

Minutes for March 14, 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

W
WSS

Gov. Szymczak

Gov. Mills

[Signature]

Gov. Robertson

R C

Gov. Balderston

CCB

Gov. Shepardson

[Signature]

Gov. King

[Signature]

Minutes of the Board of Governors of the Federal Reserve System
on Monday, March 14, 1960. The Board met in the Board Room at 10:00 a.m.

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

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

Money market developments and related matters. Mr. Thomas reviewed and analyzed various recent financial developments, including the sharp drop in the money supply in February, the increase in the velocity of money turnover, and the decline in rates on United States Government securities. Following discussion based on the presentation of Mr. Thomas, Mr. Keir commented further on money market developments.

Messrs. Shay and Keir then withdrew from the meeting and Messrs. Hackley, General Counsel, Solomon, Director, Division of Examinations, and Dembitz, Associate Adviser, Division of Research and Statistics, entered the room, along with Messrs. Farrell, Director, Conkling, Assistant Director, Collier, Chief, Current Series Section, and Veenstra, Technical Assistant, Division of Bank Operations.

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Collection of branch reports of condition. In accordance with the understanding at the meeting on Thursday, March 10, further consideration was given to a proposal, as discussed in a memorandum from the Division of Bank Operations dated March 7, 1960, to expand the regular biennial collection of reports of deposits by counties, scheduled for the June 1960 call, so as to require reports on individual branches, ask for certain detail in addition to the usual county deposit totals, and require publication of individual branch data or in some other way make such data legally available for use in administrative hearings.

At the request of the Board, Mr. Farrell reviewed reasons why the Division of Bank Operations felt that the collection of such data would impose a severe burden on reporting banks. In the course of his comments, he pointed out that many branches opened recently have been of the limited purpose type and do not maintain separate ledger controls, and that the substantial increase in the use of centralized bookkeeping procedures apparently would intensify reporting difficulties. In this connection, he referred to an appraisal of the problem contained in a memorandum from the Federal Reserve Bank of New York that had been transmitted by Vice President Crosse. Mr. Farrell suggested that the burden on the banks might be lightened if estimating of branch data were permitted, but he noted that banks might be hesitant to resort to estimating if they were informed that the data were to be, or might be, published.

In discussion based on these comments, question was raised as to whether the problem confronting the reporting banks would be as great as

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had been suggested, it being pointed out that most banks in conducting their normal operations would be likely to obtain data regularly on the loans and deposits of their branches. In this connection, it was noted that branch data are customarily made available to examiners at the time of an examination. The comment was made by Mr. Solomon that Mr. Crosse, in a telephone conversation, had indicated that although in some cases it might be difficult for banks to furnish branch data without advance notice or an authorization for estimating, it seemed evident that banks must get information, at least periodically, to keep themselves posted on the progress of their branches. Mr. Crosse had expressed the view that in principle it would be desirable to obtain the suggested branch data.

Members of the staff were requested to comment on the uses of such data, if obtained, and Mr. Hackley said it was thought desirable, in connection with holding company, merger, and branch bank cases, for the Board to have information on branch deposits of banks in the area concerned in order to determine the effect on competition if an application were approved. While a great deal of information is available from examination reports, it probably could not be used for public purposes; and in holding company cases it is desirable to be able to include in the Board's statement figures relating to the effect on competition. Branch data would, of course, not be completely adequate for legal purposes unless they were available for national and insured

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nonmember banks as well as State member banks. However, the Legal Division would be satisfied if branch data were obtained only periodically, perhaps every year or every two years.

In this connection, question was raised regarding the possibility of an arrangement whereby branch data in examination reports could be used more freely, the thought being that this might avoid placing an additional reporting burden upon the banks. However, it was pointed out that in any event the data would have to be supplied in connection with examinations and that the data would not be on a wholly comparable basis.

A further question related to the feasibility of obtaining branch data as needed in connection with particular cases coming before the Board. Comments in this respect were in terms that it would be difficult to make special requests of banks in a particular area to aid the Board in its consideration of a particular application, that there might be some question about the public use of data for a restricted group of banks, and that comparisons with similar situations in other geographical areas would not be possible.

With further reference to uses that might be made of branch data, Mr. Noyes noted that the System Research Advisory Committee had gone on record in favor of collecting these data on at least on a one-time basis, leaving open the question whether the data should continue to be collected and at what intervals. The Committee had noted that Federal Reserve Banks

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were disturbed by the unavailability of such data for smaller geographical areas on a reliable basis in connection with various types of local studies. Mr. Noyes also pointed out that the research staff has a basic interest in the structure of the banking system, what is happening to that structure, and how the banking system is providing services to the public at large.

In reply to a question, Mr. Conkling said that the Federal Deposit Insurance Corporation had expressed interest in expanding the regular survey of deposits by counties to collect certain information on loans and that the Office of the Comptroller of the Currency had not yet expressed a view on the general subject. When similar data were collected in 1949, he noted, all three of the Federal banking agencies cooperated. As to the present status of the current proposal, consideration had been limited thus far to discussion within the staffs of the Federal supervisory agencies.

It was then indicated that the members of the Board considered it desirable to collect abbreviated reports of condition of commercial bank branches in connection with the June 1960 call, if that could be done without placing an unreasonable burden on the reporting banks. As a next step in the consideration of the matter, it was agreed that the Chairman of the Presidents* Conference should be informed that the Board would like to discuss the subject with the Presidents at the joint meeting to be held on Tuesday, March 22. In this connection, it was understood

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that consideration of the matter would be limited at this stage to persons within the Federal Reserve System, except for informal discussion with representatives of the Comptroller of the Currency and the Federal Deposit Insurance Corporation.

Classification of cities and banks for reserve purposes. At the meeting on Thursday, March 10, there was preliminary discussion of the staff report that had been submitted with a memorandum from Mr. Thomas dated March 4, 1960, relating to the problem of classifying cities and banks for reserve purposes. It was decided at that time to defer further discussion until all of the Board members were available.

Governor Robertson, who spoke first, said that the staff report seemed to indicate what could not be done more than what could be done. Nevertheless, the report had served a good purpose, namely, to bring out that the Board was dealing with a relatively small group of banks whose classification would be doubtful. It should be possible to obtain adequate information on that group of banks rather quickly, and then the Board must in some manner draw a line of demarcation. Since it did not appear that size or any other one factor provided a basis for drawing that line, a combination of factors apparently must be considered, particularly in the light of the provision of the statute indicating that the classification of a bank shall be determined on the basis of the character of its business.

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Governor Shepardson expressed views that were generally similar to those stated by Governor Robertson.

Governor King said he was still inclined to believe that a classification of banks based on size might be satisfactory, and it would be susceptible of general understanding. If that basis were used, a bank would be able to decide whether it wished to expand even if that meant that it would be placed in a higher reserve classification. In his view, the matter would become extremely involved if anything other than a size concept was used, and the resulting confusion might lead to feelings of discrimination or favoritism within the banking fraternity. He did not object to developing additional information, but he was inclined to think that in the end a classification based on the size factor might be decided upon by the Board.

Chairman Martin then called upon Governor Szymczak for comments, noting that at the March 10 meeting Governor Szymczak had expressed the view that the staff paper was a good one although it did not give the entire solution to the problem.

Governor Szymczak said he thought the paper gave something that brought the Board very close to a solution. He felt that Annex C accompanying the memorandum from Mr. Thomas went to the heart of the problem. First there was a question of what constitutes a reserve city classification and having that classification based on two outstanding elements--bank deposits and velocity. Then the Board would be in a

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position to make exceptions within those reserve city classifications, basing the authorization for individual banks to carry reduced requirements on the character of their business. As indicated in the study the Board needed additional figures, and it should proceed to get them. In his opinion, the Board also should have the comments of the Federal Reserve Banks. The Reserve Banks ought to study whether any classification standards that might be suggested could be properly worked out in the respective districts. In the meantime, the Board could proceed on individual cases in the manner that it had been proceeding thus far.

Governor Mills stated that his thinking was similar to that expressed by Governor King. He was concerned that the present law had been on the statute books for about eight months and the Board had not yet adopted standards for the classification for cities and banks for reserve purposes. If an attempt was made to refine the statistics to distinguish between wholesale and retail deposits and explore the turnover of debits and deposits, he feared that the job would never be done. Accordingly, he felt that the Board must arrive at some relatively simple method that would afford at least rough justice to all concerned.

In further discussion, Mr. Farrell suggested that the standards for classification of cities might not have to be quite as precise as standards for individual banks in order to bring about the "rough justice"

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that Governor Mills had mentioned. For this reason, he hoped that it might be possible to move forward rather quickly on the classification of cities.

Mr. Hackley then suggested a possible solution along the following lines. He noted that under the law the Board is only authorized, strictly speaking, to provide a standard for the classification of cities. However, the objective is actually to classify banks. Therefore, it might be possible to include in Regulation D a statement or formula for classifying cities, and in another section indicate that the Board would grant permission to carry reduced reserves to banks with less than a stated volume of net demand deposits. In the case of a bank with a larger deposit volume, the Board would determine whether to grant an application to carry lower reserves on the basis of the character of the bank's business; and in making its decision the Board would take into consideration factors such as total deposits, interbank deposits, location in a city, interbank competition, and the nature of the bank's business generally. Such a procedure would provide a certain amount of leeway in determining whether particular banks should be permitted to carry lower reserves.

Governor King commented to the effect that his thinking on the subject was influenced by the fact that the central reserve city classification must be eliminated not later than the middle of 1962, following which Governor Shepardson said he agreed in principle with the theory of

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using as simple an approach as possible but doubted whether the Board could proceed on a simplified basis in the "fringe area". He understood that there were a number of cities, not presently reserve cities, having one or more banks that would have to be classified as reserve city banks under any standard that the Board might decide upon, and he inquired whether these cities would be picked up if a dividing line was drawn on the basis of banks with \$100 million of net demand deposits.

Mr. Farrell suggested that it might be more workable to make a distinction on the basis of a percentage relationship between city deposits and deposits of the country as a whole, so as to allow for national deposit growth.

Mr. Thomas stated that any simple size standard would appear to necessitate the classification as reserve cities of many cities not now so classified, or the declassification of a number of reserve cities. He illustrated by referring to a number of cities, not now reserve cities, where there are banks with demand deposits of more than \$100 million.

Question was raised whether the additional information that the staff thought it desirable to obtain was in the process of being actively accumulated, and the reply was to the effect that such information should be available within a period of not more than a month. While the number of cases that raised serious questions was relatively small, it was considered necessary to have over-all data in order to make appropriate statistical analyses.

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The meeting then adjourned.

Secretary's Notes: Pursuant to the recommendation contained in a memorandum from the Director of the Division of Bank Operations, Governor Shepardson today approved on behalf of the Board the appointment of John Boyer Phillip Baird as Analyst in that Division, with basic annual salary at the rate of \$5,430, effective the date he assumes his duties.

Governor Shepardson also approved today on behalf of the Board a letter to the Interstate Commerce Commission requesting an extension for 30 days from March 24, 1960, of the detail to the Board of Mr. Edward H. McMahan, Hearing Examiner, with the understanding that the terms of reimbursement contained in the Board's letter of September 24, 1959, would obtain during the period of extension.



Secretary