

Minutes for September 8, 1960

To: Members of the Board


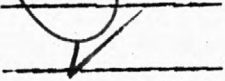
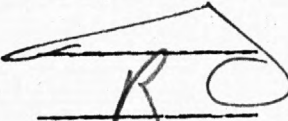
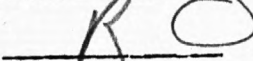
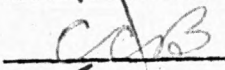
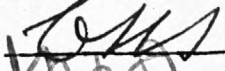
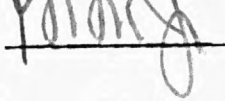
From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

It is proposed to place in the record of policy actions required to be kept under the provisions of Section 10 of the Federal Reserve Act an entry covering the item in this set of minutes commencing on the page and dealing with the subject referred to below:

Page 9 Approval of a discount rate of 3 per cent for the Federal Reserve Bank of Dallas.

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
Thursday, September 8, 1960. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Balderston, Vice Chairman
Mr. Szymczak
Mr. Mills
Mr. Shepardson
Mr. King

Mr. Sherman, Secretary
Mr. Thomas, Adviser to the Board
Mr. Young, Adviser to the Board
Mr. Shay, Legislative Counsel
Mr. Fauver, Assistant to the Board
Mr. Koch, Adviser, Division of Research
and Statistics
Mr. Landry, Assistant to the Secretary
Mr. Keir, Chief, Government Finance Section,
Division of Research and Statistics

Report on money market developments. Messrs. Thomas and Keir
presented a report on money market developments.

In the course of the discussion of this report, Governor Mills suggested the possibility that forces may have been at work during the last 30 years or so causing a concentration of large corporate holdings of funds in major money markets and the use of these funds to reduce debt whenever business activity slackened. Should these funds currently come to rest in the form of time deposits and thus prevent an increase in the money supply, the effects on near-term business activity, the outlook for which was somewhat uncertain, would be unfortunate.

At the conclusion of the discussion Messrs. Thomas, Young, Shay, Koch, and Keir withdrew. Messrs. Hackley, General Counsel, Solomon, Director, Division of Examinations, Sprecher, Assistant Director,

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Division of Personnel Administration, Young, Assistant Counsel, and Thompson, Supervisory Review Examiner, Division of Examinations, entered the room at this point.

Discount rates. The establishment without change by the Federal Reserve Bank of Boston on September 6, 1960, of the rates on discounts and advances in its existing schedule was approved unanimously, with the understanding that appropriate advice would be sent to that Bank.

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

	<u>Item No.</u>
Letter to McHenry State Bank, McHenry, Illinois, granting its request for permission to exercise fiduciary powers.	1
Letter to the Federal Reserve Bank of New York approving the action taken by its Board of Directors in increasing from \$10,000 to \$20,000 the aggregate limit on educational loans to employees that may be outstanding at any one time.	2

Prior tax certification for Farmers and Mechanics Trust Company (Item No. 3). There had been circulated a memorandum dated August 31, 1960, from the Division of Examinations recommending that a prior tax certification, pursuant to sections 1101(b) and 1103(b) of the Internal Revenue Code of 1954, be issued to Farmers and Mechanics Trust Company, Childress, Texas. Attached to the memorandum was a form of certification

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to be sent to Farmers and Mechanics Trust Company should the Board approve. The memorandum indicated that Farmers is a bank holding company by reason of its ownership of more than 25 per cent of the outstanding shares of two banks: First State Bank, Childress, Texas, and First State Bank and Trust Company, Hollis, Oklahoma. Farmers intended to distribute to its shareholders, pro-rata, 300 shares of the Hollis bank, thereby reducing its ownership of stock in that bank to 24.25 per cent. Since Farmers' entire holdings of Hollis' stock were acquired before May 15, 1955, the 300 shares proposed to be distributed were eligible for a tax-free distribution, in accordance with section 1101(c) of the Code, if Farmers and the proposed distribution met the other Code qualifications. By means of the proposed distribution, Farmers would cease to be a bank holding company. Both the Federal Reserve Bank of Dallas and the Division of Examinations recommended that the requested certification be issued in the form attached to the memorandum, and the Legal Division had expressed the opinion that the Board might properly issue the requested certification.

The issuance of a prior tax certification with respect to Farmers and Mechanics Trust Company, Childress, Texas, was approved unanimously, with the understanding that duplicate originals would be sent to the applicant and to the Commissioner of Internal Revenue. A copy of the certification is attached as Item No. 3.

Messrs. Sprecher and Thompson then withdrew.

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Qualifications for candidates to serve as Reserve Bank directors.

Pursuant to the understanding reached at the meeting on September 6, 1960, there had been distributed copies of a redraft of letter to the Federal Reserve Bank of Dallas that would reply to its letter of August 19 in which questions were raised as to (1) the time when a candidate for election as a Class A or Class B director of a Reserve Bank should resign from a political office of the type that would contravene the Board's resolution of 1915, and (2) the time when a candidate for election as Class B director should relinquish banking connections of the type prohibited by section 4 of the Federal Reserve Act for those actually serving as Class B directors. The redraft took the view that compliance with the spirit of the 1915 resolution would be accomplished if, prior to the announcement of the candidates, the individual would agree to comply with the terms of the resolution before taking the oath of office as director and that full compliance with the requirement of paragraph 14 of section 4 of the Act would be accomplished if a candidate for Class B director resigned from any position as an officer, director, or employee of a bank before he took the oath of office as a Class B director. The letter went on to convey the view, however, that Reserve Bank directors should not be identified in the public mind as being active in partisan politics and that Class B directors should not be associated in the public mind with banking.

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After several comments to the effect that the revised draft of letter carried out the views expressed by the Board at its meeting on September 6, Governor Mills raised the question whether the Board would wish to revert to the original draft which would have taken the view that agreement by a candidate to comply with the terms of the Board's 1915 resolution or, in the case of a Class B director, to comply with the provisions of section 14 of the Act before taking the oath of office as a director would not be objectionable to the Board. Governor Mills said that, while he recognized that the revised draft carried out the views expressed at the September 6 meeting, further consideration of the matter caused him to feel that the expressions in the new draft letter were vague as to what constituted partisan political activities and could be misconstrued as suggesting that persons associated with the Federal Reserve System should not hold or express partisan political views. He did not believe this would be appropriate since it might deter qualified persons from becoming candidates for election as Reserve Bank directors and, in any event, he did not believe that the Board would wish to imply that individuals should not hold or express their personal views as to political affairs. In the case of candidates for Class B directors, Governor Mills felt that the wording of the revised letter possibly could be taken to mean that a customer of a commercial bank should not stand for election since he might be associated in the public mind with banking. Inasmuch as the Federal Reserve Act was specific in prohibiting a

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Class B director from being an officer, director, or employee of any bank, Governor Mills said he would prefer to let that language speak rather than to send out a letter that could be the subject of misunderstanding and confusion. On balance, Governor Mills said he believed that inclusion of a paragraph such as had been proposed at the meeting on September 6 and incorporated in the redraft of letter would be unwise.

Governor Shepardson said that he had some of the same feeling as Governor Mills in that he believed it would not be desirable for the Board to send out a letter that could be understood as indicating that Reserve Bank directors should not exercise their rights as citizens in partisan politics. It might be difficult to phrase a statement for general distribution that would be consistent with the intent of the Board's 1915 resolution and which would not be subject to misunderstanding on the point raised by Governor Mills. As to that part of the letter regarding Class B directors, Governor Shepardson said he was in accord with the intent of the revised letter, although he thought the language might be improved.

Governor King said that he would agree with the desirability of not including a comment that could be taken to prohibit an individual from participating in any partisan political activities. On the other hand, he would not think it desirable to say that any person actively engaged in political activities would comply with the spirit of the 1915 resolution if he agreed to resign the political office only in the event

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he was elected a Reserve Bank director. Thus, while he did not favor trying to isolate System personnel from participation in political activities as individuals, he would not wish to open the way for election as Class A or Class B directors of persons actively engaged in partisan politics of the type against which the Board's 1915 resolution was directed. Governor King went on to say he felt the general impression that would be conveyed by the revised draft of letter would be one of confusion to the Federal Reserve Banks in that the first part of the letter indicated compliance would be accomplished if candidates agreed to resign the prohibited offices in the event of election, while the last part of the letter conveyed the opposite impression.

Governor Szymczak said that, while the exact language of the revised letter was not his, he still believed that the Board would be unwise to send out a letter that indicated that full compliance with the Board's 1915 resolution and with the provisions in the Federal Reserve Act regarding Class B directors would be accomplished if a candidate agreed to resign the prohibited offices in the event of his election. The Board's 1915 resolution had been adopted almost at the beginning of the System's life and its general intent had helped over the years to maintain the freedom of the System from partisan political influences. To put out an interpretation now that would seem to change the intent of this resolution would, in his opinion, be a mistake and would endanger the independence of the System from the kind of political influences

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against which the 1915 resolution was aimed. As to banking associations, Governor Szymczak noted that Class A directors must be representative of the stockholding banks while the law provides that Class B directors should be actively engaged in commerce, agriculture, or some other industrial pursuit and should not be officers, directors, or employees of any bank. He agreed that the law was clear as far as technical compliance was concerned, but he felt that any letter sent out on this subject should be so worded as to avoid giving the impression that persons actively engaged in banking might also stand for election as Class B directors.

During further discussion, Governor Balderston inquired whether the Board wished to have another draft of letter prepared, and Governor Mills said that since the Reserve Banks were quite familiar with the problems raised by the questions Mr. Irons had submitted, he would be content to send out a letter in the form of the original draft considered at the meeting on September 6 rather than to open up other difficult questions that he felt would be raised by the revised draft.

Several suggestions for possible change in wording of the original draft letter were then made, after which Governor Balderston said that he gathered the Board would approve a letter along the lines of the original draft if revisions such as those just discussed were incorporated.

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Governor Szymczak stated that he would not vote to approve such a letter since, in his judgment, it would be construed as modifying the position that the Board had taken over the years on political activities. Such a change would endanger the System's freedom from partisan political influences and would add to the problems for the System in the future. He went on to say that in the event such a letter were sent, he would wish to insert in the minutes a more detailed statement of his views opposing the letter.

Approval was then given, Governor Szymczak voting "no", to the preparation of another letter similar to the draft originally considered by the Board on September 6, modified in accordance with the suggestions made during the latter part of the discussion at this meeting.

Thereupon the meeting adjourned.

Secretary's Notes: Advice was received during the day that the directors of the Federal Reserve Bank of Dallas had established a rate of 3 per cent (rather than 3-1/2 per cent) on discounts for and advances to member banks under sections 13 and 13a of the Federal Reserve Act, had established a rate of 3-1/2 per cent on advances to member banks under section 10(b), and had established a rate of 4-1/2 per cent on advances to individuals, partnerships, and corporations other than member banks under the last paragraph of section 13, all subject to review and determination by the Board of Governors. Pursuant to the Board's outstanding authorization, the Reserve Bank was advised by the Secretary's Office of approval of such rates, effective September 9, 1960. A press statement in the usual form was issued at 4:00 p.m. EDT, all Federal Reserve Banks and branches were informed by wire of the action taken, and arrangements were made for publication of a notice in the Federal Register.

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Pursuant to the recommendation contained in a memorandum dated September 2, 1960, from the Division of Administrative Services, Governor Robertson approved on behalf of the Board on September 7, 1960, additional leave without pay for Myrtle I. Ellicott, Clerk-Typist in that Division, from September 3 through September 30, 1960, or until such earlier date as she may be able to resume her duties.

Governor Shepardson approved on behalf of the Board on September 7, 1960, the following items relating to the Board's staff:

Memorandum dated September 1, 1960, from Mr. Koch, Adviser, Division of Research and Statistics, recommending the appointment of Marian J. Kline as Draftsman Trainee in that Division, with basic annual salary at the rate of \$3,865, effective the date of entrance upon duty.

Memorandum dated September 1, 1960, from Mr. Koch, Adviser, Division of Research and Statistics, recommending acceptance of the resignation of Kenyon E. Poole, Economist in that Division, effective September 9, 1960.

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

Salary increases

Francis D. Dargo, Assistant Federal Reserve Examiner, Division of Examinations, from \$6,345 to \$6,600 per annum, effective September 18, 1960.

Pearl S. Thompson, Records Clerk, Office of the Secretary, from \$4,670 to \$4,840 per annum, effective September 18, 1960, with a change in title to Senior Records Clerk.

Maternity leave

Barbara Kay, Operator (Key Punch), Division of Administrative Services, to work an additional two weeks, through October 28, 1960, before beginning maternity leave.

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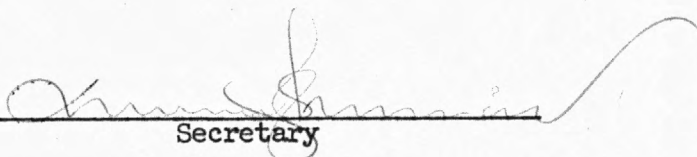
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Acceptance of resignations

Peggy Richman, Research Assistant, Division of Research and Statistics, effective September 15, 1960, rather than September 8, 1960, as previously approved.

Norman J. Gharrity, Research Assistant, Division of Research and Statistics, effective September 16, 1960.

Manros A. Nickens, Mail Clerk, Division of Administrative Services, effective September 9, 1960.



Secretary

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

Item No. 1
9/8/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 8, 1960

Board of Directors,
McHenry State Bank,
McHenry, Illinois.

Gentlemen:

This refers to your request for permission, under applicable provisions of your condition of membership numbered 1, to exercise fiduciary powers.

Following consideration of the information submitted, the Board of Governors of the Federal Reserve System grants permission to the McHenry State Bank to exercise the fiduciary powers now or hereafter authorized by its charter and the laws of the State of Illinois.

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
9/8/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 8, 1960

Mr. William H. Braun, Jr.,
Secretary,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Braun:

In view of the circumstances described in your letter of August 12, 1960, the Board of Governors approves the action taken by your Board of Directors in increasing the amount of bank funds which may be used to make educational loans to employees from \$10,000 to \$20,000 outstanding at any one time.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 3
9/8/60

C E R T I F I C A T I O N

1. The Board of Governors of the Federal Reserve System has been informed by Farmers and Mechanics Trust Company, Childress, Texas, that it proposes to distribute to its shareholders 300 shares of stock of First State Bank and Trust Co., Hollis, Oklahoma.

2. Pursuant to the provisions of section 1101(b) and section 1103(b) of the Internal Revenue Code of 1954, the Board of Governors of the Federal Reserve System hereby certifies that:

- (a) Farmers and Mechanics Trust Company satisfies the requirements of subsection (b) of section 1103 of the Internal Revenue Code of 1954 and therefore is a "qualified bank holding corporation" as defined in that subsection.
- (b) The 300 shares of stock of First State Bank and Trust Co. referred to in "1" above are all or part of the property by reason of which Farmers and Mechanics Trust Company controls (within the meaning of section 2(a) of the Bank Holding Company Act of 1956) said bank.
- (c) The proposed distribution of the shares of bank stock enumerated hereinabove is appropriate to effectuate the policies of the Bank Holding Company Act of 1956.

Executed in Washington, D. C., pursuant to direction of the Board of Governors of the Federal Reserve System.

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

(SEAL)

Date: September 8, 1960