

Minutes for October 24, 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

M  
[Signature]

Gov. Szymczak

[Signature]

Gov. Mills

[Signature]

Gov. Robertson

[Signature]

Gov. Balderston

[Signature]

Gov. Shepardson

[Signature]

Gov. King

[Signature]

Minutes of the Board of Governors of the Federal Reserve System  
on Monday, October 24, 1960. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary  
Mr. Thomas, Adviser to the Board  
Mr. Young, Adviser to the Board  
Mr. Fauver, Assistant to the Board  
Mrs. Semia, Technical Assistant, Office of the  
Secretary

Messrs. Noyes, Garfield, Koch, Robinson, Dembitz,  
Eckert, Keir, Sigel, Solomon, Altmann, Fisher,  
Manookian, Wernick, and Trueblood of the  
Division of Research and Statistics

Messrs. Hersey, Sammons, Reynolds, Irvine, Katz,  
Wood, Dahl, Gemmill, and Maroni, of the  
Division of International Finance

Economic review. Members of the staff of the Division of International Finance discussed recent international economic and monetary developments, including the rise in the price of gold in the London market, after which the staff members of the Division of Research and Statistics reported on domestic economic and credit trends.

Governor Szymczak withdrew from the meeting at the conclusion of the economic review. All of the members of the staff except Messrs. Sherman and Fauver and Mrs. Semia also withdrew at this point and the following entered the room:

1/ Withdrew from meeting at point indicated in minutes.

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Mr. Hackley, General Counsel  
 Mr. Solomon, Director, Division of Examinations  
 Mr. Johnson, Director, Division of Personnel  
 Administration  
 Mr. Benner, Assistant Director, Division of  
 Examinations  
 Mr. Smith, Assistant Director, Division of  
 Examinations  
 Mr. Young, Assistant Counsel  
 Mr. Rudy, Special Consultant, Legal Division  
 Mr. Leavitt, Supervisory Review Examiner, Division  
 of Examinations

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 Security Trust & Savings Bank, Storm Lake, Iowa, approving the establishment of a branch at 300 West 5th Street.	1
Letter to Union Bank and Trust Company, Ottumwa, Iowa, approving the establishment of a branch in Agency, Iowa.	2

"International" savings accounts (Item No. 3). At its meeting on October 18, 1960, the Board considered a draft of reply, submitted with a memorandum dated October 13, 1960, from the Legal Division, to an inquiry from the Federal Reserve Bank of Chicago as to whether the "international accounts" plan contemplated for use by the Citizens Bank and Trust Company, Park Ridge, Illinois, would comply with Regulation Q, Payment of Interest on Deposits. The retention of savings pass books by the bank was involved in the plan, and during the Board's discussion question was

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raised as to whether the Office of the Comptroller of the Currency had not objected to retention of pass books by national banks. The Board therefore postponed action on the proposed reply to the Chicago Reserve Bank until the Legal Division could get in touch with the Comptroller's Office to clarify that point.

A memorandum dated October 21, 1960, from the Legal Division, which had been distributed, reported that it had been learned that the Comptroller objected to retention of savings pass books by national banks when internal controls surrounding their possession were inadequate. Adequacy of controls was related to limitation on the easy accessibility to retained pass books, for improper purposes, by officers and employees of the savings department. This point having been clarified, the Legal Division renewed its recommendation that the draft of letter submitted with its memorandum of October 13 be sent to the Federal Reserve Bank of Chicago.

After a brief discussion, the letter to the Reserve Bank was approved unanimously. A copy is attached as Item No. 3.

Mr. Rudy left the meeting at this point.

Use of discount window. As the result of review by the Board of the reports covering the examinations of the Federal Reserve Banks of Minneapolis and Kansas City made earlier this year, letters were sent to those Banks on September 7, 1960, regarding the use of the discount window. The letter to the Minneapolis Bank inquired about protracted borrowings by two large banks in Minneapolis, and the letter to the Kansas City Bank inquired about extended borrowings by nine reserve city banks and 23 country

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banks. In each case the Board asked about the circumstances underlying the use of Reserve Bank credit and the administrative measures employed by the Reserve Bank to encourage the member banks concerned to adjust their affairs so as to avoid frequent recourse to the discount window. The reply from the Minneapolis Bank, dated September 9, 1960, and the reply from the Kansas City Bank, dated October 13, 1960, had been circulated.

Mr. Solomon indicated that he and Mr. Smith felt the reply from the Minneapolis Bank gave a generally satisfactory explanation, while the reply from the Kansas City Bank was less satisfactory. Perhaps the replies appeared in this light partly because only two banks were involved in the Minneapolis District, whereas 32 banks were involved in the Kansas City District. Mr. Smith had reviewed the borrowings of the banks in question subsequent to the dates of the examination reports, Mr. Solomon continued, and found that the two Minneapolis banks had reduced their borrowings in both volume and frequency. However, a number of the banks in question in the Kansas City District were continuing to borrow frequently and in fairly substantial volume. That did not necessarily mean that the borrowing was wrong, he said, because there might be ample justification for it. On the other hand, there might be some question as to the time being taken by the borrowing banks to adjust their positions so as to obviate the need for frequent recourse to the discount window.

Governor Mills expressed concern about the long-range effect on the administration of the Reserve Bank discount windows if the belief

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became circulated that the Board, as contrasted with the Division of Examinations, was making inquiries that might seem to be looking toward punitive action with respect to discount practices. Although it appeared probable that there had been a degree of leniency, especially at the Kansas City Bank, country banks in the agricultural districts had perhaps been willing to take on too many nonliquid loans, and thus had become rather constant customers of the discount window. To the extent that the reported borrowings were necessitous, aggressive action on the part of the Board at this time could be more harmful than helpful.

The discussion that ensued centered principally around problems faced by banks in the Great Plains States in assisting ranchers and farmers to rebuild herds that had been reduced during the drought that ended in 1956. Governor Shepardson commented, in this connection, that in his opinion the herds had been overbuilt at the time of the drought, and since the end of the drought they had been rebuilt to what were considered critically high levels in the minds of a number of knowledgeable people.

After further discussion the Board decided not to pursue further at the present time the questions that had been raised regarding the use of the discount window. It was understood that no acknowledgements would be made of the letters received from the Minneapolis and Kansas City Banks, but that the Board would continue to watch the situation in regard to the extent of member bank borrowings at the Federal Reserve Bank of Kansas City.

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Salary for Dallas Reserve Bank officer (Item No. 4). Pursuant to the favorable recommendation of the Division of Personnel Administration, as set forth in a file that had been circulated to the Board, unanimous approval was given to a letter to the Federal Reserve Bank of Dallas approving an annual salary for Mr. Philip E. Coldwell, as Vice President in charge of research. A copy of the letter is attached as Item No. 4.

Request from Justice Department for services of bank examiner (Item No. 5). A memorandum from the Division of Examinations and the Legal Division dated October 21, 1960, had been distributed in connection with a request from the Department of Justice that an experienced bank examiner be assigned to assist the United States Attorney in preparing for the criminal trial of certain officers of the North Shore Bank, a member bank in Miami Beach, Florida, and to act as an expert witness at the trial set for November 14, 1960. The Department also asked that certain records and reports relative to the matter be made available to the examiner, and for review by the United States Attorney.

The memorandum indicated that it had been ascertained informally that the Office of the Comptroller of the Currency had received a similar request and would make the services of the District Chief National Bank Examiner available. It was also understood that the Federal Deposit Insurance Corporation had received a similar request but had not reached a decision as to its reply. The memorandum further pointed out that several years ago, in connection with the same case, the Board was requested

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to make reports of examination available to the United States Attorney and that, at the Board's request, an examiner for the Federal Reserve Bank of Atlanta took the reports to the United States Attorney in Miami for review in the examiner's presence.

Mr. Solomon said he had learned informally that the Federal Reserve Bank of Atlanta was somewhat reluctant to comply with the request, feeling that it would be difficult to prove that fraud had occurred and that the pressing of charges was unwarranted. Mr. Solomon commented that the charges did not grow out of facts reported to the Department of Justice by the Federal Reserve, but out of facts reported by the Home Loan Bank System in connection with the operations of related savings and loan associations. The Reserve Bank's attitude was, of course, not necessarily a controlling factor in the Board's decision.

Mr. Hackley commented that from a legal point of view the request appeared to fall within the scope of section 9(b) of the Board's Rules of Organization regarding instances in which an officer of a Federal Reserve Bank is asked to testify, the Rules providing that he can do so only with the Board's approval.

Mr. Solomon said his conversations with the Office of the Comptroller of the Currency did not indicate that that Office had given a great deal of thought to the validity of the charges in the case, its attorneys having felt that there was no alternative to compliance with the request of the Justice Department.



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Governor Mills expressed the view that it would be in order to allow a bank examiner to appear as an expert witness on examination procedures. However, if it was expected that the examiner would go beyond such role and give testimony regarding material that had been obtained in confidence in the course of examination of a member bank, he thought the request should be carefully studied in the light of the rules of procedure governing disclosure of unpublished material. In such event, he felt that the Board should refuse to permit the examiner to appear except under subpoena. If confidential information were subpoenaed, the Board should then reach a decision as to whether it would comply.

Governor Robertson stated that in his opinion, in view of the fact that the Department of Justice had asked the cooperation of the supervisory agencies, the Board had no alternative but to comply. One Government agency should not have to resort to a subpoena to get cooperation from another agency. He would be unwilling to assume that this was a political persecution, as had been alleged, rather than a bona fide criminal proceeding, and he would suggest assigning the best man in the District to the case.

After further discussion it was agreed by a majority of the members of the Board, Governor Mills dissenting, that the request of the Department of Justice should be granted. It was understood that the reply to the Department of Justice informing it of the Board's decision would be worded in such a way as to make it clear that the examiner to be assigned would assist the United States Attorney before the trial only in an advisory

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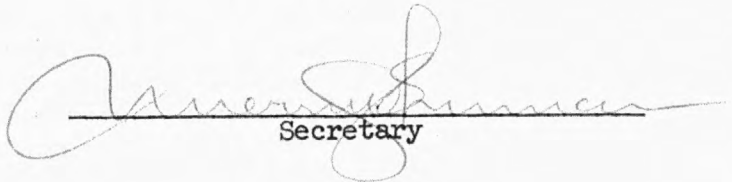
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capacity and not in the actual preparation of the case, and that his testimony was to be given only as an expert witness and not as a part of the prosecution.

A copy of the letter sent to the Department of Justice pursuant to this action is attached as Item No. 5.

The meeting then adjourned.

Secretary's Note: Pursuant to the request contained in a memorandum dated October 21, 1960, from Mr. Entriken, Legal Assistant, Legal Division, Governor Shepardson today granted permission for him to work part-time as Secretary-Treasurer of the Northeast Masonic Temple Association, Inc.

  
Secretary

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

Item No. 1  
10/24/60

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

October 24, 1960



Board of Directors,  
Security Trust & Savings Bank,  
Storm Lake, Iowa.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors of the Federal Reserve System approves the establishment of a branch at 300 West 5th Street, Storm Lake, Iowa, by Security Trust & Savings Bank, provided the branch is established within six months from the date of this letter.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.

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

Item No. 2  
10/24/60

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

October 24, 1960

Board of Directors,  
Union Bank and Trust Company,  
Ottumwa, Iowa.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors of the Federal Reserve System approves the establishment of a branch in Agency, Iowa, by Union Bank and Trust Company, provided the branch is established within nine months from the date of this letter.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.

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

Item No. 3  
10/24/60

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

October 24, 1960



Mr. Paul C. Hodge, Vice President,  
General Counsel and Secretary,  
Federal Reserve Bank of Chicago,  
Chicago 90, Illinois.

Dear Mr. Hodge:

The Board has considered the "International Accounts" Plan of Citizens Bank and Trust Company, Park Ridge, Illinois, as detailed in the information submitted with your letter of August 17, 1960. The Application-Agreement Form contains a statement, "That my INTERNATIONAL SAVINGS pass book is to be retained by the Bank and held as representing my INTERNATIONAL SAVINGS ACCOUNT collateral, and --", which the Park Ridge bank has requested permission to delete and to issue written receipts for each deposit in lieu of a pass book. The plan contemplates retention of the pass book accompanied by authority in the bank to make withdrawals to repay loans in the event a payment is not made within seven days after a check has been cashed.

Section 217.1(e) of Regulation Q provides that withdrawals are permitted upon presentation of the pass book through payment to the person presenting the pass book. It is also provided that "The presentation by any officer, agent or employee of the bank of a pass book or a duplicate thereof retained by the bank or by any of its officers, agents or employees is not a presentation of the pass book within the meaning of this part except . . . where the pass book is held by the bank as security for a loan." The credit account is established at the time of the opening of the savings account; however, loans are considered as coming into existence only when a check drawn against the credit account is cashed. Consequently, at the time the pass book is presented in connection with a withdrawal it would be held as security for a loan. It is the Board's view, therefore, that the above-mentioned exception of section 217.1(e) is applicable and that the plan, as submitted, conforms to Regulation Q.

Mr. Paul C. Hodge

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The Citizens Bank and Trust Company has asked permission to delete the above-quoted provisions concerning pass books and issue written receipts for each deposit. Section 217.1(e) provides that "Savings Deposit" also means a deposit evidenced by a written receipt or agreement although not a pass book. However, when the deposit is so evidenced, "Withdrawals are permitted only through payment to the depositor himself but not to any other person whether or not acting for the depositor." This quoted portion of Regulation Q would prevent a withdrawal from the savings account at the end of seven days to pay a loan, should no new payment occur within such period. It is the Board's view that the plan would violate the terms of Regulation Q, should written receipts be issued in lieu of the pass book.

It would be appreciated if the Board's views would be communicated to the Citizens Bank and Trust Company.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

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

Item No. 4  
10/24/60

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

October 24, 1960

CONFIDENTIAL (FR)

Mr. Watrous H. Irons, President,  
Federal Reserve Bank of Dallas,  
Dallas 2, Texas.

Dear Mr. Irons:

The Board of Governors approves the payment of salary to Mr. Philip E. Coldwell as Vice President (in charge of Research) of the Federal Reserve Bank of Dallas at the rate of \$17,000 per annum for the period November 1 through December 31, 1960, which is the rate fixed by your Board of Directors as reported in your letter of October 13.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

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

Item No. 5  
10/24/60

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

October 25, 1960.



Mr. Malcolm Richard Wilkey,  
Assistant Attorney General,  
Criminal Division,  
United States Department of Justice,  
Washington 25, D. C.

Attention: Mr. Nathaniel E. Kossack,  
Chief, Fraud Section.

Re: United States v. Baron de Hirsch Meyer,  
Leonard L. Abess, W. George Kennedy,  
and Sam R. Becker. Miami, Florida  
(MRW:NEK:baj 29-18-243)

Dear Mr. Wilkey:

This is a reply to your undated letter received October 21, 1960, which refers to the request made by Assistant United States Attorney Stanley Brons of Miami, Florida, that an examiner from this office be assigned to him to advise in the preparation of the above case.

It is the Board's understanding that the examiner would be used for the purpose of informing Mr. Brons about banking practices and possibly of testifying in an expert capacity. Mr. Brons yesterday telephoned and stated that the services of the examiner would be needed for the period between now and the trial on November 14, 1960, and for approximately one additional week after the trial date.

The Board has considered your written request for the above stated purpose and has authorized Mr. Malcolm Bryan, President of the Federal Reserve Bank of Atlanta, to send an examiner to your office in Miami as quickly as possible. The arrangements necessary to send an examiner may take some little time since these men are assigned to examinations in the Sixth District. However, every effort will be made to make a man available at an early date. It is contemplated that any records which the Reserve Bank considers pertinent will be sent with the examiner for review by the United States Attorney.

Very truly yours,

Merritt Sherman,  
Secretary.



Governor Mills' memorandum of December 27, 1960,  
together with Mr. Sherman's memorandum of the  
same date, was circulated to all members of the  
Board with the minutes of October 25, 1960.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

Office Correspondence

Date December 27, 1960

Board of Governors

Subject: \_\_\_\_\_

Mr. Sherman

Reference is made to the attached memorandum from Governor Mills regarding the minutes of the meeting of the Board held on October 25, 1960, in which he states that he is not initialing these minutes because he feels they should be expanded beyond the mere reference to the informal discussion of vault cash and reserve requirements that took place at that time.

Since a detailed record of the informal discussion on October 25 was not kept by the Secretary, it was not possible to write the minutes for that session in as much detail as is customary for most Board meetings. Chairman Martin had asked that the meeting be called with only limited attendance for the purpose of having an exploratory exchange of ideas on the subject of vault cash in advance of that morning's meeting of the Open Market Committee. He pointed out that he did not have in mind that any action would be taken or decision reached at that meeting of the Board regarding the subject. Because of the nature of this meeting, which was relatively brief, notes were made only of the main points of the discussion--not of detailed comments. The substance of some of these notes was incorporated by reference in the paragraph starting on page 5 of the minutes of the meeting on October 26, 1960, at which point there is presented a summary of the comments of Governor Mills. The October 26 minutes are intended to present the views of all members of the Board leading to the action taken on that date.

Attachment

December 27, 1960.

Minutes of October 25, 1960

Mr. Sherman

Governor Mills

The Minutes of the meeting of the Board of Governors on October 25 are continued in circulation without my initialing. The Minutes of October 25 were a precursor of the Minutes of October 26 at which the subject of vault cash and reserve requirements was reduced to a decision. If our Minutes are to have value, those for October 25 should be expanded beyond the mere reference "There followed an informal discussion" to give the spirit and extent of that discussion.

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ALM:hbw