

Minutes for June 17, 1960

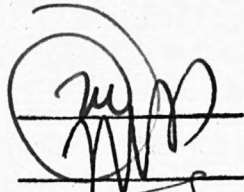
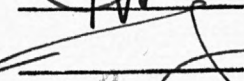


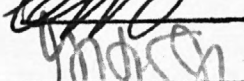
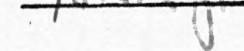

To: Members of the Board

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	
Gov. Szymczak	
Gov. Mills	
Gov. Robertson	
Gov. Balderston	
Gov. Shepardson	
Gov. King	

Minutes of the Board of Governors of the Federal Reserve System
on Friday, June 17, 1960. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Szymczak
Mr. Mills
Mr. Robertson

Mr. Sherman, Secretary
Mr. Hackley, General Counsel
Mr. Marget, Director, Division of International
Finance
Mr. Farrell, Director, Division of Bank Operations
Mr. Masters, Associate Director, Division of
Examinations
Mr. Robinson, Adviser, Division of Research and
Statistics
Mr. Dembitz, Associate Adviser, Division of
Research and Statistics
Mr. Furth, Associate Adviser, Division of
International Finance
Mr. Nelson, Assistant Director, Division of
Examinations
Mrs. Semia, Technical Assistant, Office of the
Secretary
Mr. Hooff, Assistant Counsel
Miss Hart, Assistant Counsel
Mr. Potter, Legal Assistant
Mr. Collier, Chief, Current Series Section, Division
of Bank Operations

Transmission of report of examination. The Board ratified
Chairman Martin's action in sending a letter on June 16, 1960, to Chairman
Spence of the House Banking and Currency Committee transmitting a copy
of the report of examination of the Federal Reserve Bank of San Francisco
made during 1959. A copy of the letter of transmittal is attached as
Item No. 1.

Call for condition reports. It was reported that advice had been
received yesterday from the Office of the Comptroller of the Currency that

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the Comptroller would make a call on all national banks on June 21, 1960, for reports of condition as of the close of business June 15, 1960; and that in accordance with the usual practice a telegram had been sent to the Federal Reserve Banks indicating that a similar call should be made upon State member banks.

The action taken in sending the telegram to the Reserve Banks was ratified by unanimous vote.

Discount rates. The establishment without change by the Federal Reserve Banks of New York, Philadelphia, and San Francisco on June 16, 1960, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

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 Chemical Bank New York Trust Company, New York City, approving an extension of time to establish a branch at 110 Maiden Lane.	2
Letter to the State Bank of Plainfield, Plainfield, New Jersey, approving an extension of time to accomplish membership in the Federal Reserve System.	3
Letter to the Peoples Bank of Cuba, Cuba, Missouri, approving an investment in bank premises.	4

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Item No.

Letter to the Federal Deposit Insurance Corporation regarding the application of Security State Bank, Mount Ayr, Iowa, for continuation of deposit insurance after withdrawal from membership in the Federal Reserve System.

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Applications for organizing a national bank in Austin, Texas

(Items 6 and 7). Two draft letters to the Comptroller of the Currency had been circulated concerning applications to organize a national bank in Austin, Texas. One letter recommended favorable consideration of the application filed by Mr. Jake Jacobsen and associates, and the other letter recommended unfavorable consideration of the application filed by Mr. Ned McDaniel and associates.

Mr. Nelson stated that these two applications were filed at about the same time last September by two groups wanting to establish a national bank in the northeast section of Austin about 4-1/2 miles from the business section. The bank that the Capital Plaza group, headed by Mr. Jacobsen, proposed to establish would be located in a shopping center. The 51st Street group, headed by Mr. McDaniel, proposed to establish a bank about three blocks from the Capital Plaza site. There was apparently room in the area for only one bank, which it was estimated would reach a deposit volume of about \$3 million by the end of the third year of operation. Both groups were generally acceptable as organizers, Mr. Nelson said, but the Division of Examinations favored the recommendation of Vice President Pondrom of the Dallas Reserve Bank that the application by Mr. Jacobsen's

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group be given preference. That group appeared to have greater financial strength, the proposed management was believed to be a little more experienced, and their proposed site in rented quarters in a shopping center seemed preferable to the 51st Street group's plans to build banking quarters, investing about 50 per cent of their capital in the construction. It was felt that the Capital Plaza group could generate more business. Also, the 51st Street group would have to borrow and would be heavily indebted.

The Board thereupon approved the two letters to the Comptroller of the Currency in the form attached hereto as Items 6 and 7.

Violations of definition of "carrying" under Regulation U (Item No. 8). A draft of letter to the Federal Reserve Bank of Philadelphia had been circulated regarding the treatment in examination reports of apparent violations of Section 221.3(b)(1) of Regulation U involving the definition of "carrying" in effect from June 15, 1959, to March 8, 1960. The Federal Reserve Bank of Philadelphia had asked, assuming that the loans in question represented a violation under the definition of carrying in effect at the time they were made, if the loans should be so reflected in the examination report as of January 4, 1960, in view of the revocation of the definition on March 8, 1960. The proposed letter to the Philadelphia Bank expressed the view that that question must be answered in the affirmative. The Reserve Bank also had asked, in view of the statement in the Board's telegram of March 7, 1960, that "...the Board is concerned

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with evasive extensions of bank credit for the purpose of carrying registered stocks and expects banks to be alert in detecting and preventing attempts to circumvent the basic purposes of this part.", if the case could still be considered a violation of the "carrying" restriction even though the definition as set forth effective June 15, 1959, had been rescinded. The proposed letter to the Reserve Bank indicated that the amendment to the Regulation had been effective March 8, 1960, and was not retroactive to the time when the definition of carrying had been adopted. Therefore, the status of a bank's conduct that constituted a violation of the definition while it was in effect was not changed by the amendment. The letter also pointed out that the Board places responsibility on banks to bear in mind and seek to effectuate the purpose of the Regulation, and this it seemed that the bank in question had not done.

After a brief discussion, the letter to the Federal Reserve Bank of Philadelphia was approved in the form attached hereto as Item No. 8, with the understanding that a copy would be sent to each of the other Reserve Banks for information.

Miss Hart then left the meeting.

Application for continuance of permission to maintain reduced reserves (Item No. 9). A memorandum from the Division of Bank Operations dated June 15, 1960, had been distributed, recommending favorable action on an application from City National Bank of Beverly Hills, Beverly Hills,

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California, for continuance of permission to maintain reduced reserves after establishing an additional branch within the corporate limits of Los Angeles, a reserve city. A draft of letter to the applicant bank granting the permission was attached to the memorandum, and also tables analyzing the various classes of banks that had been authorized to carry reduced reserves. The memorandum pointed out that this was the third such request from the bank within two years, each request arising from the opening of an additional branch that would be located within the city limits of Los Angeles, but on the outskirts. The bank's total assets as of May 9, 1960, were \$83 million, with demand deposits of \$58 million.

The Division's favorable recommendation was based on the fact that, because of the sprawling city limits of Los Angeles and the location of the applicant bank and its branches, the bank could not be considered a serious competitor to the reserve city banks in Los Angeles, that the recent growth of the bank had been internal rather than from mergers, and the three branches in Los Angeles were all established de novo, and that total demand deposits of the applicant bank were \$33 million before the first permission was granted. The only alternative would be to rescind the permission heretofore granted. Only one of the banks that had been authorized to maintain reserves applicable to country banks--First Camden National Bank and Trust Company, Camden, New Jersey--had gross demand deposits (\$87 million) greater than those of City National Bank of Beverly Hills. Only one other bank so authorized--Lafayette National Bank in Brooklyn--exceeded the \$43 million limit the Board had been using

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tentatively for demand deposits of banks granted the country bank reserve privilege.

Mr. Collier commented that before the law was changed last year there would not have been any question about granting the country bank privilege to the applicant bank, because its branches are located in the outlying areas of Los Angeles and do not compete with the larger Los Angeles banks. However, since the change in the law and the use of the rule of thumb of \$43 million of demand deposits, the Division of Bank Operations thought it appropriate to bring this case to the Board's attention because of the size to which the applicant bank had grown.

Governor Mills observed that the statistics submitted with the memorandum pointed up the difficulty of arriving at classifications, because there were a number of banks with demand deposits within the \$43 million cutoff but with total deposits substantially above \$43 million. He expressed the thought that banks themselves were going to question why demand deposits rather than total deposits should be the criterion, since total deposits represent a bank's liabilities to the public and are the basis for determining reserve requirements. Although the use of the \$43 million rule was a good, practical answer, he did not believe it would eliminate all the questions that would be posed in the future.

Governor Robertson thought that the letter should emphasize that the Board was granting the country classification only on a temporary basis because, when criteria for classification were developed, it might

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be found that the bank should be placed in the reserve city classification. It would be unfortunate to change the bank's classification in, say, three months, without having warned the bank that the matter was under study and that the authority given was not necessarily a permanent one. Governor Robertson also expressed doubt that it could be said that the applicant bank was not competing with other banks in Los Angeles merely because its offices were on the outskirts of the city. He believed that this bank, an aggressive institution, was in fact competing with downtown banks and would get business from downtown if it could. Governor Robertson expressed agreement with Governor Mills' observation that location was not the only consideration. A bank in an outlying area presumably could have total deposits of \$150 million and still have country bank status, whereas a bank downtown with deposits of \$50 million would have a reserve city status. Moreover, an aggressive bank would get business from wherever it could get it, regardless of the location of the bank's offices.

Governor Robertson then inquired what progress had been made in developing standards for granting permission to carry reduced reserves and for classification of reserve cities. He felt it would be amiss for the Board to go beyond the case under consideration without raising the question that he believed the banks themselves expected to have raised--namely, what are the criteria governing such authorizations?

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Messrs. Thomas, Adviser to the Board, Young, Adviser to the Board, and Noyes, Director, Division of Research and Statistics, entered the room during Governor Robertson's statement.

Mr. Thomas stated that a draft of memorandum concerning criteria for classification of reserve cities and standards for authorizing banks to carry reduced reserves had been reviewed by the staff yesterday, was now being put in final form, and would be distributed to the Board in the near future.

The letter to City National Bank of Beverly Hills continuing permission to maintain reduced reserves was then approved unanimously, with the understanding that it would be changed to indicate that the Board was now studying the classification of banks and that the authority to carry reduced reserves might be rescinded. A copy of the letter is attached Item No. 9.

Messrs. Farrell and Collier then withdrew from the meeting.

Restrictions on United States dollar operations by the Bank for International Settlements (Item No. 10). A memorandum dated June 16, 1960, from Mr. Marget had been distributed regarding payment of interest by the Bank for International Settlements on time deposits denominated in United States currency. Some years ago the Bank for International Settlements had been requested by the Federal Reserve Bank of New York to observe the maximum rates on time deposits specified in the Board's Regulation Q. In 1951, the Bank for International Settlements in a letter

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to Mr. Knoke, then Vice President of the Federal Reserve Bank of New York, had stated that it would take good care that the rates of interest it paid on time deposits would not exceed the maximum rates fixed in Regulation Q. It was understood that when Mr. Guindey, General Manager of the Bank for International Settlements, visited the United States in October 1959, he orally asked Mr. Hayes that the Bank be relieved of any obligation to abide by the provisions of Regulation Q.

Attached to Mr. Marget's memorandum was a memorandum dated June 15, 1960, from Mr. Coombs, Vice President of the New York Bank, to Mr. Hayes, stating that the reasons that prompted the Federal Reserve in 1951 to ask the Bank for International Settlements to abide by the provisions of Regulation Q no longer prevailed, primarily because of the development of dollar deposit business by European commercial banks and by European branches of United States commercial banks, both of which are exempt from the ceilings set by Regulation Q. Mr. Coombs, therefore, proposed to send a letter to the Bank for International Settlements that would state that "we are withdrawing our request that the Bank for International Settlements comply with the ceilings on time deposit rates stipulated by the Board of Governors of the Federal Reserve System under Regulation Q." Mr. Marget recommended that the Board interpose no objection to the action proposed by the New York Bank, if that action was consistent with whatever plans the Board might have with respect to Regulation Q.

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Governor Robertson stated that he did not know the history of the arrangement, but it seemed strange to him that a request had ever been made to the Bank for International Settlements to observe the restrictions of Regulation Q. However, assuming that the request was made and that it had Board concurrence as Mr. Coombs indicated, it seemed to him that the last paragraph of section 14 of the Federal Reserve Act clearly indicated that this was a System matter and not a Reserve Bank matter. He felt this was a worth while opportunity for the Board to exercise the authority given it under the statute. He believed that there was no basis for insisting that the Bank for International Settlements comply with Regulation Q, but release from the obligation should be granted in a letter from the Chairman of the Board of Governors to the Bank for International Settlements.

At Mr. Marget's request, Mr. Furth commented on discussions between the Board and the New York Bank on this matter. Mr. Furth stated that the root of the problem probably lay in the statutes of the Bank for International Settlements under which the Bank recognized the New York Reserve Bank as the central bank in the United States. He then reviewed those provisions, as follows:

"Art. 20.

"The operations of the Bank shall be in conformity with the monetary policy of the central banks of the countries concerned.

"Before any financial operation is carried out by or on behalf of the Bank on a given market or in a given currency the Board shall afford to the central bank or central banks directly concerned an opportunity to dissent."

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"Art. 58. For the purposes of these statutes:-

"(1) Central bank means the bank in any country to which has been entrusted the duty of regulating the volume of currency and credit in that country; or, where a banking system has been so entrusted, the bank forming part of such system which is situated and operating in the principal financial market of that country.

"(2) The Governor of a central bank means the person who subject to the control of his Board or other competent authority has the direction of the policy and administration of the Bank."

Under the provision last quoted it was clear that, although the Bank for International Settlements dealt with the Federal Reserve Bank of New York, the latter's actions were subject to approval of the Board of Governors, which was the "competent Board or authority."

Mr. Marget stated that the present proposal of the New York Bank had been communicated to the Board by a telephone call. Mr. Marget's immediate reaction was that this was a matter that should be called to the Board's attention because, regardless of what organization the statutes of the Bank for International Settlements recognized as the central bank in the United States, the Board's jurisdiction took precedence.

Governor Robertson commented that the statutes might control the Bank for International Settlements but they could not control the System. The Bank for International Settlements might designate the New York Bank as the institution with which it would deal, but the central bank in the United States is the Federal Reserve System and not any individual Federal Reserve Bank. Therefore, the System as such should be speaking on the

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matter under consideration rather than any unit of the System the Bank for International Settlements had selected. He asked if the arrangement made in 1951 was approved by the Board, to which Mr. Furth responded in the negative.

Mr. Hackley said that he had been seriously troubled by the fact that apparently the 1951 action had not been concurred in by the Board. He was also troubled because the proposed letter used the word "we", meaning the Federal Reserve Bank of New York, whereas section 14(g) of the Federal Reserve Act clearly gave the Board supervision over all relations and transactions with any foreign bank whatever, all of which seemed to have been ignored in this case. He had no questions concerning the substance of the matter, but was concerned only because the Board's jurisdiction with respect to foreign relationships was being disregarded.

Mr. Thomas asked if there was any record of the 1951 arrangement being discussed within the staff group that was used for liaison with the New York Bank on foreign transactions at that time.

Mr. Marget said that he could recall nothing and that nothing had been located in the minutes of those meetings to show that the subject was discussed by that group at any time. The extensive correspondence between the New York Bank and the Bank for International Settlements accomplishing the 1951 arrangement had merely been transmitted to the Board by Mr. Knoke as a fait accompli for the Board's information.

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Mr. Robinson expressed the view that asking the Bank for International Settlements to conform to Regulation Q was a dubious decision even in 1951, because then, as now, the foreign branches of United States banks were allowed to accept dollar deposits. There had been no real change in the situation except that allowable interest rates were now an effective factor.

After further discussion of ways in which the response to the New York Bank might make it clear that the request from the Bank for International Settlements involved a matter requiring Board approval, a letter to Mr. Hayes in the form attached hereto as Item No. 10 was approved unanimously.

Messrs. Thomas, Young, Noyes, Marget, Robinson, Dembitz, and Furth then left the meeting.

Reports on proposed mergers or consolidations. The following reports, with the summaries and conclusions indicated, which had been circulated or distributed to the Board, were approved unanimously:

Report to the Comptroller of the Currency on the proposed consolidation of The Monmouth County National Bank, Red Bank, Red Bank, New Jersey, and The Atlantic Highlands National Bank, Atlantic Highlands, New Jersey.

Summary and Conclusions: The proposed merger will permit The Monmouth County National Bank to acquire only an additional 3.5 per cent of total commercial banking deposits in the general area now served by 12 other banks. It is reported that most of these other banks are sufficiently large and aggressive to compete effectively with the continuing bank. The number of banking offices currently available to the public will not be reduced and, while the merging banks presently compete to some extent, it appears that any lessening of competition as a result of the merger will not be material.

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Report to the Comptroller of the Currency on the proposed merger of First Union National Bank of North Carolina, Charlotte, North Carolina, with The First National Bank of Kings Mountain, Kings Mountain, North Carolina, under the charter of the former.

Summary and Conclusions: The two banks involved in the proposed merger do not presently appear competitive. There would be no decrease in number of banking offices nor would the merger confer on the major bank (First Union) any monopolistic advantage other than the single monopoly previously existing in Kings Mountain for First. Alternate banking services would continue to be available from nearby sources.

Report to the Comptroller of the Currency on the proposed merger of The First National Bank of Greenport, Greenport, New York, into Valley Stream National Bank and Trust Company, Valley Stream, New York.

Summary and Conclusions: The proposed merger will not lessen the number of banking offices but it may result in a minor change in the competitive situation in Greenport.

Proposed consolidation of banks in Baltimore, Maryland. A memorandum dated June 8, 1960, from the Division of Examinations had been distributed in connection with the proposed consolidation of Fidelity-Baltimore National Bank and the Maryland Trust Company, both of Baltimore, Maryland. Attached to the memorandum was a proposed report to the Comptroller of the Currency on the competitive factors involved in the consolidation. The report found that although the proposed consolidation would result in the reduction of one competing financial institution, there would not appear to be any significant lessening of banking services or any tendency toward monopoly because other financial institutions appeared capable of furnishing good competition.

Governor Robertson said he had suggested a revision in the report to indicate that the consolidation, which would combine two really large

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banks, obviously would diminish competition although it would not create a tendency toward monopoly because of the other large banking institution that would continue to afford competition. After a brief discussion of changes in wording, the revised report was approved unanimously for transmission to the Comptroller of the Currency. The conclusions of the report as approved read as follows:

The proposed consolidation would obviously diminish competition because it would result in the reduction of one competing financial institution and the formation of the largest bank in Maryland. However, there would not appear to be any significant tendency toward monopoly because other existing financial institutions are capable of furnishing good competition and provide a wide choice of banking sources.

Proposed merger of banks in Woodburn and Fort Wayne, Indiana.

A memorandum dated June 9, 1960, from the Division of Examinations had been distributed in connection with the proposed merger of Woodburn State Bank, Woodburn, Indiana, with and into Fort Wayne National Bank, Fort Wayne, Indiana. The summary and conclusion of the report read as follows:

The proposed merger will combine a small country bank with the second largest bank in Allen County. The continuing bank would have less than one-third of total offices, loans, and deposits in the county, and the proposed merger would not enable it to obtain a dominant position among Allen County financial institutions. Fort Wayne National Bank would remain the second largest bank in the county and the proposed merger would not significantly affect existing or potential competition.

Mr. Hackley pointed out that special circumstances in this particular case indicated that the proposed merger might result in keener rather than diminished competition. It was his view that the new bank

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merger law contemplated that the Board would report on the effect a proposed merger might be expected to have on competition, in either direction, as contrasted with the narrower question as to whether competition might be lessened. He suggested that in future reports the Board might wish to bring out the fact that increased competition might be expected, where that was the case. Agreement was expressed with Mr. Hackley's suggestion.

The report was then approved unanimously for transmission to the Comptroller of the Currency.

Proposed merger of banks in West Terre Haute and Terre Haute, Indiana. A memorandum dated June 15, 1960, from the Division of Examinations had been distributed in connection with the proposed merger of The State Bank of West Terre Haute, West Terre Haute, Indiana, into the Terre Haute First National Bank, Terre Haute, Indiana. The report indicated that the merger would reduce competition to some extent in West Terre Haute and would appear to tend toward monopoly in the trade area.

Governor Mills expressed the view that in these reports the Board should not try to foretell future developments in the particular communities but should confine its appraisal to the statistical and observable effect the merger would have on the competitive position of the banks concerned as of the date the merger was completed. He thought that the conclusion that competition would be reduced to some extent

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and there would be a tendency toward monopoly was a matter of judgment, and he believed that the Board's judgment in this regard was not any better than that of any one else. Noting that in the Fort Wayne case previously considered Mr. Hackley had indicated that keener competition might be expected, Governor Mills said that he thought that the Board was not in a position to make such predictions.

Chairman Martin recalled Mr. Hexter's statement at the meeting on June 15 that an analysis of effects on competition must of necessity take into consideration potential competition in the future. His feeling was that the position indicated by Mr. Hexter then was valid.

Governor Mills replied that he did not read that as the Board's responsibility under the law; his reading of the law was that reports submitted by the Board to other agencies were to be confined to the competitive factors as the Board saw them, although he agreed this was debatable. It seemed to him preferable not to try to read the future. He suggested that it would be desirable to have a complete analysis of the legislative history to get the full sense of the committee reports in the House and Senate.

Governor Robertson replied that he thought the committee reports had been analyzed carefully and that nowhere was there an indication that reports on competitive factors should contain only facts and not opinions. The judgments of the several supervisory agencies were to be obtained so that there would be some degree of uniformity among the agencies in administering the statute.

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Mr. Hackley stated that the Legal Division understood that the reports called for a judgment as to the effect of a merger not only on existing but also on future competition, an understanding that he said the Department of Justice shared. In regard to the Terre Haute case under consideration, Mr. Hackley expressed a preference for omitting the statement that there would be a tendency toward monopoly because there were a number of savings and loan associations in the community. The legislative history of the law on mergers indicated that reports on competitive factors should consider not only the commercial bank situation but also competition from other institutions.

After agreement on changes in wording, the report was approved unanimously for transmission to the Comptroller of the Currency. The conclusion of the report as approved read as follows:

The proposed merger will combine the smallest area bank with the largest bank, and will not reduce the number of banking offices inasmuch as the office of The State Bank of West Terre Haute will be continued as a branch. The Terre Haute First National Bank will have 5 of the 10 commercial banking offices and 52.5 per cent of commercial and savings deposits in Terre Haute and West Terre Haute. It would have about 38 per cent of commercial and savings and loan resources. This proposal would reduce competition to some extent in West Terre Haute and might tend toward monopoly in the trade area.

Proposed consolidation of banks in Greensboro and Charlotte, North Carolina. A memorandum dated June 8, 1960, from the Division of Examinations had been circulated in connection with the proposed consolidation of Security National Bank of Greensboro, Greensboro, North Carolina,

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and American Commercial Bank, Charlotte, North Carolina, under the charter of the former. The report found that in general the proposal would not appear to have a significant effect on the competitive situation.

Governor Robertson stated that this proposed consolidation involved two large banks operating in all sections of the State, and he did not believe that it would be accurate to say that they do not compete with each other. He felt that the conclusion in the report should be based on the State-wide operations of the banks rather than on the situation in individual communities, and he then suggested certain changes in wording of the conclusion. After further discussion and agreement on changes in wording, the report was approved unanimously for transmission to the Comptroller of the Currency. The conclusion of the report as approved read as follows:

The proposed consolidation would combine the second and fourth largest banks that presently operate in different sections of the State. The continuing bank would remain second in size and its competitive position with other banks in the State would not be changed materially. Likewise, there would not appear to be any material change in the competitive situation now existing in the seven counties in which the bank will operate except in Wake County where both banks have branches in Raleigh. However, the elimination of one of these two banks in Raleigh will not create a situation in which there is not active bank competition in the city of Raleigh.

The meeting then adjourned.

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

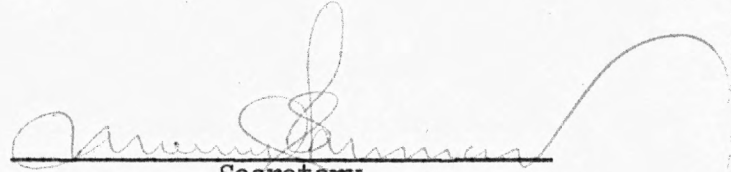
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Appointment

Jeanette Somlyo as Clerk-Stenographer in the Division of Personnel Administration, with basic annual salary at the rate of \$3,685, effective the date of entrance upon duty.

Salary increase

Annie I. Cotten, Secretary, Board Members' Offices, from \$6,370 to \$6,520 per annum, effective June 26, 1960.


Secretary



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 1
6/17/60

OFFICE OF THE CHAIRMAN

June 16, 1960

The Honorable Brent Spence,
Chairman,
Committee on Banking and Currency,
House of Representatives,
Washington 25, D. C.

Dear Mr. Chairman:

Pursuant to a request contained in a letter of this date from Mr. Patman, a copy of which is enclosed, the report of examination of the Federal Reserve Bank of San Francisco made during the year 1959 is being sent today to the offices of the Committee on Banking and Currency of the House of Representatives.

For reasons stated on past occasions when such reports have been supplied to your Committee, the report of examination of the Federal Reserve Bank of San Francisco made during the year 1959 is being forwarded to the Committee with the understanding that it will be made available in confidence only to members of Congress and their staffs.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Enclosures

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

Item No. 2
6/17/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 17, 1960

Board of Directors,
Chemical Bank New York Trust Company,
New York, 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 extends to December 26, 1960, the time within which Chemical Bank New York Trust Company, New York, New York, may establish a branch at 110 Maiden Lane, New York, New York.

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. 3
6/17/60



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 17, 1960

Organization Committee,
State Bank of Plainfield,
Plainfield, New Jersey.

Gentlemen:

In accordance with your request submitted through the Federal Reserve Bank of New York, the Board of Governors of the Federal Reserve System extends to December 28, 1960, the time within which State Bank of Plainfield, Plainfield, New Jersey, may accomplish admission to membership in the Federal Reserve System, as outlined in the Board's letter of June 26, 1959.

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
6/17/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 17, 1960

Board of Directors,
Peoples Bank of Cuba,
Cuba, Missouri.

Gentlemen:

The Board of Governors of the Federal Reserve System approves, under the provisions of Section 24A of the Federal Reserve Act, an additional investment in bank premises in the amount of \$5,614.86 by the Peoples Bank of Cuba, Cuba, Missouri. It is understood that such additional investment represents capitalization of funds already expended in connection with the purchase of the property on which the new bank building is situated.

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
6/17/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 17, 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 June 2, 1960,
concerning the application of Security State Bank, Mount
Ayr, Iowa, for continuance of deposit insurance after with-
drawal 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 25, D. C.

Item No. 6
6/17/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 17, 1960



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

Dear Mr. Comptroller:

Reference is made to Mr. Jennings' letter of September 14, 1959, enclosing copies of an application signed by Mr. Jake Jacobsen and associates to organize a national bank at Austin, Texas, 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 Dallas discloses that the proponents plan to provide a capital structure of \$500,000 for the bank instead of \$400,000 shown in the application. This capital structure would be adequate on the basis of the anticipated volume of business to be acquired. The prospects for profitable operations are favorable, character of management is satisfactory, and it appears that a bank in the proposed area has prospects for successful operations within a reasonable period of time. It is noted that another application is pending for the establishment of a national bank in the same general area and that the two applications were filed about the same time. According to the information available, there is need for only one bank in the area at this time and inasmuch as the information in respect to some of the factors is somewhat more favorable in this application, the Board of Governors recommends favorable consideration of the proposal to establish a national bank signed by Mr. Jake Jacobsen and associates.

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. 7
6/17/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 17, 1960



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

Attention Mr. G. W. Garwood,
Deputy Comptroller of the Currency.

Dear Mr. Comptroller:

Reference is made to a letter from your office dated October 15, 1959, enclosing copies of an application to organize a national bank at Austin, Texas, signed by Mr. Ned McDaniel and associates 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 Dallas indicates generally favorable findings with respect to the proposed capital structure, future earnings prospects, and proposed management of the bank. According to the information available, another application for the organization of a national bank in the same general area was filed about the same time. Inasmuch as there appears to be need for only one banking institution in the area at the present time and some of the factors are somewhat less favorable in this proposal, the Board of Governors does not feel justified in recommending favorable consideration of the application filed by Mr. Ned McDaniel and associates.

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.

2285
Item No. 8
6/17/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 17, 1960

Mr. Joseph R. Campbell, Vice President,
Federal Reserve Bank of Philadelphia,
Philadelphia 1, Pennsylvania.

Dear Mr. Campbell:

This refers to your letter of March 22, 1960, in which you inquire regarding the policy that should be followed in cases apparently involving violation of Regulation U, under the definition of "carrying" effective from June 15, 1959, to March 8, 1960. Your letter outlines the facts involved in a series of loans by a State member bank, the Upper Main Line Bank, of Berwyn, Pennsylvania, to Mr. S. Paul Ferraris. Although several of the loans were secured by securities registered on a national securities exchange, only one "purpose" statement was obtained. Mr. Hughes, vice president of the bank, told the examiner, however, that "all the funds the borrower received were being used in his business - Paoli Inn, and for alterations to the Conestoga Inn (damaged by fire and awaiting recovery from the insurance company)." Facts which seemed inconsistent with this conclusion were that several of the certificates deposited as collateral for the loans seem to have borne dates after some previous extensions for credit had taken place, and that a detailed review of the borrower's deposit account showed that several of the borrower's checks were being used to purchase registered stock.

Two preliminary questions are raised by these facts, the first relating to the purpose of the loan, and the second to the use of the purpose statement. As to the first, if funds loaned by the bank were used, directly or indirectly, to purchase registered securities, then any question as to "carrying" would be superfluous in respect to those securities, and the loans, if not initially margined in accordance with current requirements under the Supplement to Regulation U, would clearly have been made in violation of the regulation.

As to the second preliminary question, involving the use of the purpose statement, there is, of course, no requirement in the regulation that a bank shall obtain such a statement from the borrower in connection with every stock-secured loan. To be sure, it is better practice for a bank to obtain a purpose statement which meets the requirements of section 221.3(a) in all cases where there is any reason to suppose that a

Mr. Joseph R. Campbell

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loan may be a purpose loan. But if a bank does not obtain such a statement, the lending officer must be in a position to satisfy a bank examiner by some other means as to what was the purpose of the loan. Mr. Hughes' oral remarks to the examiner would not appear to be adequate in this connection, particularly in view of the facts disclosed by the detailed review of the borrower's deposit account.

Turning to the two questions raised in your letter, you ask "(1) Assuming the subject case represents a violation under the definition of 'carrying' effective June 15, 1959, should it be so reflected in the examination report as of January 4, 1960, in view of the revocation as of March 8, 1960." It is believed that the answer to this question must be in the affirmative.

You also ask "(2) The Board's telegram of March 7, 1960, in part, states ' . . . the Board is concerned with evasive extensions of bank credit for the purpose of carrying registered stocks and expects banks to be alert in detecting and preventing attempts to circumvent the basic purposes of this part.' In view of this could the case still be considered a violation of the 'carrying' restriction even though the express definition as set forth effective June 15, 1959 has been rescinded?"

So far as your question refers to extensions of credit which took place before March 8, 1960, the answer would seem to derive from the fact that the Board did not return to the old section 221.3(b)(1) as of June 15, 1959, but made the amendment effective March 8, 1960. Accordingly, if a bank engaged in conduct which violated that language, at a time when the language was in effect, then the status of such conduct is not changed by the amendment. The Board does not, of course, pass on the question whether such violations would be subject to criminal prosecution if referred to the Department of Justice. Moreover, in assessing the conduct of a bank, the reasons which led the Board to amend the section, including the difficulty of interpreting the language which obtained from June 15, 1959, to March 8, 1960, should be taken into consideration.

Turning to extensions of credit which may have taken place after March 8, 1960, when the Board restored the definition of "carrying" which was in effect before June 15, 1959, a different question is presented. While Regulation U attempts to define the precise legal limits within which banks must operate, the Board has always expected banks also to bear in mind and seek to effectuate the purpose of the regulation. Had the Board not believed that it could rely upon banks to act in good faith in accordance with the spirit as well as the letter of the regulation, it would have issued, as it has the power to do, a stricter body of rules.

Mr. Joseph R. Campbell

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If the course of conduct on the part of the member bank described in your letter continued after March 8, 1960, and proved, on analysis, to amount to loans for "carrying" within the meaning of the provisions effective from June 15, 1959, to March 8, 1960, and yet did not fall within the "carrying" section as it now stands, then certainly the bank could not be said to be violating that section of the regulation since the later date. However, it seems probable in this case that the bank may have permitted its facilities to be used in such a way as to constitute extensions of credit for the purpose of purchasing registered stock in violation of both the letter and the spirit of the regulation.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 9
6/17/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 17, 1960.

Board of Directors,
City National Bank of Beverly Hills,
Beverly Hills, California.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of San Francisco, the Board of Governors, acting under the provisions of Section 19 of the Federal Reserve Act, grants permission to the City National Bank of Beverly Hills to continue to maintain the same reserves against deposits as are required to be maintained by banks located outside of central reserve and reserve cities, upon the opening of its additional branch in the city of Los Angeles.

Your attention is called to the fact that such permission is subject to revocation by the Board of Governors. For your further information, the Board is now actively studying the problem of classifying banks for reserve purposes under the legislation enacted July 28, 1959, Public Law 86-114. As you know, this law includes a provision under which the Board may authorize banks to maintain reduced reserve balances on such basis as the Board may deem reasonable and appropriate in view of the character of business transacted by the member bank. The current study may possibly result in changes in some of the outstanding authorizations given by the Board for carrying reduced reserves.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 10
6/17/60

OFFICE OF THE CHAIRMAN

June 17, 1960.

Mr. Alfred Hayes, President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Al:

A memorandum from Vice President Coombs to you dated June 15, 1960, which was transmitted informally to the Board's Division of International Finance, has been brought to the attention of the Board. This memorandum proposes the withdrawal of any objections the Federal Reserve may have to payment by the Bank for International Settlements of interest rates on dollar time deposits in excess of the ceilings imposed under the Board's Regulation Q. It is assumed that the transmittal of this memorandum is to be considered as your Bank's request for the Board's permission for the sending of a letter to the Bank for International Settlements withdrawing the previously expressed objection.

The Board has considered the proposal made in Mr. Coombs' memorandum and approves the sending by you, on behalf of your Bank and the Federal Reserve System, of a letter in the form of the one enclosed.

Sincerely yours,

Wm. McC. Martin, Jr.

Enclosure

*P.S. This is the matter you called about
and we acted promptly this morning.*

DRAFT

Mr. Guillaume Guindey,
General Manager,
Bank for International Settlements,
Centralbahnstrasse 7,
Basle, Switzerland.

Dear Mr. Guindey:

We wish to inform you that the Board of Governors of the Federal Reserve System has approved the withdrawal until further notice of previous objection to the payment of interest by the Bank for International Settlements on dollar time deposits at rates in excess of the ceilings prescribed by the Board's Regulation Q.

With very best regards,

Sincerely,

Alfred Hayes,
President.

6/17/60