

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

April 27, 1959

The second statutory meeting of the Federal Advisory Council for 1959 was convened in Room 932 of the Mayflower Hotel, Washington, D.C., on April 27, 1959, at 9:30 A.M.

Present:

Lloyd D. Brace	District No. 1
Adrian M. Massie, Alternate	District No. 2
Casimir A. Sienkiewicz	District No. 3
Reuben B. Hays	District No. 4
John S. Alfriend	District No. 5
Comer J. Kimball, Alternate	District No. 6
Homer J. Livingston	District No. 7
Gordon Murray	District No. 9
R. Otis McClintock	District No. 10
George G. Matkin, Alternate	District No. 11
Charles F. Frankland	District No. 12
Herbert V. Prochnow	Secretary
William J. Korsvik	Assistant Secretary

Absent:

John J. McCloy	District No. 2
John A. Sibley	District No. 6
William A. McDonnell	District No. 8
Walter B. Jacobs	District No. 11

On motion duly made and seconded, the mimeographed notes of the meeting held on February 16-17, 1959, copies of which had been sent to the members of the Council, were approved.

A complete list of the items on the agenda for the meeting, and the conclusions of the Council are to be found in the *Confidential Memorandum to the Board of Governors from the Federal Advisory Council*, which follows on pages 17, 18 and 19.

The meeting adjourned at 12:20 P.M.

HERBERT V. PROCHNOW
Secretary

WILLIAM J. KORSVIK
Assistant Secretary

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

April 27, 1959

At 2:30 P.M., the Federal Advisory Council convened in the Board Room of the Federal Reserve Building, Washington, D.C.

Present: Mr. Homer J. Livingston, President; Messrs. Lloyd D. Brace, Adrian M. Massie, Alternate for Mr. John J. McCloy; Messrs. Casimir A. Sienkiewicz, Reuben B. Hays, John S. Alfriend, Comer J. Kimball, Alternate for Mr. John A. Sibley; Messrs. Gordon Murray, R. Otis McClintock, George G. Matkin, Alternate for Mr. Walter B. Jacobs; Messrs. Charles F. Frankland, Herbert V. Prochnow, Secretary, and William J. Korsvik, Assistant Secretary.

Absent: Messrs. McCloy, Sibley, McDonnell and Jacobs.

Dr. Woodlief Thomas, Economic Adviser to the Board, spoke on "Strategic Factors in the Current Business Outlook." Copies of his remarks were distributed to each member of the Council.

HERBERT V. PROCHNOW
Secretary

WILLIAM J. KORSVIK
Assistant Secretary

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

April 27, 1959

At 8:00 P.M., the Federal Advisory Council reconvened in Room 932 of the Mayflower Hotel, Washington, D.C.

Present: Mr. Homer J. Livingston, President; Messrs. Lloyd D. Brace, Adrian M. Massie, Alternate for Mr. John J. McCloy; Messrs. Casimir A. Sienkiewicz, Reuben B. Hays, John S. Alfriend, Comer J. Kimball, Alternate for Mr. John A. Sibley; Messrs. Gordon Murray, R. Otis McClintock, George G. Matkin, Alternate for Mr. Walter B. Jacobs; Messrs. Charles F. Frankland, Herbert V. Prochnow, Secretary, and William J. Korsvik, Assistant Secretary.

Absent: Messrs. McCloy, Sibley, McDonnell and Jacobs.

The Council reviewed its conclusions regarding the items on the agenda, and sent to the office of the Secretary of the Board of Governors the *Confidential Memorandum* which follows on pages 17, 18 and 19, listing the agenda items with the conclusions reached by the Council. The *Memorandum* was delivered to the Federal Reserve Building at 10:35 P.M. on April 27, 1959.

The meeting adjourned at 10:00 P.M.

HERBERT V. PROCHNOW
Secretary

WILLIAM J. KORSVIK
Assistant Secretary

CONFIDENTIAL

MEMORANDUM TO THE BOARD OF GOVERNORS FROM THE FEDERAL
ADVISORY COUNCIL RELATIVE TO THE AGENDA FOR THE
JOINT MEETING ON APRIL 28, 1959

1. The Board would appreciate receiving the views of the Council regarding the current business situation and the prospects for business activity during approximately the next six months, along with reports from the individual members of the Council regarding current or prospective developments in their districts having special significance to the total picture for the country as a whole.

The Council believes that business currently is moving upward on an expanding front. Among the most favorable factors in the economy are the high levels of industrial production, consumer spending and construction. Assuming that we shall not experience a prolonged strike in steel or any other major industry, the prospects are for a further expansion of business activity during approximately the next six months, despite the persistence of unemployment in particular areas.

2. How strong are the current demands for credit and what is the prospective demand for bank loans during the remainder of this year?

Although the volume of loans in some of the largest banks in the money centers continues to be slightly below the corresponding period last year, total loans in all commercial banks are above a year ago. The accumulation of inventories, the anticipated improvement in business generally, a probable increase in capital spending, and an expansion in consumer borrowing, are factors indicating a more than seasonal rise in the demand for bank loans during the remainder of the year.

3. What are the views of the Council regarding appropriate credit policy between now and the next meeting of the Council?

The Council believes that appropriate credit policy between now and its next meeting would be to maintain the present degree of credit restraint. The members of the Council would be pleased to discuss this important question with the Board.

4. The Board would be glad to receive any comments or suggestions that the Council may have concerning the proposals contained in the attached memorandum regarding improvements of available statistical data through the weekly reporting member bank and call report series. (The Federal Deposit Insurance

Corporation has indicated that it is agreeable to the proposals and the Office of the Comptroller of the Currency is now studying the matter. It is hoped that the time schedule set forth in the memorandum may be met.)

The members of the Council favor the proposals relative to improvements of available statistical data through the weekly reporting member bank and call report series.

5. The Board would appreciate receiving the views of the Council regarding bank merger legislation now under consideration by the Congress.

The Council believes that the authority for the approval or disapproval of mergers and consolidations, howsoever accomplished, should rest exclusively with the appropriate bank supervisory agency. The Council therefore favors the enactment of S. 1062, as originally introduced, provided that the phrase "and in such a case the appropriate agency may also request the opinion of the Attorney General," is deleted.

6. The Board would appreciate the Council's views on the proposed amendments to Regulation U.

1. The proposed formula in respect of withdrawals and substitutions of collateral is acceptable.
2. The requirement that each loaning officer prepare and sign a memorandum of supporting facts to justify his classification of each loan and the further tests of "diligence and alertness" outlined in the memorandum are objectionable. The Council sees no objection to a requirement that the identity of the loaning officer accepting the borrower's statement of purpose be disclosed by the records of the bank.
3. The proposed broadening of the definition of "carrying" a stock to include the restoration of working capital is not favored.
4. Although the Council in general does not favor subjecting additional areas of the economy to regulation, it favors the extension of Regulation U to include, in addition to banks, all persons engaged in the business of making loans for a regulated purpose.
5. The prohibition against the use of collateral to secure a regulated loan, and in addition, a nonregulated loan, while perhaps necessary to enforce the regulation, tends to deny borrowers the proper use of their credit for appropriate purposes.
6. The language of Section 6 on mimeographed pages 7 and 8 of the Notice of Proposed Rule Making (Reg. U) is not clear to the Council, and the Council is therefore unable to comment on the Section.

7. As outlined in Paragraph 4 above, the Council favors the extension of the Regulation to wholly unsecured loans, to open-end investment companies, and to companies and persons principally or importantly engaged in the business of making loans for a regulated purpose.
8. The Council questions the wisdom of extending the Regulation to loans to purchase convertible bonds, as this might prevent many corporations from using this form of debt obligation.
9. In the opinion of the Council loans to exercise employee stock options should not be subject to Regulation U.

MINUTES OF JOINT CONFERENCE OF THE FEDERAL ADVISORY COUNCIL
AND THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

April 28, 1959

At 10:30 A.M., a joint conference of the Federal Advisory Council and the Board of Governors of the Federal Reserve System was held in the Board Room of the Federal Reserve Building, Washington, D.C.

Present: Members of the Board of Governors of the Federal Reserve System:

Chairman Wm. McC. Martin, Jr.; Vice Chairman C. Canby Balderston; Governors M. S. Szymczak, A. L. Mills, Jr., Chas. N. Shepardson and G. H. King, Jr.; also Mr. Merritt Sherman, Secretary, and Mr. Kenneth A. Kenyon, Assistant Secretary of the Board of Governors.

Present: Members of the Federal Advisory Council:

Mr. Homer J. Livingston, President; Messrs. Lloyd D. Brace, Adrian M. Massie, Alternate for Mr. John J. McCloy; Messrs. Casimir A. Sienkiewicz, Reuben B. Hays, John S. Alfriend, Comer J. Kimball, Alternate for Mr. John A. Sibley; Messrs. William A. McDonnell, Gordon Murray, R. Otis McClintock, George G. Matkin, Alternate for Mr. Walter B. Jacobs; Messrs. Charles F. Frankland, Herbert V. Prochnow, Secretary, and William J. Korsvik, Assistant Secretary.

Absent: Messrs. McCloy, Alfriend, Sibley, and Jacobs.

The President read the first item on the agenda and the conclusions of the Council as given in the *Confidential Memorandum to the Board of Governors from the Federal Advisory Council*, as printed on pages 17, 18 and 19.

President Livingston read the second item on the agenda, and the conclusions reached by the Council, as expressed in the *Confidential Memorandum*.

The third item on the agenda, and the conclusions of the Council, as expressed in the attached *Confidential Memorandum*, were then read by President Livingston. In an extended discussion which followed, probable credit demands in the months ahead were considered by members of the Board and Council.

The President of the Council then read the fourth and fifth items and the conclusions of the Council as expressed in the *Confidential Memorandum to the Board*.

President Livingston then read the sixth item on the Agenda and the conclusions of the Council. An extended discussion followed in which Mr. Solomon, Assistant General Counsel of the Legal Division, and Mr. Brill, Chief, Capital Markets Section, Division of Research and Statistics, participated.

The meeting adjourned at 12:45 P.M.

HERBERT V. PROCHNOW
Secretary

WILLIAM J. KORSVIK
Assistant Secretary

NOTE: This transcript of the Secretary's notes is not to be regarded as complete or necessarily entirely accurate. The transcript is for the sole use of the members of the Federal Advisory Council. The concise official minutes for the entire year are printed and distributed later.

H.V.P.
W.J.K.

The Secretary's notes of the meeting of the Federal Advisory Council on April 27, 1959, at 9:30 A.M., in Room 932 of the Mayflower Hotel, Washington, D. C. With the exception of Messrs. McCloy, Sibley, McDonnell and Jacobs, all members of the Council were present. Mr. Massie attended as Alternate for Mr. McCloy; Mr. Kimball for Mr. Sibley; and Mr. Matkin for Mr. Jacobs. Mr. McDonnell was absent because of his responsibilities as President of the U. S. Chamber of Commerce.

The Council approved the Secretary's notes for the meeting of February 16-17, 1959.

The Council approved the proof of a certificate to be handed to members of the Council upon termination of their tour of duty as members of the Council.

ITEM I

THE BOARD WOULD APPRECIATE RECEIVING THE VIEWS OF THE COUNCIL REGARDING THE CURRENT BUSINESS SITUATION AND THE PROSPECTS FOR BUSINESS ACTIVITY DURING APPROXIMATELY THE NEXT SIX MONTHS, ALONG WITH REPORTS FROM THE INDIVIDUAL MEMBERS OF THE COUNCIL REGARDING CURRENT OR PROSPECTIVE DEVELOPMENTS IN THEIR DISTRICTS HAVING SPECIAL SIGNIFICANCE TO THE TOTAL PICTURE FOR THE COUNTRY AS A WHOLE.

Livingston read Item I and asked the individual members of the Council to comment on current or prospective developments in their districts.

An extended discussion followed during which members of the Council presented an almost unanimously optimistic report on the current business situation. There was wide agreement that business currently is moving upward on a broad front. Among the factors most frequently mentioned were the rises in industrial production, consumer spending, and construction. The members agreed that the prospects are for further expansion of business activity during approximately the next six months despite the persistence of unemployment in particular areas. Some concern, however, was expressed about the possibility of a prolonged strike in steel or some other important industry which might have an adverse effect on business.

ITEM II

HOW STRONG ARE THE CURRENT DEMANDS FOR CREDIT AND WHAT IS THE PROSPECTIVE DEMAND FOR BANK LOANS DURING THE REMAINDER OF THIS YEAR?

Livingston read Item II. In the discussion which followed, it was pointed out that although the volume of loans in some of the largest banks in the money

centers is slightly below the corresponding period last year, total loans in all commercial banks are above a year ago. The accumulation of inventories, the anticipated improvement in business generally, a probable increase in capital spending, and an expansion in consumer borrowing were among the factors mentioned that indicate a more than seasonal rise in bank loans during the remainder of the year.

ITEM III

WHAT ARE THE VIEWS OF THE COUNCIL REGARDING APPROPRIATE CREDIT POLICY BETWEEN NOW AND THE NEXT MEETING OF THE COUNCIL?

Livingston read Item III and added that he would favor the maintenance of the present degree of credit restraint. He then invited other members of the Council to express their views.

After outlining the future cash and refunding problems of the Treasury, it was suggested that perhaps the Federal Reserve should give additional assistance to the Treasury. On the other hand, it was also acknowledged that this would tend to increase the money supply at a time when a policy of credit restraint seemed to be appropriate. It was also suggested that perhaps an increase in the discount rate and a tighter credit policy would be in order if prices began to rise or if there was evidence of speculative buying.

Because of the variance of the views presented, it was decided that the Council's reply to the Board would state that various members of the Council would discuss this important question with the Board.

ITEM IV

THE BOARD WOULD BE GLAD TO RECEIVE ANY COMMENTS OR SUGGESTIONS THAT THE COUNCIL MAY HAVE CONCERNING THE PROPOSALS CONTAINED IN THE ATTACHED MEMORANDUM REGARDING IMPROVEMENTS OF AVAILABLE STATISTICAL DATA THROUGH THE WEEKLY REPORTING MEMBER BANK AND CALL REPORT SERIES. (THE FEDERAL DEPOSIT INSURANCE CORPORATION HAS INDICATED THAT IT IS AGREEABLE TO THE PROPOSALS AND THE OFFICE OF THE COMPTROLLER OF THE CURRENCY IS NOW STUDYING THE MATTER. IT IS HOPED THAT THE TIME SCHEDULE SET FORTH IN THE MEMORANDUM MAY BE MET.)

Livingston read Item IV. It was quickly and unanimously agreed that the Council indicate that it favored the proposals relative to the improvements of available statistical data through the weekly reporting member bank and call report series.

ITEM V

THE BOARD WOULD APPRECIATE RECEIVING THE VIEWS OF THE COUNCIL REGARDING BANK MERGER LEGISLATION NOW UNDER CONSIDERATION BY THE CONGRESS.

Livingston read Item V. In the brief discussion that followed, it was agreed that the Council indicate to the Board that it preferred that the authority for approval or disapproval of mergers and consolidations, howsoever accomplished, should rest exclusively with the appropriate bank supervisory agencies. The Council, therefore, favors the enactment of S. 1062 as originally introduced pro-

vided that the phrase, "and in such a case the appropriate agency may also request the opinion of the Attorney General," be deleted.

ITEM VI

THE BOARD WOULD APPRECIATE THE COUNCIL'S VIEWS ON THE PROPOSED AMENDMENTS TO REGULATION U.

Livingston read Item VI. In the extended discussion which followed, the Council carefully reviewed the Resolution on the proposed amendments to Regulation U, adopted at the recent annual meeting of the Reserve City Bankers Association.

Because of the ambiguity of some of the language in the proposed amendments, it was decided to ask for some clarification. Section 6, in particular, was difficult and it was decided that the Council state in its reply that it was unable to comment on the Section because the language was not clear. The Council's views on the proposed amendments are set forth in the Confidential Memorandum.

The meeting adjourned at 12:20 P.M.

THE COUNCIL CONVENED IN THE BOARD ROOM OF THE FEDERAL RESERVE BUILDING, WASHINGTON, D. C., AT 2:30 P.M. ON APRIL 27, 1959. WITH THE EXCEPTION OF MESSRS. MC CLOY, SIBLEY, MC DONNELL AND JACOBS, ALL MEMBERS OF THE COUNCIL WERE PRESENT. MR. MASSIE ATTENDED AS ALTERNATE FOR MR. MC CLOY; MR. KIMBALL FOR MR. SIBLEY; AND MR. MATKIN FOR MR. JACOBS.

Dr. Woodlief Thomas, Economic Adviser to the Board, spoke on "Strategic Factors in the Current Business Outlook". Copies of Dr. Thomas's remarks were distributed to those present.

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THE COUNCIL CONVENED AT 8:00 P.M. ON APRIL 27, 1959, IN ROOM 932 OF THE MAYFLOWER HOTEL. WITH THE EXCEPTION OF MESSRS. MC CLOY, SIBLEY, MC DONNELL AND JACOBS, ALL MEMBERS OF THE COUNCIL WERE PRESENT. MR. MASSIE ATTENDED AS ALTERNATE FOR MR. MC CLOY; MR. KIMBALL FOR MR. SIBLEY; AND MR. MATKIN FOR MR. JACOBS.

The Council prepared and approved the attached Confidential Memorandum to be sent to the Board of Governors relative to the Agenda for the joint meeting of the Council and the Board on April 28, 1959. The Memorandum was delivered to the Federal Reserve Building at 10:35 P.M. on April 27.

The meeting adjourned at 10:00 P.M.

MEMORANDUM TO THE BOARD OF GOVERNORS
FROM THE
FEDERAL ADVISORY COUNCIL
RELATIVE TO THE AGENDA FOR THE JOINT MEETING
ON APRIL 28, 1959

1. The Board would appreciate receiving the views of the Council regarding the current business situation and the prospects for business activity during approximately the next six months, along with reports from the individual members of the Council regarding current or prospective developments in their districts having special significance to the total picture for the country as a whole.

The Council believes that business currently is moving upward on an expanding front. Among the most favorable factors in the economy are the high levels of industrial production, consumer spending and construction. Assuming that we shall not experience a prolonged strike in steel or any other major industry, the prospects are for a further expansion of business activity during approximately the next six months, despite the persistence of unemployment in particular areas.

2. How strong are the current demands for credit and what is the prospective demand for bank loans during the remainder of this year?

Although the volume of loans in some of the largest banks in the money centers continues to be slightly below the corresponding period last year, total loans in all commercial banks are above a year ago. The accumulation of inventories, the anticipated improvement in business generally, a probable increase in capital spending, and an expansion in consumer borrowing, are factors indicating a more than seasonal rise in the demand for bank loans during the remainder of the year.

3. What are the views of the Council regarding appropriate credit policy between now and the next meeting of the Council?

The Council believes that appropriate credit policy between now and its next meeting would be to maintain the present degree of credit restraint. The members of the Council would be pleased to discuss this important question with the Board.

4. The Board would be glad to receive any comments or suggestions that the Council may have concerning the proposals contained in the attached memorandum regarding improvements of available statistical data through the weekly reporting member bank and call report series.

(The Federal Deposit Insurance Corporation has indicated that it is agreeable to the proposals and the Office of the Comptroller of the Currency is now studying the matter. It is hoped that the time schedule set forth in the memorandum may be met.)

The members of the Council favor the proposals relative to improvements of available statistical data through the weekly reporting member bank and call report series.

5. The Board would appreciate receiving the views of the Council regarding bank merger legislation now under consideration by the Congress.

The Council believes that the authority for the approval or disapproval of mergers and consolidations, howsoever accomplished, should rest exclusively with the appropriate bank supervisory agency. The Council therefore favors the enactment of S. 1062, as originally introduced, provided that the phrase "and in such a case the appropriate agency may also request the opinion of the Attorney General," is deleted.

6. The Board would appreciate the Council's views on the proposed amendments to Regulation U.
 1. The proposed formula in respect of withdrawals and substitutions of collateral is acceptable.
 2. The requirement that each loaning officer prepare and sign a memorandum of supporting facts to justify his classification of each loan and the further tests of "diligence and alertness" outlined in the memorandum are objectionable. The Council sees no objection to a requirement that the identity of the loaning officer accepting the borrower's statement of purpose be disclosed by the records of the bank.
 3. The proposed broadening of the definition of "carrying" a stock to include the restoration of working capital is not favored.
 4. Although the Council in general does not favor subjecting additional areas of the economy to regulation, it favors the extension of Regulation U to include, in addition to banks, all persons engaged in the business of making loans for a regulated purpose.
 5. The prohibition against the use of collateral to secure a regulated loan, and in addition, a nonregulated loan, while perhaps necessary to enforce the regulation, tends to deny borrowers the proper use of their credit for appropriate purposes.

6. The language of Section 6 on mimeographed pages 7 and 8 of the Notice of Proposed Rule Making (Reg. U) is not clear to the Council, and the Council is therefore unable to comment on the Section.
7. As outlined in Paragraph 4 above, the Council favors the extension of the Regulation to wholly unsecured loans to open-end investment companies and companies and persons principally or importantly engaged in the business of making loans for a regulated purpose.
8. The Council questions the wisdom of extending the Regulation to loans to purchase convertible bonds, as this might prevent many corporations from using this form of debt obligation.
9. In the opinion of the Council loans to exercise employee stock options should not be subject to Regulation U.

ON APRIL 28, 1959, AT 10:30 A.M., THE FEDERAL ADVISORY COUNCIL HELD A JOINT MEETING WITH THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM IN THE FEDERAL RESERVE BUILDING, WASHINGTON, D. C. WITH THE EXCEPTION OF MESSRS. MC CLOY, ALFRIEND, SIBLEY AND JACOBS, ALL MEMBERS OF THE COUNCIL WERE PRESENT. MR. MASSIE ATTENDED AS ALTERNATE FOR MR. MC CLOY; MR. KIMBALL FOR MR. SIBLEY; AND MR. MATKIN FOR MR. JACOBS. MR. ALFRIEND WAS ABSENT IN ORDER TO ATTEND A BOARD MEETING OF NORFOLK AND WESTERN RAILROAD.

THE FOLLOWING MEMBERS OF THE BOARD OF GOVERNORS WERE PRESENT: CHAIRMAN MARTIN, VICE CHAIRMAN BALDERSTON, GOVERNORS SZYMCZAK, MILLS, SHEPARDSON AND KING. MR. SHERMAN, SECRETARY, AND MR. KENYON, ASSISTANT SECRETARY OF THE BOARD OF GOVERNORS, ALSO WERE PRESENT.

The minutes of the joint meeting are being prepared in the office of the Secretary of the Board of Governors of the Federal Reserve System. Their content will be compared with the notes of the Secretary of the Council. Assuming they are in substantial agreement, they will be distributed to the members of the Council.

The meeting adjourned at 12:45 P.M.

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The next meeting of the Council will be held September 14 and 15.