

Minutes for August 26, 1960

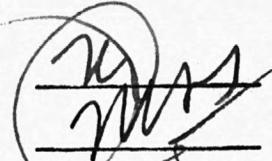
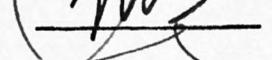
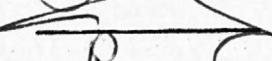
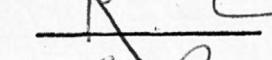
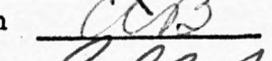
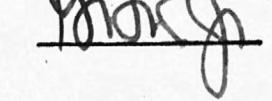
To: Members of the Board

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, August 26, 1960. The Board met in the Board Room at 9:00 a.m.

PRESENT: Mr. Balderston, Vice Chairman
Mr. Szymczak 1/
Mr. Robertson
Mr. Shepardson

Mr. Kenyon, Assistant Secretary
Miss Carmichael, Assistant Secretary
Mr. Young, Adviser to the Board
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Noyes, Director, Division of Research and
Statistics
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Sammons, Associate Adviser, Division of
International Finance
Mr. Nelson, Assistant Director, Division of
Examinations
Mr. Goodman, Assistant Director, Division of
Examinations
Mr. Smith, Assistant Director, Division of
Examinations
Mr. Poundstone, Federal Reserve Examiner, Division
of Examinations

Discount rates. On August 11, 1960, the Board authorized the Secretary's Office to advise the respective Federal Reserve Banks of approval of a discount rate of either 3 per cent or 3-1/2 per cent, as established by such Banks. The rate for all of the Federal Reserve Banks except Dallas and San Francisco having now been changed from 3-1/2 per cent to 3 per cent, the suggestion was made that the Board revert to the usual procedure for consideration of rate wires from the Federal Reserve Banks but continue the authorization to the Secretary's Office to advise of approval of a 3 per cent rate for the Dallas and San Francisco Reserve Banks if and when wires were received from those Banks requesting such approval.

1/ Withdrew from meeting at point indicated in minutes.

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Agreement having been expressed with this suggestion, the Board authorized the Secretary's Office to advise of approval of a 3 per cent rate at the Dallas and San Francisco Reserve Banks, if established by those Banks. The Board then approved unanimously the establishment without change by the Federal Reserve Banks of New York, Cleveland, Richmond, Minneapolis, Kansas City, and Dallas on August 25, 1960, of the rates on discounts and advances in their existing schedules, with the understanding that appropriate advice would be sent to those Banks.

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 Chemical Bank New York Trust Company, New York City, approving the establishment of a branch in Massapequa, Nassau County.	1
Letter to The First National City Bank of New York, New York City, approving the establishment of a branch in the Newport area of San Juan, Puerto Rico.	2

Mr. Nelson then withdrew from the meeting.

Federal Advisory Council topics. A draft of letter to the Secretary of the Federal Advisory Council suggesting topics for inclusion on the agenda for the meeting of the Council to be held on September 14, 1960, and for discussion at the joint meeting of the Council and the Board on September 15 had been distributed.

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Following a general discussion during which several changes in wording and possible additional topics were suggested, it was agreed that a revised draft of letter would be prepared for consideration by the Board.

Messrs. Young and Noyes then withdrew from the meeting.

Examination of Bank of America, New York (Item No. 3). A memorandum from the Division of Examinations dated June 30, 1960, regarding the report of examination of Bank of America, New York, made as of November 25, 1959, had been circulated. It was pointed out in the memorandum that a copy of the report had been transmitted to Bank of America with a letter from Chief Examiner Pierce of the Federal Reserve Bank of New York dated March 2, 1960, which called attention to the examiner's comments on page 2 of the report and requested correction of certain violations of Regulation K, Corporations Doing Foreign Banking or Other Foreign Financing under the Federal Reserve Act. In a letter dated May 6, 1960, the Executive Vice President of Bank of America advised the Federal Reserve Bank of New York that the examination report had been presented to the board of directors on April 18, 1960, and had been carefully reviewed by the auditing and examining committee and by executive officers. The letter reported certain corrective actions taken on the matters referred to by the examiner. Attached to the June 30 memorandum was a draft of letter to Bank of America commenting on the following items covered by the examination report: (1) nonconforming loans and credits; (2) nonconforming deposits; (3) audits or inspections of Banca d'America e d'Italia;

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and (4) suggestions and recommendations regarding certain provisions of Regulation K made by former Executive Vice President Russell G. Smith of Bank of America in a letter dated March 14, 1958.

Commenting on the problem of nonconforming loans, Mr. Goodman indicated that there was criticism of some of the loans of Bank of America because they appeared to be of a domestic character rather than for the purpose of financing international transactions. In connection with nonconforming deposits, the letter would refer to an account of the Zim Israel Navigation Co., Ltd., which the examiner had mentioned in his report, indicating that the "various checks drawn against this account were used to pay office expenses in the United States." According to information furnished by Mr. Coughran, the checks "referred to by the examiner were used to pay expenses of vessels incurred while engaging in international trade and to refund deposits of passage money on cancelled trips." On the basis of this information, the letter would indicate that such activity would be consistent with Regulation K.

Also, the letter would state that no objection would be interposed to the maintenance of deposit accounts for foreign steamship lines whose main offices were located abroad where drawings against such deposit accounts were related solely to shipping expenses incurred in United States ports, such as towing costs, lighterage, piloting, pier costs, and other incidental expenses, including provisioning of vessels. It would also reaffirm the views expressed by the Board in its letter of October 14, 1958, to the effect that deposit accounts for domestic customers, including

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Panamanian or Liberian shipping corporations which maintain their main offices in the United States, would be in violation of Regulation K.

Commenting on the 1958 ruling, Mr. Goodman said Bank of America had been informed at that time that even though the deposit accounts involved had certain international characteristics, the acceptance of such accounts was not considered by the Board to be permissible under the Federal Reserve Act and Regulation K. Section 25(a) of the Federal Reserve Act provides that Edge Act corporations shall have the power "to receive deposits outside of the United States and to receive only such deposits within the United States as may be incidental to or for the purpose of carrying out transactions in foreign countries or dependencies or insular possessions of the United States."

Mr. Solomon observed that the proposed letter would say, in effect, that deposit accounts were not in violation of Regulation K as long as a foreign steamship company was concerned. If a domestic company or any other company having its main office in the United States was involved, the transactions would be in violation of Regulation K. He noted that Vice President Crosse of the Federal Reserve Bank of New York was of the opinion that the nature of the transaction itself rather than the domicile of the company engaged in the transaction should be considered. It was necessary, Mr. Solomon thought, to draw the line some place and no point seemed entirely logical. It could be said that none of the deposit accounts involving shipping expenses incurred in United States ports were

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permissible, that all of them were permissible, or that some were and some were not. A number of the steamship companies were clearly foreign; others were clearly domestic; and some, such as Panamanian and Liberian companies with main offices in the United States, were technically foreign but might still be considered domestic.

Mr. Solomon said he would be inclined to reaffirm the position taken in 1958 and indicate that if a navigation company's headquarters were abroad it could maintain deposit accounts with an Edge Act corporation; if the company was domestic, it could not maintain such accounts. This, he said, would be one place to draw the line.

Mr. Hackley commented that there were arguments on both sides of the question and it was difficult to know where to draw the line. He would be inclined to have the appropriateness of an account determined on the basis of whether or not it was reasonably incidental to carrying out foreign transactions.

Governor Szymczak and Mr. Sammons withdrew from the meeting at this point to attend a meeting of the National Advisory Council on International Monetary and Financial Problems. Before leaving, Governor Szymczak indicated that he would be inclined to agree with the proposed letter to Bank of America and, in the matter of the maintenance of deposits for steamship companies, to favor a test based on the nationality of the company concerned. He added, however, that he did not regard the question as particularly important.

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In reply to a question raised by Governor Shepardson, Mr. Solomon said that the restrictions placed on the domestic activities of Edge Act corporations had their basis in the prohibition against interstate branch banking in the United States. In this case the theory was that Bank of America, New York, a subsidiary of Bank of America National Trust and Savings Association, San Francisco, should be limited in the scope of its operations to those functions of an international character for which it was organized. This got into the difficult question of defining how far Bank of America should be allowed to go in competing with American banks in New York.

Governor Robertson expressed the opinion that the specific question being considered was not too important. The amount of business involved was not large enough to be of too much concern to the Board of domestic banks one way or the other. In view of the international trade flavor which was involved, he would be inclined toward the liberal side.

Governor Shepardson said it seemed to him that a clear line might be drawn at the waterfront. A ship in port is still afloat, and the necessary provisioning of such a ship would appear to be an incident of international trade, as opposed to the building or repairing of vessels at shipyards. For these reasons, Governor Shepardson indicated that he would agree with the position taken by Governor Robertson.

Governor Balderston concurred and noted that Governor Szymczak, although inclined toward the other view, had expressed the thought that the question was not too important.

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After further discussion, it was agreed that the paragraphs regarding deposit accounts for steamship lines should be rewritten to reflect the majority view of the Board.

Mr. Goodman then referred to the portion of the proposed letter which would indicate that Banca d'America e d'Italia, an Italian banking subsidiary, should be audited periodically by the Controller of the Bank of America, New York, the Controller of the Bank of America National Trust and Savings Association, or by independent accountants. He noted that Bank of America had indicated in a letter dated July 28, 1960, that regular examinations were conducted by inspectors of the head office of Banca d'America e d'Italia and that additional periodic examinations by the Controller of Bank of America, other than reviews of executive and administrative head office reports, were not considered necessary. Mr. Goodman said that the procedure suggested by Bank of America would not appear acceptable from the standpoint of good supervision. He felt that the Board should require inspections such as indicated in the proposed letter, although he did not think it was necessary to spell out how often such inspections should be made.

After further discussion, it was agreed that the portion of the letter to Bank of America relating to inspections of Banca d'America e d'Italia reflected the position that should properly be expressed.

Consideration then was given to that part of the letter which would comment on various recommendations regarding provisions of

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Regulation K that had been included in a letter dated March 14, 1958, from Mr. Russell G. Smith, formerly Executive Vice President of Bank of America. Question was raised whether it was necessary for the Board to comment on matters raised in 1958 by an officer no longer with Bank of America; also whether a general discussion of Regulation K should be reopened in a letter concerning an examination report.

Mr. Goodman indicated that the thought had been to clear up at one time all of the questions that had been raised with respect to the operations of Bank of America but had not as yet been answered. He indicated, however, that he had no strong feeling on this point, and in further discussion it was noted that the present officers of Bank of America could, if they so desired, present any comments or suggestions to the Board.

Thereupon, the letter to Bank of America, New York, with the changes agreed upon during the foregoing discussion, was approved unani-
mously. A copy is attached as Item No. 3.

Messrs. Goodman and Poundstone withdrew at this point.

Report of examination of Minneapolis Reserve Bank (Item No. 4).

Mr. Smith summarized the report of examination of the Federal Reserve Bank of Minneapolis made as of May 18, 1960, and there followed a general discussion of matters relating to the report.

During the discussion, consideration was given to the extent of use of the Minneapolis Reserve Bank's discount window by First National

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Bank of Minneapolis and Northwestern National Bank of Minneapolis, and the suggestion was made that a letter be sent to the President of the Reserve Bank requesting, for the record, a statement concerning the reasons underlying the borrowings of these member banks, the administrative measures used in dealing with the situation, and the nature of current and prospective developments. There being agreement with this suggestion, it was understood that a letter would be prepared and sent when in a form satisfactory to Governor Balderston.

Secretary's Note: A copy of the letter sent to the President of the Federal Reserve Bank of Minneapolis on September 7, 1960, is attached as Item No. 4.

In the course of further comments on the examination of the Minneapolis Bank, Mr. Smith stated that during this examination the field examining staff had for the first time followed the procedure, suggested by Price Waterhouse & Co., of observing the actual conduct of an audit performed by the Reserve Bank's auditing staff. Representatives of Price Waterhouse had participated in the review, but it was not the present intent to call upon the firm further. Two additional reviews of this nature had since been conducted, and the reactions to the procedure appeared satisfactory on the part of the auditing departments concerned and the Board's examining staff. Therefore, it was planned to make such reviews on a regular basis for an indefinite period.

Report of examination of Kansas City Reserve Bank (Item No. 5).

Mr. Smith summarized the report of examination of the Federal Reserve Bank

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of Kansas City made as of April 21, 1960, and there followed a general discussion of matters relating to the report.

During the discussion, consideration was given to information in the report concerning the extensive use of the Reserve Bank's discount window by nine reserve city banks and 23 country banks. It was suggested that a letter should be sent to the Federal Reserve Bank of Kansas City requesting advice as to the circumstances underlying this use of Reserve Bank credit and the administrative measures employed by the Bank to encourage member banks to adjust their affairs so as to avoid frequent recourse to the Reserve Bank's discount window. There being agreement with this suggestion, it was agreed that such a letter should be prepared and sent when in a form satisfactory to Governor Balderston.

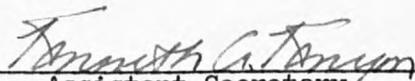
Secretary's Note: A copy of the letter sent to the President of the Federal Reserve Bank of Kansas City on September 7, 1960, is attached as Item No. 5.

The meeting then adjourned.

Secretary's Notes: Governor Shepardson today approved on behalf of the Board the following items:

Memorandum dated August 22, 1960, from Mr. Noyes, Director, Division of Research and Statistics, requesting authorization to enter into a contract with the Bureau of the Census to furnish the Board with the industrial codes assigned to major manufacturing establishments, at an estimated cost of \$11,000, to be used in connection with the electric power project which was approved by the Board in 1959.

Letter to the Federal Reserve Bank of Cleveland (attached Item No. 6) approving the appointment of Bernard L. Reed as assistant examiner.


Assistant Secretary

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

Item No. 1
8/26/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 26, 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 approves the establishment of a branch in the Holiday Park Shopping Center, northwest corner of Hicksville Road (Route 107) and Jerusalem Avenue (Route 105), Massapequa, Nassau County, New York, by the Chemical Bank New York Trust Company, New York, New York. This approval is given provided the branch is established within one year from the date of this letter.

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
8/26/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 26, 1960

The First National City Bank of New York,
55 Wall Street,
New York, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System authorizes The First National City Bank of New York, New York, New York, pursuant to the provisions of Section 25 of the Federal Reserve Act, to establish a branch in the Newport area of San Juan, Puerto Rico; and to operate and maintain such branch subject to the provisions of such Section. The location of the branch may not be changed, after establishment, without the prior approval of the Board of Governors.

The Board of Governors also grants its consent to the exercise by The First National City Bank of New York, at the Newport area branch, of any of the fiduciary powers heretofore granted it by the Board of Governors pursuant to Section 11(k) of the Federal Reserve Act. This consent is granted on the condition that the exercise of such powers in Puerto Rico is not in contravention of the local law and that in exercising such powers at its Newport area branch the bank shall comply in all respects with the applicable provisions of the Federal Reserve Act and the Regulations of the Board of Governors.

Unless the branch is actually established and opened for business on or before September 1, 1961, all rights granted hereby shall be deemed to have been abandoned and the authority hereby granted will automatically terminate on that date.

Please advise the Board of Governors, in writing, through the Federal Reserve Bank of New York, when the branch is opened for business, furnishing information as to the exact location of the branch.

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
8/26/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 26, 1960



Mr. Jesse W. Tapp,
Chairman of the Board,
Bank of America,
41 Broad Street,
New York, New York.

Dear Mr. Tapp:

Reference is made to the following:

- (1) Report of examination of Bank of America, New York, made as of November 25, 1959, by an examiner for the Board of Governors;
- (2) Letter dated March 2, 1960, addressed to you by Chief Examiner John F. Pierce of the Federal Reserve Bank of New York, transmitting the report;
- (3) Letter dated May 6, 1960, from Executive Vice President Coughran to the Federal Reserve Bank of New York, advising the report was presented to the Board of Directors on April 18, 1960, reporting corrective actions taken, and commenting on violations reported.

The Board of Governors has been pleased to note the corrections effected.

With respect to loans and credits listed as nonconforming on pages 11(b) to 11(b)-(2), consideration has been given to the comments of the examiner in the light of additional information furnished in Mr. Coughran's letter. While each of the underlying transactions has characteristics international or foreign in nature, it is the view of the Board that the transactions in question do not conform to the provisions of Regulation K. Where transactions have domestic beneficiaries, it is important that transactions handled by Banking Corporations be free from doubt as to whether the primary consideration is the financing of the domestic beneficiary rather than the underlying transaction, which may be international or foreign in character. This would be the case in transactions such as those described for account of Foreign Credit Corporation, The Deltec Corporation, and Transport Commercial Co.

Mr. Jesse W. Tapp

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With respect to advances to Radio Corporation of America to purchase Deutsche Marks, it is not felt that the financing of a foreign exchange transaction for a United States firm would qualify under Section 6(d)(1). In other words, while Regulation K authorizes a Banking Corporation to buy and sell spot and future foreign exchange, such transactions should be on a cash basis only, as Mr. Coughran's letter expresses it, when the transaction ceases to be a contingent obligation and represents an actual outlay of funds. Moreover, it is felt that loans made to United States firms to purchase foreign exchange should be directly related to international or foreign transactions in order to conform to the letter as well as the spirit of Regulation K.

Mr. Coughran's comments have been noted with respect to various demand accounts reported as nonconforming. It appears that most of the criticized accounts for depositors domiciled in the United States have been closed or brought into apparent conformity with Regulation K. With respect to Zim Israel Navigation Co., Ltd., Haifa, Israel, account, it is noted that, although the examiner stated "Various checks drawn against this account were used to pay office expenses in the United States", according to Mr. Coughran the checks "referred to by the examiner were used to pay expenses of vessels incurred while engaging in international trade and to refund deposits of passage money on cancelled trips". On the basis of this information, it would appear that such activity would be consistent with Regulation K. This is related to questions raised concerning Nonconforming Deposit Accounts in the report of examination of your Bank as of December 4, 1958, regarding which Vice President Ralph, in his letter of May 15, 1959, stated in part:

"It is felt that towing costs, lightering, piloting, pier costs and other incidental expenses in domestic ports are an integral part of the costs of operating ships in international or foreign transportation. It is logical, therefore, that an activity which would be considered incidental to our international or foreign business where a credit extension is involved, would also be considered conforming even in the absence of a credit extension."

In the Board's letter of October 14, 1958, regarding the report of examination as of November 22, 1957, the following comment was made regarding demand deposit accounts of domestic customers listed as nonconforming:

"It will be noted that ten of the accounts . . . are those of steamship companies or their agents in New York. In some instances, the depositors, including a few Panamanian or

Mr. Jesse W. Tapp

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"Liberian companies, maintain their main offices in New York, while other depositors act as agents for foreign companies whose principal offices are abroad. Those shipping company accounts usually are used solely in conjunction with disbursements necessary in the operation of foreign flag vessels calling at American ports. It appears that the Corporation considers such accounts to be conforming. While the shipping accounts might in a sense be said to arise in connection with international business, the acceptance of such deposit accounts is not considered by the Board to be permissible under the Federal Reserve Act and Regulation K at an office of an Edge Act Corporation in the United States."

Consideration has been given to the position expressed in the above quoted remarks of Vice President Ralph and the Board is impressed with his analysis notwithstanding the position taken in its letter of October 14, 1958. Accordingly, even in the absence of credit and other permitted relationships, no objection will be interposed to the maintenance of deposit accounts for steamship lines engaged in international service where drawings against such deposit accounts are related solely to shipping expenses incurred in United States ports which are directly related to such expenses as towing costs, lighterage, piloting, pier costs, and other incidental expenses, including provisioning of vessels.

On page 2 of the report, the examiner commented that there had been no audits by independent accountants nor on-the-spot inspections made of Banca d'America e d'Italia (BAI) since the stock was acquired. The examiner suggested that adequate inspections be made either by personnel of your bank, its parent, or outside accountants. Regarding this point, Mr. Coughran has stated:

"The Italian Banking Supervisory Authorities in the person of the Governor of the Banca d'Italia have informed our management that they consider the condition of the Banca d'America e d'Italia as excellent. We have been further informed that they have arrived at this evaluation through their own sources of information and that this method of evaluation applies to all Italian banks. The Italian Banking Supervisory Authorities only conduct an examination of banks when in their opinion it is necessary to do so.

"We feel that we have adequate measures to provide for control of the bank's operation and that we should not be asked to incur additional expense which is not required of other Italian banks, and which would place us at a disadvantage."

This general question was mentioned in the Board's letter of May 20, 1960, to Executive Vice President Coughran at the time consent was granted to the establishment by BAI of a branch and seven agencies in various Italian cities. Reference was made to two questions addressed to Mr. Pierotti in the Board's letter of July 27, 1956, and his reply of August 2, 1956, with the following comment regarding one of the questions:

- "5. What would be the nature of Bank of America's supervision of BAI? Would investment and credit operations of BAI be supervised in same manner as branches of Bank of America? Would the controller of Bank of America periodically examine the head office and branches of BAI?

"It is intended to implement, within the corporate structure of BAI, substantially the same investment and credit policies as are applicable to the branches of Bank of America, as far as practicable and consistent with Italian laws and regulations. It is further contemplated to develop appropriate methods to supervise investment and credit operations in accordance with such policies. The same would apply to periodic examinations of the head office and branches of BAI by the controller of Bank of America."

The Board's letter of May 20 requested advice as to the extent you have been able to carry out your expectations and the current practices followed. You will appreciate, of course, that the Board's decision as to the nature and extent of examinations of BAI it may desire to have conducted by its own examiners will depend on the reliance that may be placed on the supervision and control of BAI internally; and also the assurance that may be gained from information available in New York, during periodic examinations, regarding the supervision and independent inspections of BAI conducted by or on behalf of your Bank.

Mr. Coughran's reply of July 28, 1960, included this comment:

". . . between April 1958 and March 1960, Deputy Controller of Bank of America, William Muriale, was assigned to BAI for the purpose of evaluating operational procedures, personnel policies and internal auditing procedures. He was also of assistance to BAI in placing into effect various changes which he deemed desirable. As a result of his experience over a two year period which included a regular program of branch review, Mr. Muriale reported on the adequacy of the internal auditing procedures of BAI. Regular examinations by inspectors of Head Office of BAI are conducted in an adequate manner and additional periodic examinations by the controller of Bank of America, other than reviews of executive and administrative Head Office Reports, are not considered necessary at this time."

In granting consent to Bank of America to acquire the stock of BAI, the Board understood that periodic examinations of the head office and branches of BAI would be made by the Controller of Bank of America as in the case of overseas

Mr. Jesse W. Tapp

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branches of Bank of America and Bank of America NT&SA. Although careful consideration has been given to Mr. Coughran's reply, the Board nevertheless still feels that it is desirable that BAI be examined periodically by the Controller of Bank of America or the Controller of Bank of America NT&SA or independent public accountants. It is requested that this matter be brought before the Board of Directors of Bank of America for consideration and the Board of Governors advised as to your plans in this regard.

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
8/26/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 7, 1960



Mr. Frederick L. Deming, President,
Federal Reserve Bank of Minneapolis,
Minneapolis 2, Minnesota.

Dear Mr. Deming:

In considering the report of examination of the Federal Reserve Bank of Minneapolis as at the close of business May 18, 1960, as well as other information in the Board's files, the protracted use of your Bank's discount window by the First National Bank of Minneapolis and the Northwestern National Bank of Minneapolis has been noted. A review of their respective borrowing records, dating from July 1959, shows that the First National Bank has been indebted in all but 4 of the 61 reserve computation periods that have elapsed from that date to August 24, 1960; the Northwestern National Bank has been indebted in 48 reserve computation periods during the same term, including 21 consecutive periods during 1960. These figures would seem to present a question whether the borrowings of these banks from the Federal Reserve Bank are consonant with the principles set forth in the foreword to Regulation A.

The Board recognizes that the question of appropriateness of member bank borrowing from a Federal Reserve Bank depends on the circumstances peculiar to each case. Hence, it will be appreciated if you will advise the apparent cause for the inability of these large banks to adjust their asset positions so as to avoid such consistent recourse to the Reserve Bank's discount window, the administrative actions taken by your Bank in these particular cases, and an estimate as to how soon these banks may be able to follow the more normal course of operating within their own resources over an extended period.

Very truly yours,

Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

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

Item No. 5
8/26/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 7, 1960



Mr. H. G. Leedy, President,
Federal Reserve Bank of Kansas City,
Kansas City 6, Missouri.

Dear Mr. Leedy:

The report of examination of the Federal Reserve Bank of Kansas City as at the close of business April 21, 1960, at pages 39-51, listed 9 reserve city banks and 23 country banks that had made extensive use of the Reserve Bank's discount window during 1959 and in the current year to date of examination. It is observed that all nine of the reserve city banks borrowed in 70 per cent or more of the reserve computation periods in both 1959 and the portion of the current year to date of examination, and that a majority of these banks borrowed in 80 per cent of the reserve computation periods. Thirteen country banks borrowed in 70 per cent or more of the reserve computation periods in 1959; one of these banks was indebted on every day of the year, and another one was indebted 345 days. Sixteen of the country banks borrowed in seven or more of the nine reserve computation periods that had elapsed in the current year to date of examination and, of these, eight borrowed in all nine of the periods.

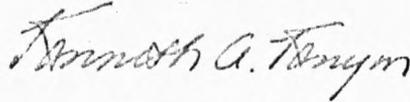
The Board is desirous that the legitimate credit needs of the member banks be served, but is concerned whether the borrowings from the Reserve Bank summarized above are consonant with the general principles set forth in the foreword to Regulation A. The Board would appreciate it if you would review the situation and advise it with respect to (a) the circumstances underlying the extensive use of Reserve Bank credit and (b) the administrative measures employed by the Reserve Bank to encourage the member banks to adjust their affairs so as to avoid frequent recourse to the Reserve Bank's discount window. If the same underlying causes

Mr. H. G. Leedy

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pertain to groups of banks, it is not necessary that you reply in detail with regard to each bank separately. However, if an individual bank was faced with special circumstances, the Board would be interested in learning the particulars in each such instance.

Very truly yours,



Kenneth A. Kenyon,
Assistant Secretary.

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

Item No. 6
8/26/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 26, 1960

Mr. Paul C. Stetzelberger, Vice President,
Federal Reserve Bank of Cleveland,
Cleveland 1, Ohio.

Dear Mr. Stetzelberger:

In accordance with the request contained in your letter of August 22, 1960, the Board approves the appointment of Bernard L. Reed as an assistant examiner for the Federal Reserve Bank of Cleveland. Please advise as to the effective date of the appointment.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

