

Minutes for April 12, 1961

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)

Gov. Szymczak

SMS

Gov. Mills

[Signature]

Gov. Robertson

R.

Gov. Balderston

CCB

Gov. Shepardson

SSS

Gov. King

[Signature]

Minutes of the Board of Governors of the Federal Reserve System
 on Wednesday, April 12, 1961. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
 Mr. Balderston, Vice Chairman
 Mr. Szymczak
 Mr. Robertson
 Mr. Shepardson
 Mr. King

Mr. Sherman, Secretary
 Mr. Kenyon, Assistant Secretary
 Miss Carmichael, Assistant Secretary
 Mr. Thomas, Adviser to the Board
 Mr. Hackley, General Counsel
 Mr. Farrell, Director, Division of Bank
 Operations
 Mr. Solomon, Director, Division of
 Examinations
 Mr. Hooff, Assistant General Counsel
 Mr. Conkling, Assistant Director, Division
 of Bank Operations
 Mr. Goodman, Assistant Director, Division
 of Examinations
 Mr. Leavitt, Assistant Director, Division
 of Examinations
 Mr. Collier, Chief, Current Series Section,
 Division of Bank Operations

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:

Item No.

1

Letter to The Chase Manhattan Bank, New York,
 New York, approving an extension of time to
 establish a branch at 666-676 Forest Avenue,
 West New Brighton, Staten Island, provided the
 branch now operated at 288 Broadway in West
 New Brighton is discontinued simultaneously
 with the opening of the new branch.

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Item No.

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| Letter to The First Pennsylvania Banking and Trust Company, Philadelphia, Pennsylvania, approving an extension of time to establish a branch at Ashland Avenue and MacDade Boulevard, Glenolden, Delaware County. | 2 |
| Letter to Morgan Guaranty International Finance Corporation, New York, New York, granting permission to purchase shares of The Anglo-Australian Corporation Pty. Limited, Melbourne, Australia. | 3 |
| Letter to Bankers Trust Company, New York, New York, approving the establishment of a limited purpose branch at 120 Broadway. | 4 |

Messrs. Hooff and Leavitt then withdrew from the meeting and Messrs. Molony and Fauver, Assistants to the Board, and Dembitz, Associate Adviser, Division of Research and Statistics, entered.

Classification of cities for reserve purposes. Pursuant to Board action on February 24, 1961, there had been published in the Federal Register a notice of proposed rule making that would involve amending Regulation D, Reserves of Member Banks, (1) to provide a new basis for classifying reserve cities that would supersede the basis adopted by the Board in 1947 and (2) to set forth the factors that would be considered by the Board in passing upon applications by individual member banks in reserve or central reserve cities for permission to maintain reserves prescribed for banks not located in reserve or central reserve cities. The notice specified that all comments on the proposed amendments should be submitted in writing not later than April 1, 1961.

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There had been distributed to the members of the Board under date of April 10, 1961, a memorandum from Mr. Farrell in which the protests received regarding various aspects of the proposed amendments were summarized. Also distributed were copies of the protesting communications and a memorandum of April 10, 1961, from Mr. Thomas that summarized the principal points made in conversations between members of the Board's staff and representatives of banks in Hartford, Connecticut, and Newark, New Jersey, with reference to the proposed classification of those cities as reserve cities. A joint letter from Senators Javits and Keating of New York and a letter from Senator Hayden of Arizona likewise had been distributed.

It was pointed out in Mr. Farrell's memorandum that serious protests were received from two banks in Hartford, Connecticut, three banks in Albany, New York, the Albany Clearing House Association, three banks in Newark, New Jersey, and two banks in Phoenix, Arizona, against the classification of the respective cities as reserve cities.

Letters were also received from one bank in Charleston, South Carolina, three banks in San Francisco, California, and two in Los Angeles about the long-standing provision that includes deposits held by out-of-town branches among the deposits of the bank subject to reserve city requirements. These banks argued that it was inappropriate to subject out-of-town branch deposits to reserve city requirements because such branches were like country banks. It was noted in the memorandum

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that the Legal Division felt that it was extremely doubtful whether the Board had the authority to prescribe differing reserve requirements for segments of a bank's demand deposits.

In addition, the Federal Reserve Bank of New York and the City National Bank and Trust Company of Columbus, Ohio, submitted suggested revisions of the paragraph in the proposed amendments concerning permission to carry reduced reserves.

The memorandum also indicated that there was another change in the proposed revision of Regulation D that the Board might wish to consider. On the basis of a conversation with a representative of the Toledo Trust Company, Chairman Martin had reported at an earlier meeting of the Board that there was some sentiment in that area in favor of permitting banks in cities which were voluntarily retained as reserve cities under the "grandfather clause" to have their status reviewed more frequently than once every three years. The Legal Division had subsequently suggested that this purpose could be accomplished by inserting an additional paragraph in the proposed section 204.4 of Regulation D.

After outlining arguments for and against classifying Hartford, Albany, Newark, and Phoenix as reserve cities, the memorandum indicated that it would be helpful if the Board would give the staff guidance as to the preparation of appropriate material preparatory to any final action that might be taken on the proposed amendments.

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In the memorandum reference was made to the fact that several banks had requested permission to carry reduced reserves if the proposed reserve city classification standards were adopted. Also, requests for the continuation of reserve city status had been received from certain banks located in cities that would no longer be reserve cities under the proposed amendments except pursuant to favorable action on such requests. It was suggested that the Board might wish to defer action on the requests for permission to carry reduced reserves and for continuation of the reserve city classification until final action had been taken concerning the standards for classifying cities.

In the discussion of the proposed amendments, Governor Balderston noted that several protests had been received against the proposed classification of Albany, New York, as a reserve city, principally on the grounds that public funds accounted for a large proportion of the total demand deposits of banks in that city. He inquired whether it was felt that this constituted a sound basis for complaint.

Mr. Thomas responded that the situation with respect to banks in Albany was similar to that of banks in other State capitals. If standards for classifying cities were to be adjusted according to the nature of deposits, it would be necessary to have a far more complicated formula.

After Mr. Farrell had presented certain available statistical information on the situation of the banks in Albany, Mr. Thomas stated reasons why he did not think a strong case could be made for permitting

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lower reserve requirements against State and local Government deposits. In fact, if volatility was considered to be a factor, it might be argued that the requirements against such deposits should be higher. From the standpoint of pure theory, moreover, no case at all could be made, for the deposits of Governmental bodies are part of the process of credit expansion. If there was a differential in reserve requirements, erratic movements could be created in the money market as those funds moved in and out of banks.

Chairman Martin then asked Mr. Farrell for his views regarding the proposed amendments, and Mr. Farrell commented that the objective of the classification standards was to correct existing inequities with as little disturbance as possible. He believed the proposed plan would do this. It was to be expected that banks in cities that would be newly classified as reserve cities would protest, for those banks would have their earning capacity somewhat diminished. However, it did not appear that any new arguments of substance had been presented as a result of the notice published in the Federal Register. Assuming that the standards for classifying reserve cities should be applied equitably across the country, he did not think any views had been expressed that would provide a substantial reason for reconsidering the proposed standards.

Governor Balderston then inquired concerning the amount of additional required reserves that banks in Hartford, Newark, Albany, and Phoenix would be required to carry if those cities were classified as reserve cities, and there was some discussion of this point.

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After further discussion, question was raised concerning the degree of urgency in coming to a decision on this matter, and Mr. Farrell noted that the original time schedule worked out by the Legal Division was based on the possibility that June 1, 1961, might be the effective date of the amendments. Along this line, Mr. Hackley commented that the time schedule was not inviolate. He observed that the effective date would normally be about 30 days after announcement of the adoption of amendments to a Board regulation.

Mr. Farrell commented that the National State Bank, Newark, New Jersey, had submitted a written request to the Board for an opportunity to discuss the matter in more detail before adoption of the proposed amendments.

On this point, Governor Balderston noted that the other banks in Newark and the banks in Hartford had already sent representatives to discuss the proposed amendments with the Board's staff. He was hopeful that such a procedure could take care of any similar requests that might be received from banks wishing to present their views.

Chairman Martin stated that the matter of the proposed amendments had been brought up today in terms of a preliminary discussion. He added that he had not yet had an opportunity to review thoroughly the memoranda from Messrs. Farrell and Thomas or the other material that had been made available to the Board. On the matter of the request of National State Bank, he felt that it would be desirable to invite the

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bank to send representatives to Washington to discuss the question with members of the Board's staff if such a procedure would be satisfactory to the bank.

Governor Robertson also agreed that it would be a good idea to put National State Bank on the same footing as other banks that had been represented in previous discussions with the Board's staff regarding the proposed amendments. With reference to the time schedule for acting on the amendments, he did not feel that this was too important. He could see no reason for delaying action unduly, but on the other hand he did not believe a reasonable delay would be particularly harmful.

After further discussion, it was agreed that National State Bank, Newark, would be invited to meet with the Board's staff to discuss the proposed amendments and that a similar invitation would be extended to any other interested parties who might ask for an opportunity to be heard. It was understood that the Board would then consider further the proposed amendments to Regulation D, including the question of adherence to the proposed time schedule for adoption of the amendments.

In response to a question by Governor Balderston, Chairman Martin indicated that it would be agreeable to him if the Board reached a decision and saw fit to act prior to his return from his forthcoming trip to Europe.

The meeting then adjourned.

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

Letter to the Federal Reserve Bank of Cleveland (attached Item No. 5) approving the appointment of William Robert Williams as assistant examiner.

Letter to the Federal Reserve Bank of Atlanta agreeing to make Mildred E. Pilger, Supervisor, Administrative Subject and FOMC Files, Office of the Secretary, available to the Bank for a period of about 10 days in May 1961 for the purpose of advising on a recommendation that the Bank's subject file be expanded and amended, with the understanding that Mrs. Pilger would remain on the Board's payroll but that her actual necessary transportation expenses and per diem in lieu of subsistence would be reimbursed by the Bank.

Memoranda from appropriate individuals concerned recommending the following actions relating to the Board's staff:

Appointments

Gayle A. Stelger as Statistical Clerk, Division of Research and Statistics, with basic annual salary at the rate of \$3,865, effective the date of entrance upon duty.

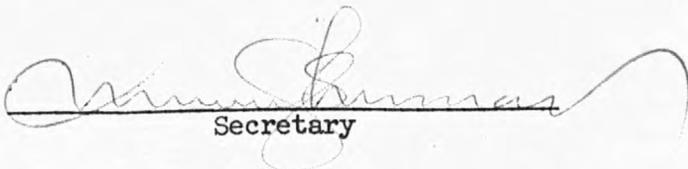
Barton Veret as Legal Assistant, Legal Division, with basic annual salary at the rate of \$6,435, effective the date of entrance upon duty.

Salary increase

Seymour Golodner, from \$6,930 to \$7,560 per annum, with a change in title from Analyst to Technical Assistant in the Division of Bank Operations, effective April 16, 1961.

Acceptance of resignation

Margaret V. Hastings, Economist, Division of Research and Statistics, effective at the close of business April 14, 1961.


Secretary

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

Item No. 1
4/12/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 12, 1961

Board of Directors,
The Chase Manhattan Bank,
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 November 1, 1961, the time within which The Chase Manhattan Bank, New York, New York, may establish a branch at 666-676 Forest Avenue, West New Brighton, Staten Island, New York, provided the branch now operated at 288 Broadway in West New Brighton, is discontinued simultaneously with the opening of the branch at 666-676 Forest Avenue.

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
4/12/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 12, 1961

Board of Directors,
The First Pennsylvania Banking and Trust Company,
Philadelphia, Pennsylvania.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Philadelphia, the Board of Governors has approved an extension of time until April 21, 1962, in which The First Pennsylvania Banking and Trust Company may establish a branch at the northeast corner of Ashland Avenue and MacDade Boulevard, Glenolden, Delaware County, Pennsylvania. The establishment of this branch was authorized in a letter dated April 21, 1960.

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
4/12/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 12, 1961



Morgan Guaranty International
Finance Corporation,
23 Wall Street,
New York 8, New York.

Gentlemen:

In accordance with the request in your letter of February 21, 1961, transmitted through the Federal Reserve Bank of New York, and on the basis of the information furnished, the Board of Governors grants its consent for Morgan Guaranty International Finance Corporation to purchase and hold 50,000 ordinary shares, par value Australian £ 1 per share (12 shillings, 6 pence (Australian) paid), of The Anglo-Australian Corporation Pty. Limited, Melbourne, Australia, at a cost of 21 shillings a share, or approximately US\$118,000 (subject to a call of 7 shillings, 6 pence a share, or approximately US\$42,000), provided such stock is acquired within one year from the date of this letter.

The Board's consent is granted upon condition that your Corporation shall dispose of its holding of stock of the Australian corporation, as promptly as practicable, in the event that the Australian corporation should at any time (1) engage in issuing, underwriting, selling or distributing securities in the United States; (2) engage in the general business of buying or selling goods, wares, merchandise, or commodities in the United States or transact any business in the United States except such as is incidental to its international or foreign business; or (3) conduct its operations in a manner which, in the judgment of the Board of Governors of the Federal Reserve System, is inconsistent with Section 25(a) of the Federal Reserve Act or regulations thereunder.

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. 4
4/12/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 12, 1961

Board of Directors,
Bankers 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 limited purpose branch by Bankers Trust Company, New York, New York, at 120 Broadway, New York, New York, provided the branch is established within six months from the date of this letter.

It is understood that the banking operations conducted at this office will be limited to the functions of the Credit Investigation Division, the Auditing Department, and the Account Analysis Division including the Adjustment Section, and will not include the performance of any other functions involving contact with the public such as, but not limited to, the acceptance of deposits, the paying of checks, or the making of loans.

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. 5
4/12/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 12, 1961



CONFIDENTIAL (FR)

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 April 7, 1961, the Board approves the appointment of William Robert Williams as an assistant examiner for the Federal Reserve Bank of Cleveland. Please advise us of the effective date of the appointment.

It is noted that Mr. Williams is indebted to City Bank, Kent, Ohio, a nonmember bank, in the amount of approximately \$550. Accordingly, the Board's approval of the appointment of Mr. Williams is given with the understanding that he will not participate in any examination of that bank until his indebtedness has been liquidated.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.