.

I am confident that you will understand this point of view and would not wish us to participate in anything which would in any way mar the concept under which the Federal Reserve System was established and, from the beginning of its history, has been operating.

With all good wishes,

Cordially yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.