Minutes for July 5, 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 Tuesday, July 5, 1960. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thomas, Adviser to the Board
Mr. Young, Adviser to the Board
Mr. Fauver, Assistant to the Board
Mr. Marget, Director, Division of International Finance
Mr. Koch, Adviser, Division of Research and Statistics
Mr. Robinson, Adviser, Division of Research and Statistics
Miss Burr, Associate Adviser, Division of Research and Statistics
Mr. Dembitz, Associate Adviser, Division of Research and Statistics
Mr. Williams, Associate Adviser, Division of Research and Statistics
Mr. Furth, Associate Adviser, Division of International Finance
Mr. Hersey, Associate Adviser, Division of International Finance
Mr. Sammons, Associate Adviser, Division of International Finance

Messrs. Eckert, Fisher, Keir, Manookian, Solomon, Trueblood, and Wernick, and Miss Dingle, of the Division of Research and Statistics


Messrs. N. M. Miltiadou, K. N. Lazarides, and M. M. Ferdi, of Cyprus, who were visiting the United States under the sponsorship of the International Educational Exchange Service of the Department of State, also were present.
Economic review. The staff of the Division of International Finance presented a summary of recent developments with respect to international trade and foreign financial matters, following which the staff of the Division of Research and Statistics commented on domestic economic developments.

All of the members of the staff except Messrs. Sherman, Kenyon, Young, and Koch then withdrew, as did the three Cypriot officials. Messrs. Hackley, General Counsel, Solomon, Director, Division of Examinations, and Nelson, Assistant Director of that Division, entered the room at this point.

Discount rates. The establishment without change by the Federal Reserve Banks of Philadelphia and San Francisco on June 30, 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.

Application to organize national bank at Winter Park, Florida (Item No. 1). There had been circulated to the members of the Board a file relating to an application to organize a national bank at Winter Park, Florida. The Federal Reserve Bank of Atlanta and the Division of Examinations suggested an unfavorable recommendation on the application, and a draft of letter to the Comptroller of the Currency containing such a recommendation was submitted with the file. The reasons cited in the proposed letter were that it was questionable whether the management of
the bank would be entirely satisfactory and that there did not appear to be sufficient need for the bank at this time.

Governor King stated that he recognized some of the objections regarding the application and realized the Board was only making a recommendation to the Comptroller of the Currency for the latter's consideration. He noted, however, that the majority of the stock of the two existing banks in Winter Park was owned by the same group of stockholders, that there were interlocking directors and officers, and that these were the only two banks in a growing area. While he had noted the comments with respect to some of the organizers of the proposed bank, it occurred to him that in many cases the list of organizers could be expected to include persons who were not ideal. Relatively few people were in a position to subscribe for large amounts of stock of a new bank, and he was inclined to feel that it would often be necessary to gloss over certain objections. Also, while the proposed president of the new bank had been ill in 1958, the report of investigation indicated that he was well regarded in the community from which he came.

Governor King pointed out that there were two savings and loan associations in Winter Park, one of substantial size and the other newly organized. He suggested that consideration be given to whether commercial banks were to be allowed to hold their own in competition with other financial institutions. While he was not completely familiar with the Winter Park area, it was his impression that growth was likely to
continue for some time even if there should be an economic downturn generally throughout the country. For these reasons, he was inclined to recommend favorably to the Comptroller regarding the current application.

Mr. Nelson commented that Vice President Denmark of the Atlanta Reserve Bank had recently been in the Winter Park area and, following a personal inspection, had come to the conclusion that the establishment of the proposed bank would be premature, considering the stage of development of the area and the banking facilities now available in Winter Park and Orlando. The two locations that the proponents had primarily in mind involved properties owned by some of the organizers who were planning to develop a shopping center. Also, a new State bank had recently been chartered at Maitland, about 4.5 miles northwest. These factors, coupled with the questions that had been raised about the management of the proposed bank, seemed to the Atlanta Bank and the Division of Examinations to warrant an unfavorable recommendation.

There followed comments by the other members of the Board which indicated that they concurred in the position taken by the Division of Examinations.

In the course of the discussion Mr. Sherman reported having been advised by Governor Robertson that the latter would favor recommending that the requested charter be granted. Governor Robertson noted that the two banks now operating in Winter Park had a common ownership and a third bank would provide competition. He felt that the community was
large enough to support another banking institution and that any question as to the proposed management should be resolved favorably, particularly since reports on the individual scheduled to assume the presidency were highly complimentary in all respects and the examiner reported no noticeable after-effects of a near breakdown suffered in 1958.

At the conclusion of the discussion, approval was given to the letter to the Comptroller of the Currency of which a copy is attached as Item No. 1, Governor King voting "no" and Governor Robertson's comments having been noted.

Proposed merger in Oklahoma City, Oklahoma. The Comptroller of the Currency had requested a report by the Board on the competitive factors involved in a proposed merger of The Bank of Mid-America Savings and Trust Company, Oklahoma City, Oklahoma, into The Liberty National Bank and Trust Company of Oklahoma City. A suggested report had been circulated to the members of the Board with a memorandum from the Division of Examinations dated June 20, 1960. The conclusions stated in the proposed report were as follows:

The proposed merger would diminish competition because it would eliminate one bank and one teller facility in the downtown business district. The diminution in competition would be limited by the relatively small size of the merging bank. There would not appear to be any significant tendency toward monopoly because of the relatively wide range of existing alternative banking sources.

Mr. Sherman reported having been advised by Governor Robertson that in the latter's opinion the conclusion stated in the proposed report
with regard to the competitive factors involved in the merger should be modified. Governor Robertson agreed that there would not be a significant tendency toward monopoly due to the merger of an $8 million bank into one of $170 million. Nevertheless, the proposed transaction would eliminate some competition through the absorption of an $8 million bank, and Governor Robertson noted that this competition probably could not be replaced because of the absence of branch banking, except to a limited degree, in the State of Oklahoma.

There followed discussion based on the comments of the Federal Reserve Bank of Kansas City and the study of the Division of Examinations, during which Mr. Nelson answered a number of questions pertaining to the banking situation in Oklahoma City and the status of the smaller bank involved in the proposed merger. From this discussion it developed that the members of the Board present concurred generally in the report proposed to be made to the Comptroller of the Currency. However, question was raised as to the statement in the conclusion of the report that the merger would not involve any significant tendency toward monopoly. After a discussion of this point, including the interpretations that might be placed upon such language, it was agreed to substitute the words "there would not appear to be a tendency toward monopoly" in lieu of the words "there would not appear to be any significant tendency toward monopoly."

Subject to this change, and Governor Robertson's views having been noted, the proposed report on the competitive factors involved in the merger was approved unanimously for transmittal to the Comptroller of the Currency.
Retail trade statistics (Item No. 2). There had been distributed to the members of the Board copies of a letter dated June 20, 1960, from Mr. Raymond T. Bowman, Assistant Director for Statistical Standards, Bureau of the Budget, inquiring whether the Federal Reserve System might be willing to provide some financial support (estimated at $125,000 a year) for a program of improved retail trade data being considered for inclusion in the 1962 budget proposals. The program, to be conducted by the Bureau of the Census, would not displace any part of the department store statistics for which the System was responsible, and its adoption would not preclude the Federal Reserve System from eliminating some or all of the department store statistics now being prepared, if the System should reach a decision that such action would be appropriate.

There had also been distributed to the members of the Board copies of a draft of proposed letter to the Presidents of all Federal Reserve Banks requesting the views of the Banks regarding the desirability of supporting a program such as outlined in Mr. Bowman's letter.

In discussion, Mr. Sherman brought out that Mr. Bowman had talked to him and to Mr. Noyes, Director, Division of Research and Statistics, regarding a program of this kind before sending his letter. The principal question raised by Mr. Bowman was how such a program would fit in with the current review of the department store trade statistics being conducted by a committee representing the trade, the Federal Reserve System, and the Bureau of the Budget. Mr. Sherman said he and Mr. Noyes
felt that the program proposed by Mr. Bowman could go ahead without affecting whatever the Federal Reserve might wish to do in the department store field. The undertaking of this program of improved retail trade data with Federal Reserve financial support might, of course, strengthen the assumption that ultimately there would be a single agency collecting all retail trade data and that the department store figures collected by the Federal Reserve would be worked into that program. Therefore, if the Federal Reserve had a strong feeling that it wanted to retain the collection of department store figures indefinitely, perhaps it would not be wise to express agreement with the current proposal even to the extent of giving financial support for a single year. Nevertheless, Mr. Sherman felt that concurrence in the proposal would not be an irrevocable step. If the Federal Reserve Banks should comment favorably, the Board should conclude that financial support ought to be given to this program, and the retail trade program then moved ahead, this might facilitate elimination of the department store reports from the Federal Reserve, at least in the longer run, assuming the Census Bureau demonstrated its ability to compile the data effectively.

After further discussion, the proposed letter to the Federal Reserve Banks, a copy of which is attached as Item No. 2, was approved unanimously, with the understanding that copies would be transmitted to the respective Banks today and that copies also would be handed to the Reserve Bank Presidents when they were in Washington tomorrow to attend a meeting of the Federal Open Market Committee.
Assessment to cover Board expenses. At the meeting on June 22, 1960, consideration was given to a proposed assessment upon the Federal Reserve Banks to cover estimated expenses for the Board for the second half of 1960, but action was deferred in view of questions raised with respect to legislation then pending which provided for an increase in the salary scale for classified Civil Service employees. This legislation having now been passed over a Presidential veto, reference again was made to the proposed assessment for Board expenses. However, since it appeared that the levying of the assessment was not a matter of extreme urgency, action again was deferred in order that Governor Shepardson might have an opportunity to review the matter.

The meeting then adjourned.

Secretary's Notes: On June 16, 1960, the Board advised the Federal Reserve Bank of Philadelphia that it was prepared to grant permission to The First Pennsylvania Banking and Trust Company, Philadelphia, Pennsylvania, to purchase and hold substantially all of the 5,000 shares of stock of Virgin Islands National Bank, Charlotte Amalie, St. Thomas, Virgin Islands, at a cost of approximately $1,500,000 plus expenses, upon condition that the Virgin Islands National Bank execute and deliver within 90 days four copies of an enclosed agreement. The agreement having been executed under date of July 1, 1960, the letter of which a copy is attached as Item No. 3 was sent today to The First Pennsylvania Banking and Trust Company. In addition, there was sent to the Virgin Islands National Bank the letter of which a copy is attached as Item No. 4.
On July 1, 1960, Governor Robertson, acting in the absence of Governor Shepardson, approved on behalf of the Board the following items:

Memorandum dated July 1, 1960, from Mr. Kelleher, Director, Division of Administrative Services, recommending the appointment of Frances L. Hornbeck as Charwoman in that Division, with basic salary at the rate of $1.57 per hour when actually employed, effective the date of entrance upon duty.

Memorandum dated June 27, 1960, from Mr. Farrell, Director, Division of Bank Operations, recommending that the budget of that Division be amended by the authorization of a new position in the Administration Section at Grade FR-9. At the suggestion of the Division of Personnel Administration in a memorandum dated June 30, 1960, in which the Division of Bank Operations concurred, it was understood the title of the new position would be "Data Processing Analyst".

Telegram to the Federal Reserve Bank of St. Louis (attached Item No. 5) approving the appointment of Jack E. Barton and Harold Norris Moore as assistant examiners.
Comptroller of the Currency,
Treasury Department,
Washington 25, D. C.

Attention Mr. W. M. Taylor,
Deputy Comptroller of the Currency.

Dear Mr. Comptroller:

Reference is made to a letter from your office dated April 5, 1960, enclosing copies of an application to organize a national bank at Winter Park, Florida, 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 Atlanta indicates favorable findings with respect to the proposed capital structure and prospective earnings of the institution. According to the information available, it is questionable whether the proposed management of the bank would be entirely satisfactory and there does not appear to be sufficient need for the bank at this time. Accordingly, the Board of Governors does not feel justified in recommending favorable consideration of the application.

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) Merritt Sherman

Merritt Sherman,
Secretary.
Dear Sir:

Enclosed is a copy of a letter dated June 20, 1960, from Mr. Bowman, Assistant Director, Bureau of the Budget, in which he inquires as to whether the Federal Reserve System might be willing to provide some financial support for a program of improved retail trade data that is being considered for inclusion in the 1962 budget proposals. This program would not displace any part of the department store statistics for which the System is responsible, and its adoption would not preclude the Federal Reserve from eliminating some or all of the department store reports now being prepared, if the System reaches a decision that such action would be appropriate.

As is apparent from Mr. Bowman's letter, the principal features of the new program would be the production of weekly and monthly total retail trade and GAAFF sales figures for the United States, and monthly GAAFF figures for a number of large metropolitan areas. It is proposed that appropriated funds would be requested by the Bureau of the Budget to cover the cost of national and regional figures and data for the 20 largest SMSA's. The specific metropolitan areas included are listed in the supplement to Exhibit A of Mr. Bowman's letter. His letter suggests that, in addition, the System might undertake to defray the cost of the 40 next largest metropolitan areas, which are set forth in Exhibit B. The estimated cost of this supplementary service would be $125,000 per year.

While the new program would not directly overlap or duplicate the System's present department store statistics program, and while at least initially it would not justify the discontinuance of that program, it should provide both useful economic information and a practical test of the capacity of the Bureau of the Census to produce weekly and metropolitan area data promptly and efficiently. If such data were developed successfully, their availability might lessen the relative usefulness of local department store data for general economic analysis. It should also be borne in mind that Mr. Bowman's proposal relates to the 1962 budget, and it is entirely possible that significant changes in the Federal Reserve department store reports may well have been made prior
to the time the retail trade data contemplated in the Bowman proposal could become a reality.

In considering Mr. Bowman's proposal, the Board would appreciate the views of the Federal Reserve Banks as to the usefulness of monthly information on total GAAFF sales for the 40 metropolitan areas listed in Exhibit B, as well as any general views that your Bank may have as to the desirability of supporting a Census program of this kind in the present circumstances. It would be helpful if your reply to this letter could be received no later than July 13, 1960.

Very truly yours,

Merritt Sherman,
Secretary

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS
The First Pennsylvania Banking and Trust Company,
Philadelphia 1, Pennsylvania.

Gentlemen:

This refers to the application of The First Pennsylvania Banking and Trust Company ("First Pennsylvania") dated May 9, 1960, transmitted through the Federal Reserve Bank of Philadelphia, for permission of the Board of Governors, under the provisions of Sections 9 and 25 of the Federal Reserve Act, to purchase and hold stock of Virgin Islands National Bank ("National Bank"), a member bank in Federal Reserve District No. 2, Charlotte Amalie, St. Thomas, Virgin Islands. Reference is also made to the agreement dated July 1, 1960, executed by National Bank in accordance with requirements of Section 25 of the Federal Reserve Act, by which National Bank agrees to restrict its operations and conduct its business in the manner set forth therein.

After consideration of such application and agreement, the Board of Governors of the Federal Reserve System approves the application and grants permission to First Pennsylvania, subject to all of the provisions of Sections 9 and 25 of the Federal Reserve Act, to purchase and hold substantially all of the 5,000 shares of stock of National Bank at a cost of approximately $1,500,000 plus expenses (total amount not to exceed $1,650,000); provided, that First Pennsylvania shall not carry on its books the shares of National Bank at a net amount in excess of the proportionate share of the book capital accounts of National Bank at the time of purchase, after giving effect to the elimination of all known losses.

Your letter of May 9, 1960, commented that, although National Bank obviously would require additional capital, you were not prepared to say how these capital needs would be met. In your letter of June 9, 1960, it was stated that you plan to retain the earnings of National Bank in the capital structure of that bank for the foreseeable future and also to make capital contributions when necessary and appropriate. It is understood that discussions have been held between management of
The First Pennsylvania Banking and
Trust Company

National Bank and representatives of the Office of the Comptroller of the Currency as to the adequacy of the capital structure of National Bank, but that adoption of a capital increase program had been postponed for such reasonable period of time as may be required to effect orderly transition of National Bank's ownership. The Board of Governors recognizes that National Bank needs additional capital, and this authorization is given with the understanding that, within nine months from the date of the acquisition of the shares of National Bank by First Pennsylvania, First Pennsylvania will take such steps as may be necessary to increase the capital accounts of National Bank in such amount as may be agreed upon between the Office of the Comptroller of the Currency and National Bank, but in no event in an amount less than $500,000 of new capital.

The Board of Governors is granting permission to National Bank to exceed the prescribed limits of Section 10(b) of the Board's Regulation K relating to "Aggregate liabilities of Corporation", provided National Bank maintains a condition of liquidity which, in the judgment of the Board of Governors, is consonant with the nature of its liabilities, subject to the right of the Board to terminate the permission upon 90 days' written notice. Enclosed for your information is a copy of the Board's letter.

Very truly yours,

Merritt Sherman,
Secretary.

Enclosure
July 5, 1960.

Virgin Islands National Bank,
Charlotte Amalie, St. Thomas,
Virgin Islands.

Gentlemen:

Section 10(b) of the Board's Regulation K ("Corporations Doing Foreign Banking or Other Foreign Financing Under the Federal Reserve Act" as revised January 15, 1957) provides that, except with the prior permission of the Board of Governors, the aggregate outstanding liabilities of a Banking Corporation on account of acceptances, monthly average domestic and foreign deposits, borrowings, guaranties, endorsements and any other such obligations shall not exceed ten times the amount of the Corporation's capital and surplus.

This is to inform you that the Board of Governors grants its permission for Virgin Islands National Bank to exceed the prescribed limits, provided Virgin Islands National Bank maintains a condition of liquidity which, in the judgment of the Board of Governors, is consonant with the nature of the Bank's liabilities. The right is reserved to terminate this permission upon 90 days' written notice.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman, Secretary.
KRONER -- ST. LOUIS

REURLETS JUNE 23 AND JUNE 29, BOARD APPROVES APPOINTMENT OF JACK E. BARTON AND HAROLD NORRIS MOORE AS ASSISTANT EXAMINERS FOR FEDERAL RESERVE BANK OF ST. LOUIS, EFFECTIVE JULY 1, 1960. AUTHORIZATIONS FOR ALL SPECIAL ASSISTANT EXAMINERS CANCELED AS REQUESTED.

(Signed) Merritt Sherman
SHERMAN

July 1, 1960