

FR 609
Rev. 10/59

Minutes for March 30, 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

MM

Gov. Szymczak

MS

Gov. Mills

MS

Gov. Robertson

R

Gov. Balderston

CCB

Gov. Shepardson

CS

Gov. King

MG

Minutes of the Board of Governors of the Federal Reserve System
on Wednesday, March 30, 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. Young, Adviser to the Board
Mr. Shay, Legislative Counsel
Mr. Fauver, Assistant to the Board
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. Conkling, Assistant Director, Division
of Bank Operations
Mr. Hostrup, Assistant Director, Division
of Examinations
Mr. Thompson, Supervisory Review Examiner,
Division of Examinations
Miss Hart, Assistant Counsel

Items circulated or distributed to the Board. The following
items, which had been circulated or distributed 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 Federal Reserve Bank of New York regarding the applicability of Regulation U to certain loans made by The Hanover Bank, New York City.	1
Letter to the Federal Reserve Bank of Philadelphia granting its request for permission to follow an accounting procedure at variance with the Accounting Manual in connection with the purchase of certain proof punch machines used in processing postal money orders.	2

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In response to a question raised by Chairman Martin in connection with Item No. 1, Miss Hart and Mr. Solomon indicated that the staff was satisfied, from a legal standpoint, with the position taken in the letter to the Federal Reserve Bank of New York.

Miss Hart then withdrew from the meeting.

Bill to amend the Federal Deposit Insurance Act (Item No. 3).

Pursuant to discussion at the Board meeting on March 28, there had been prepared and distributed a draft of letter to Chairman Brown of Subcommittee No. 2, House Committee on Banking and Currency, recommending enactment of H.R. 8916, a bill to amend the Federal Deposit Insurance Act to provide a report of condition assessment base.

Mr. Hexter reported having received advice this morning that the Federal Deposit Insurance Corporation intended to propose one additional minor change in the bill, involving specification of a date on which the assessment base would be changed, at hearings on the bill to be held on April 5 and 6, 1960.

Governor Robertson said he had gone over all of the technical changes that the Federal Deposit Insurance Corporation proposed to submit, and that they involved nothing on which the Board had indicated disagreement in earlier discussions of the matter.

After agreement had been reached on inclusion of a reference to the dates on which hearings would be held on the bill, the letter to Chairman Brown was approved unanimously in the form attached as Item No. 3.

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Mr. Shay then withdrew from the meeting.

Request for hearing on BancOhio application. In a memorandum dated March 10, 1960, the Board was advised of a request by BancOhio Corporation, pursuant to section 3(a)(2) of the Bank Holding Company Act of 1956, for a hearing in connection with its application to acquire a minimum of 80 per cent of the voting shares of The Hilliard Bank, Hilliards, Ohio. There had previously been published the Board's Notice of Tentative Decision which indicated that it proposed to deny BancOhio's application.

In a memorandum dated March 29, 1960, which also had been distributed to the Board, Mr. O'Connell reported that a local law firm had now formally "entered an appearance" on behalf of BancOhio Corporation. As a basis for requesting a hearing, BancOhio Corporation asserted that the Board's tentative conclusion rested solely upon the contents of the Corporation's application and supplemental information furnished at the Board's request, and that these did not disclose the full facts. The Corporation specified several matters concerning which it believed the Board's decision failed to reflect fully the existing factual situation and, as to each, stated that proof of contrary or additional facts, justifying different conclusions, would be adduced at a hearing.

The memorandum from Mr. O'Connell pointed out that the Board had also received a letter from The Hilliard Bank setting forth objections to the Board's proposed action and requesting an opportunity to present

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the same in more detail, along with a letter from the Superintendent of Banks for the State of Ohio in support of his original favorable recommendation concerning the application.

The memorandum also noted that, although this was the first instance in which the Board had been requested to hold a hearing after issuance of a Notice of Tentative Decision, there would seem to be no reason for treating the request in a manner different from other requests for hearing. This contemplated that the request should be decided on the basis of the Board's judgment as to the need for, or benefit anticipated from, such hearing. After outlining reasons that might be given for and against granting the request, the memorandum set forth proposed arrangements in case it should be decided to hold a hearing. These arrangements involved services of a hearing officer, participation of Board Counsel, and the location and date of the hearing.

Governor Mills asked whether he detected some reservation in the memorandum about reopening this case for a hearing after a tentative decision had been reached. If a hearing were granted, he pointed out, the case would be prolonged indefinitely.

Mr. O'Connell said, in response, that a delay would of course result from the holding of a hearing. However, the applicant had requested such a hearing in order to furnish additional information stated to be relevant and which the applicant felt it could not effectively submit through correspondence. Mr. O'Connell felt that some basis of need for

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a hearing could be established on the grounds that the applicant would be better served in that way.

During further discussion of the request, it was brought out that if the Board's final decision should be the same as its tentative decision, and there was an appeal for judicial review, the Board's position might be stronger if denial of the application were based on the weighing of evidence presented at a hearing. On the other hand, if the Board were to change its tentative decision without a hearing, there might be some question as to the basis on which this was done.

Governor Balderston pointed out, in this connection, that no party other than the applicant would appear to be injured by a delay in reaching a final decision.

In further discussion, it was noted that, after informal consultation with the parties concerned, a hearing at the Federal Reserve Bank of Cleveland commencing on May 31, 1960, apparently would be agreeable.

Unanimous approval then was given to the request of BancOhio Corporation for a hearing on its application to acquire voting shares of The Hilliard Bank, with the understanding that the Legal Division would prepare and submit for the Board's consideration a draft of Order for the hearing, and with the further understanding that the selection of Board Counsel would be made by Mr. Hackley, General Counsel.

During the foregoing discussion Mr. Molony, Assistant to the Board, entered the room and Mr. Shay returned to the meeting. At the end of the discussion Messrs. O'Connell, Hostrup, and Thompson withdrew.

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Hearings on S. 2755. Chairman Martin reported receipt of advice that hearings would be resumed on April 5, and continue on April 6, 7, and 13, on S. 2755, a bill to require disclosure of finance charges in connection with extensions of credit. After stating that he had been asked to testify at the hearings, the Chairman requested Mr. Young to have a statement prepared for the Board's consideration.

Treasury proposal for cash financing. There was further discussion of an informal proposal of the Treasury, mentioned at the Board meeting on March 29, whereby on some occasions the Federal Reserve System and certain other holders of outstanding securities would be allowed to exchange their holdings in full for new Treasury securities but the holdings of other investors would mature and new securities would be offered for cash.

Mr. Hexter expressed the view that such a procedure, as he understood it, would not appear to involve the direct purchase of securities by the Federal Reserve from the Treasury within the \$5 billion limitation provided in section 14 of the Federal Reserve Act.

The possible effects of implementation of the contemplated procedure were then considered at some length, but no conclusions were reached.

During the foregoing discussion Messrs. Kenyon, Assistant Secretary; Thomas, Adviser to the Board; and Noyes, Director, Koch, Adviser, and Keir, Chief, Government Finance Section, Division of Research and Statistics,

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entered the room, and at its conclusion Messrs. Shay and Keir withdrew from the meeting.

Maximum rates of interest under Regulation Q. There was a general discussion of maximum rates of interest on time and savings deposits under Regulation Q, Payment of Interest on Deposits, with particular reference to the volume of funds that might be moving abroad in order to obtain a higher rate of interest than permitted under the Regulation, the effect of such transfers of funds on the competitive position of United States banks, and the purpose of the legislation that requires the Board to limit rates of interest paid by member banks on time and savings deposits.

At one point the discussion turned to the feasibility of exercising control over interest rates paid by individual banks through the examination and supervisory function. Pursuant to the discussion at the Board meeting on February 25, 1960, a meeting had been held on March 2 to discuss this question with representatives of the other Federal banking agencies. Governor Robertson said it was the unanimous view of Mr. Gidney, Comptroller of the Currency, and Chairman Wolcott and Mr. Greensides of the Federal Deposit Insurance Corporation that such control could not be exercised effectively in that manner because actions would necessarily be after the fact. Although it was agreed that some influence could be exerted, the supervisory authorities, under their present powers, were not regarded as in a position to exercise an effective control.

The meeting then adjourned.


Secretary

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

Item No. 1
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ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 30, 1960.

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

Dear Mr. Pierce:

Reference is made to your letter of December 7, 1959, requesting a determination as to applicability of the provisions of Regulation U to certain loans disclosed in the recent report of examination of The Hanover Bank, New York, New York.

It is understood that the bank made several unsecured loans for the purpose of enabling the borrowers to purchase certain stocks registered on a national securities exchange, and in each instance, part of the proceeds of the unsecured loans was used to pay outstanding regulated loans secured by registered stocks which were released by the bank upon the inception of the unsecured loans. It is also understood that none of these loans are excepted by Section 221.2 of the Regulation.

The Board concurs in your conclusion that the loans were made in violation of Regulation U, and is of the opinion that its ruling to which you refer and which appears on page 1198 of the 1945 Federal Reserve Bulletin seems quite clearly to cover these loans. If the bank chooses to make an additional purpose loan to a borrower who has an outstanding regulated loan, unless sufficient excess collateral is held to provide for the entire indebtedness, collateral having value at least equal to amount of the additional loans must be obtained.

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
3/30/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 30, 1960.

Mr. Karl R. Bopp, President,
Federal Reserve Bank of Philadelphia,
Philadelphia 1, Pennsylvania.

Dear Mr. Bopp:

This refers to your letter of January 18 concerning the eight IBM proof punch machines (Model 808) rented by your Bank to process postal money orders.

You stated that IBM had offered to sell these eight machines for approximately \$13,800, the equivalent of one year's rental, and that your Bank had decided to take advantage of this offer. You indicated that this move would be advantageous because, even though the Post Office was contemplating a change in procedure that would eliminate within two years the need for these machines on money order work, your Bank could utilize the machines for the remainder of their useful life, approximately five to six years, in connection with the functioning of return items and certain other work.

You noted that, ordinarily where Bank-owned equipment is used in fiscal agency operations, the Board's Accounting Manual limits reimbursement for such use to a depreciation charge of 15 per cent of the cost per annum. However, in order to prevent distortion of the formula for determining the System rate of reimbursement to be claimed for handling money orders, you requested the Board's permission to continue to include an amount equivalent to the IBM rental rate in the expense reports which your Bank submits for the purpose of reimbursement determination.

Shortly after the receipt of your letter, the Board was informed by Mr. Farrell that you, Mr. Mangels, Chairman of the Presidents Conference Committee on Collections and Accounting, and Mr. Farrell had reached an informal agreement under which the Board's reply to your letter of January 18 would be deferred until your proposal could be considered by the Subcommittee on Collections.

Mr. Karl R. Bopp

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As you probably know, this Subcommittee suggested in a letter report to Mr. Mangels, dated February 15, that it would seem desirable for the System to obtain a definite expression from the Post Office Department of its attitude toward purchase of reconditioned Model 808 proof punch machines, either directly by the Post Office, or by the Reserve Banks under an agreement by the Post Office to continue payments equivalent to present rental until the purchase price and accrued maintenance costs were recovered. Pursuant to this recommendation, Mr. Harris, Chairman of the Subcommittee, and Mr. Farrell discussed the matter with Mr. Harold Marks, Finance Officer of the Post Office Department. Attached is a copy of their letter report, dated February 25, to Mr. Mangels of their conversation with Mr. Marks. This letter states that the Post Office would not be interested at this time in purchasing the machines in question, but that--

"The Post Office would have no objection to the purchase of these machines by one or more Federal Reserve Banks with the understanding that the Post Office would be billed ^{1/} for the use of the purchased machines at the present rental charge made by IBM until (a) the purchase price plus maintenance had been recovered, and that thereafter the Post Office would be billed only for the maintenance cost, or (b) the Post Office instructed the Reserve Banks to discontinue the use of the 808 machines because of the adoption of the new procedure, whichever came first."

Mr. Farrell has informed the Board that, when the Presidents were here recently, he discussed this entire matter with Mr. Leach, Chairman of the Committee on Fiscal Agency Operations, and with Mr. Mangels, Chairman of the Committee on Collections and Accounting, and that both of them had indicated a feeling that the proposed purchase of the IBM proof punch machines is a special case that could be exempted from the Accounting Manual provisions with respect to reimbursable fiscal agency operations, and that they could see no objection to a procedure along the lines indicated in the above-quoted subparagraph from the February 25 letter addressed to Mr. Mangels by Messrs. Harris and Farrell. The Board concurs in this view.

It is understood that the Committee on Collections and Accounting is responsible for the arrangements with the Post Office for reimbursing the Reserve Banks for handling money orders, and that these arrangements include an "agreed upon formula" which provides that the Post Office will reimburse the Reserve Banks for all

^{1/} On the expense reports used to determine the rate of reimbursement.

Mr. Karl R. Bopp

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outside machine rental costs. Inasmuch as your Bank will have no outside machine rental costs if the machines in question are purchased, but will still receive reimbursement at the present rate, the Board assumes that you will take appropriate steps, through the Committee on Collections and Accounting, to have made whatever changes may be necessary in the reimbursement formula.

A copy of this letter is being sent to the Presidents of all Federal Reserve Banks.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosure.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 3
3/30/60

OFFICE OF THE CHAIRMAN

March 30, 1960.

The Honorable Paul Brown, Chairman,
Subcommittee No. 2,
Committee on Banking and Currency,
House of Representatives,
Washington 25, D. C.

Dear Mr. Chairman:

We understand that your Subcommittee has scheduled hearings for April 5 and 6 on the bill H. R. 8916, which would amend the Federal Deposit Insurance Act to provide a report of condition assessment base.

The proposed report of condition assessment base would eliminate the present differences between the certified statement of deposits for assessment purposes and reports of condition. The reporting of deposits for various purposes in a uniform manner would be helpful to all insured banks as well as to the supervisory agencies.

It is understood that the Federal Deposit Insurance Corporation is suggesting a number of minor and technical amendments of the bill. The Board recommends the enactment of H. R. 8916, together with the amendments being suggested by the Corporation.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.