

Minutes for May 18, 1961

To: Members of the Board

From: Office of the Secretary

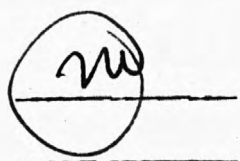
Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

It is proposed to place in the record of policy actions required to be kept under the provisions of Section 10 of the Federal Reserve Act an entry covering the item in this set of minutes commencing on the page and dealing with the subject referred to below:

Page 4 Amendment to Regulation F

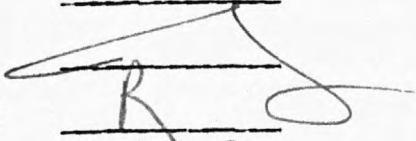
Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, please initial below. If you were present at the meeting, your initials will indicate approval of the minutes. If you were not present, your initials will indicate only that you have seen the minutes.

Chm. Martin



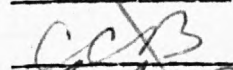
Gov. Szymczak

Gov. Mills

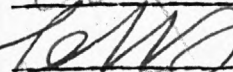


Gov. Robertson

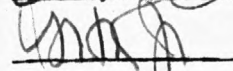
Gov. Balderston



Gov. Shepardson



Gov. King



Minutes of the Board of Governors of the Federal Reserve System
on Thursday, May 18, 1961. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Mills
Mr. Robertson
Mr. Shepardson
Mr. King

Mr. Kenyon, Assistant Secretary
Miss Carmichael, Assistant Secretary
Mr. Shay, Legislative Counsel
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Noyes, Director, Division of Research
and Statistics
Mr. Solomon, Director, Division of Examinations
Mr. Johnson, Director, Division of Personnel
Administration
Mr. Connell, Controller
Mr. Hooff, Assistant General Counsel
Mr. Brill, Associate Adviser, Division of
Research and Statistics
Mr. Daniels, Assistant Director, Division of
Bank Operations
Mr. Masters, Associate Director, Division of
Examinations
Mr. Leavitt, Assistant Director, 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:

Item No.

Letter to the Federal Reserve Bank of St. Louis
ratifying the waiver of a penalty incurred by
Fulton National Bank, Fulton, Missouri, because
of a deficiency in its required reserves.

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	<u>Item No.</u>
Letter to Metropolitan State Bank, Chicago, Illinois, approving an investment in bank premises.	2
Letter to the Comptroller of the Currency recommending unfavorably with respect to an application to organize a national bank at Walnut Grove, Missouri.	3
Letter to the Comptroller of the Currency recommending unfavorably with respect to an application to organize a national bank at Aurora, Colorado.	4
Letter to Union Bank, Los Angeles, California, approving the establishment of a branch in the vicinity of Colorado Boulevard and Lake Street, Pasadena.	5
Letter to Chase Manhattan Overseas Corporation, New York City, consenting to the establishment of a branch in Durban, Union of South Africa, by The Chase Manhattan Bank (South Africa) Limited.	6
Letter to the Federal Reserve Bank of Chicago noting without objection action by the directors of that Bank authorizing two officers to make a trip abroad.	7

Inquiry regarding a savings account plan. There had been circulated to the members of the Board a draft of reply to the Federal Reserve Bank of Chicago in response to an inquiry regarding a so-called "Variable Savings Account Plan" to be offered by Exchange National Bank of Chicago, Chicago, Illinois, which would combine (1) savings, (2) investments in mutual funds, and (3) insurance. The reply would indicate that from

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the standpoint of the maintenance of savings accounts the only unusual feature of the plan appeared to be the prohibition against partial withdrawals, which was somewhat counterbalanced by the privilege of borrowing against the account as security. Therefore, assuming that all requirements of Regulation Q, Payment of Interest on Deposits, had been met, there would seem to be no reason why a depositor could not open a savings account as a part of the plan. The letter would suggest, however, that Exchange National Bank turn to the Comptroller of the Currency for advice on other aspects of the plan, particularly whether a national bank may act as agent for a customer by investing a certain amount monthly in mutual funds and purchasing term insurance under a policy issued by an independent company.

In discussion of the proposed plan, members of the legal staff noted as far as Regulation Q was concerned, the use of a savings deposit as part of the arrangement did not appear to present any significant problem. Other aspects of the plan would seem to be within the purview of the Comptroller of the Currency, rather than the Board, since a national bank was involved.

The suggestion then was made that the Board defer action on the matter until the staff could discuss the plan with the Office of the Comptroller of the Currency, and there was agreement with this suggestion.

Report on competitive factors (Thompsontown--Mifflin, Pennsylvania). A draft of report to the Comptroller of the Currency on the

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competitive factors involved in the proposed consolidation of The Farmers National Bank of Thompsontown, Thompsontown, Pennsylvania, and The Peoples National Bank of Mifflin, Mifflin, Pennsylvania, had been distributed under date of May 12, 1961. The report concluded as follows:

The bank resulting from the proposed merger of The Farmers National Bank of Thompsontown and The Peoples National Bank of Mifflin would be the largest in the area; however, it would not have an undesirable competitive advantage. The proposed merger should have no adverse effect on competition.

There being no objection, the report was approved unanimously for transmittal to the Comptroller.

Mr. Leavitt then withdrew and Mr. Molony, Assistant to the Board, entered the room.

Amendment of Regulation F (Item No. 8). Pursuant to Board action on April 20, 1961, a letter was sent to the Comptroller of the Currency asking for comments on a draft of amendment to section 12 of Regulation F, Trust Powers of National Banks, which would have the effect of permitting national banks to " earmark " trust securities for vault custody purposes as an alternative to the physical separation of such securities, one trust from another, as heretofore deemed to be required by the provisions of section 12.

In a letter dated April 28, 1961, the Office of the Comptroller expressed general agreement with the proposed amendment but suggested that the language thereof be revised in two respects.

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In a memorandum dated May 9, 1961, from Mr. Masters, which had been circulated to the members of the Board, it was indicated that the Board's staff was inclined to agree with one of the Comptroller's suggestions but believed it would be preferable, for reasons stated, not to make the other suggested change. There was attached to the May 9 memorandum a revised draft of the proposed amendment to section 12 of Regulation F.

Following comments by Mr. Masters, the amendment to Regulation F was approved unanimously in the form submitted with the May 9 memorandum, effective May 18, 1961, with the understanding that a notice in the form attached as Item No. 8 would be published in the Federal Register.

Messrs. Hooff and Masters then withdrew and Mr. O'Connell, Assistant General Counsel, entered the room.

Report on S. 1688 (Item No. 9). There had been circulated to the members of the Board under date of May 9, 1961, with a covering memorandum from the Legal Division, a draft of letter to Chairman McClellan of the Senate Committee on Government Operations, replying to a request for the Board's views on S. 1688, a bill "To establish a Department of Consumers in order to secure within the Federal Government effective representation of the economic interests of consumers; to coordinate the administration of consumer services by transferring to such Department certain functions of the Department of Health, Education, and Welfare, the Department of Labor, and other agencies; and for other purposes."

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It was noted in the memorandum that this bill was the same as H.R. 7024 and S. 1571, on each of which the Board had reported on June 7, 1960. Submitted with the memorandum was a proposed report on S. 1688 which was identical with the 1960 reports. The proposed reply would indicate that the Board believed it would be preferable to consider legislation addressed directly to problems connected with efforts to protect the economic interests of consumers rather than to the creation of a new department whose statutory responsibilities might be difficult to define.

During a general discussion of the bill, questions were raised and commented upon concerning the value of establishing a Department of Consumers and the functions that such a Department might be expected to perform. It was noted that the proposed legislation involved an area somewhat beyond the ordinary scope of the Board's functions. In the circumstances, a suggestion was made that it might be preferable not to express views on the bill unless the Senate Committee should actively renew its request for such views. However, Mr. Shay noted that in connection with the similar legislation proposed in 1960 there had been a specific request for a report. He believed that this might also be the case with respect to S. 1688.

Accordingly, the proposed letter concerning S. 1688 was approved unanimously. A copy is attached as Item No. 9.

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Report on draft bill to provide credit insurance (Item No. 10).

There had been distributed to the members of the Board a draft of letter to the Bureau of the Budget replying to a request for the Board's views on a draft bill proposed by the Department of Commerce "To provide government industrial modernization credit insurance, and thereby make credit facilities more readily available for the modernization of the nation's industrial economy, stimulate increased productivity and growth in the domestic and foreign commerce of the United States, and for other purposes." The proposed reply would state that the Board would not favor adoption of the proposed program in its present form, for reasons set forth in the letter.

After discussion, unanimous approval was given to the proposed letter, subject to minor editorial changes. A copy of the letter, as sent, is attached as Item No. 10.

Messrs. Shay, Noyes, and Brill then withdrew from the meeting.

Permanent assignment of hearing examiner. Pursuant to Board action on March 23, 1961, the Civil Service Commission was asked to make a survey of the need for appointment of a hearing examiner to the Board's staff. Governors Robertson and King dissented, for reasons stated at the time, from the decision to request the survey.

In a memorandum dated May 17, 1961, from the Division of Personnel Administration, which had been distributed to the members of the Board,

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it was reported that the Civil Service Commission had now certified an approved classification for a hearing examiner position in the Board's organization. Therefore, it was recommended in the memorandum that the Board approve the establishment of a position of Hearing Examiner-General (Series and Grade GS-935-15), that the position be assigned to the Board Members' Offices, and that the Division of Personnel Administration, with the advice of the Legal Division, recruit to fill this position.

According to provisions of Title 5 of the United States Code, the appointment, assignment, removal, and compensation of hearing examiners is under the jurisdiction of the Civil Service Commission. Any hearing examiner appointed by the Board would be given the same rights and privileges as are made available to other hearing examiners in Government agencies having such positions. With regard to Federal Employees' Group Life Insurance, employee health benefits, and annual and sick leave, the position would carry with it the same substantive rights and privileges as if the incumbent were being hired in an agency under Civil Service. This would include the right of continuing in active service to age 70. The rate of compensation for the position of hearing examiner at the Board would be prescribed by the Civil Service Commission, which had determined the position to be in Grade GS-15. In the event, however, that salaries of hearing examiners as a group were raised by legislation, the hearing examiner position at the Board, if established, would be placed in the equivalent salary range. This would be an

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exception to the Board's salary administration procedure, under which salaries in the range of Civil Service Grades GS-16, GS-17, or GS-18 are used for members of the official staff; and if the hearing examiner position should be set above GS-15 in the future, this would not be considered an indication that the Board was utilizing the higher grade ranges for other than the official staff.

In discussion of the matter, Governor Robertson reaffirmed the views he had expressed at the March 23 meeting, including the comment that there did not appear to him to be a full-time need for the services of a hearing examiner and that, on the other hand, it might still be necessary to borrow examiners on some occasions. However, having asked the Civil Service Commission to make the survey, and the Commission having certified an approved classification, it appeared that there might be little alternative at this point.

Governor Shepardson noted that the conclusion reached by the Civil Service Commission appeared to have been based on the information furnished in the Board's letter of March 30, 1961, along with the record of the extent of borrowing of hearing examiners by the Board in the past.

Mr. Johnson added that the Commission had apparently based its decision regarding grade classification on its knowledge of the nature of the hearings held by the Board.

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Governor Mills then raised certain questions, for clarification, concerning the extent of control the Board would exercise over a hearing examiner assigned to its staff and the problems that might arise administratively due to the special status of hearing examiners as a group.

In discussing these and other similar questions, Mr. Hackley recalled that some months ago the Board had asked the Legal Division to explore whether it would be desirable for the Board to have its own hearing examiner. This study resulted in a memorandum dated March 8, 1961, reviewing the pros and cons of the matter. Then, after discussion at the March 23 meeting, the Civil Service Commission was requested to make a survey as to the need for a permanent hearing examiner. At that time it had been thought that, if the Commission should reach a negative conclusion, the Board would be in a better position to continue to borrow examiners from other agencies as needed. On the other hand, it was recognized that if the Commission should determine that there was a need for a full-time examiner on the Board's staff and the Board did not authorize such an appointment, it might be somewhat more difficult to continue to borrow examiners. Except for that qualification, however, the request for a survey was not regarded as binding the Board so far as a final decision was concerned. Instead, the matter was to be considered further by the Board in the light of the response of the Civil Service Commission.

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After further discussion along this line, Chairman Martin asked for clarification as to whether hearing examiners were precluded from undertaking other assignments, and Mr. O'Connell replied that they were not. The principal occupation of a hearing examiner was, of course, to conduct hearings. However, to the extent consistent with that function, the hearing examiner could be expected to perform such other appropriate duties as might be assigned to him by the Board.

Mr. Hackley pointed out that a hearing examiner, if appointed, should not be associated with the Legal Division. Rather, the examiner should be responsible directly to the Board. In reply to a question, Mr. Hackley gave several examples of kinds of assignments that it would seem appropriate for the Board to make to a hearing examiner on its staff.

After additional comments had been made on various aspects of the matter, Governor Shepardson referred to the services of Charles W. Schneider, Hearing Examiner at the National Labor Relations Board, who on several occasions had been loaned to the Board to conduct hearings. Governor Shepardson went on to say that from informal conversations held by members of the Board's staff with representatives of the National Labor Relations Board and with Mr. Schneider, there appeared to be a possibility that Mr. Schneider might be available as Hearing Examiner if such a position should be established at the Board.

In the course of discussion concerning this possibility, Governor Mills commented that he had been favorably impressed by the work of

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Mr. Schneider, and that he thought it would be desirable to pursue the question of Mr. Schneider's availability. If he should not be available, Governor Mills suggested that the Board consider the matter again before other contacts were made.

Governor Robertson expressed a similar view with respect to Mr. Schneider, adding that his objection went to the question of establishing a hearing examiner position at the Board at the present time. In his opinion the procedure was unwise.

Governor King said he also felt that the Board could afford to delay establishing such a position, particularly in view of some of the complications that appeared to be involved in a decision of that kind from an administrative standpoint. Like others who had spoken, he was favorably inclined toward Mr. Schneider as an individual, and his reservations went to the establishment of the position.

After further discussion, the establishment of a position of Hearing Examiner-General (Series and Grade GS-935-15) was approved, Governors Robertson and King dissenting. It was understood that steps would be taken to determine the availability of Mr. Schneider to fill this position, which would be assigned to the Board Members' Offices, and that arrangements for securing his services would be subject to approval by Governor Shepardson. It was further understood that if Mr. Schneider should not be available, the matter would be considered further by the Board. The establishment of the position also constituted approval

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of any budget overexpenditure that might be occasioned by an appointment made pursuant to the action.

Applications involving bank mergers and bank holding companies.

At the instance of Governor Mills, there was a brief discussion of pending bank holding company and bank merger applications, following which it was agreed that the staff would submit a report on the current status of such matters for the Board's information.

The meeting then adjourned.

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

Memorandum from Louis S. Zeller, Computer Programmer, Division of Research and Statistics, requesting permission to serve as an instructor on data processing at the Department of Agriculture Graduate School for the summer and fall semesters.

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

Appointments

Betty Jane Abbott as Records Clerk, Office of the Secretary, with basic annual salary at the rate of \$4,145, effective the date of entrance upon duty.

Mary William Wahle as Records Clerk, Office of the Secretary, with basic annual salary at the rate of \$4,040, effective the date of entrance upon duty.

Loretta Brockway as Statistical Clerk, Division of Research and Statistics, with basic annual salary at the rate of \$4,145, effective the date of entrance upon duty.

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Appointments (continued)

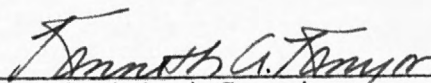
Barbara Carole Passell as Clerk-Stenographer in the Division of Personnel Administration, with basic annual salary at the rate of \$4,040, effective the date of entrance upon duty.

Salary increase

John E. Reynolds, Economist, Division of International Finance, from \$12,730 to \$13,730 per annum, effective May 28, 1961.

Acceptance of resignation

Marcia L. Mehl, Clerk-Stenographer, Division of Research and Statistics, effective at the close of business June 9, 1961.


Assistant Secretary

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

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Item No. 1
5/18/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 18, 1961

Mr. Joseph C. Wotawa, Vice President,
Federal Reserve Bank of St. Louis,
P. O. Box 442,
St. Louis 66, Missouri.

Dear Mr. Wotawa:

This refers to your letter of May 3, 1961, regarding a penalty of \$5.64 incurred by the Fulton National Bank, Fulton, Missouri, on a deficiency of \$41,202.10 in its required reserves for the biweekly reserve computation period ending December 28, 1960, which was inadvertently waived by your Bank under the provisions of Paragraph C of the instruction in the Board's letter S-1123 (F.R.L.S. 6120).

It is noted that this penalty was waived by your Bank under the provisions of Paragraph C of the Board's instructions although the amount of the deficiency was in excess of 2 per cent of the member bank's required reserves; that the waiver was detected by the Board's examiners during the course of their regular examination of your Bank as of the close of business on April 17, 1961; and that the subject bank has no previous record of reserve deficiencies.

In order that there may be no question in the future as to the action taken; the Board ratifies the waiving of the \$5.64 penalty by your Bank.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

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

Item No. 2
5/18/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 18, 1961



Board of Directors,
Metropolitan State Bank,
Chicago, Illinois.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors of the Federal Reserve System approves an additional investment in bank premises of \$16,000 by Metropolitan State Bank. The investment of \$16,000 is represented by loans made to the bank's affiliate, Bank Parking Inc., for the acquisition of a parking lot.

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
5/18/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 18, 1961



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

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

Dear Mr. Comptroller:

Reference is made to a letter from your office dated August 26, enclosing copies of an application to organize a national bank at Walnut Grove, Missouri, and requesting a recommendation as to whether or not the application should be approved.

A report of investigation of the application made by an examiner for the Federal Reserve Bank of St. Louis indicates that capital structure would be adequate; however, future earnings prospects are poor, management is unsatisfactory, and there does not appear to be sufficient need to justify establishment of a bank in Walnut Grove at this time. In the circumstances, the Board of Governors does not feel justified in recommending favorable consideration of the application.

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
5/18/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 18, 1961

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

Attention Mr. C. C. Fleming,
Deputy Comptroller of the Currency

Dear Mr. Comptroller:

Reference is made to a letter from your office dated March 7, 1961, enclosing copies of an application to organize a national bank at Aurora, Colorado, and requesting a recommendation as to whether or not the application should be approved.

A report of investigation of the application made by an examiner for the Federal Reserve Bank of Kansas City indicates that capital structure of the bank would be adequate and management fair. There appears to be little need for the proposed bank, and future earnings prospects of the bank are regarded as poor. There is some question whether the area in which the proposed bank is to be located will be zoned for commercial use and even if it is the shopping center in which the bank is to be located could not be completed before late 1962. An application for a bank at this location appears premature. In the circumstances, the Board of Governors does not feel justified in recommending favorable consideration of the application at this time.

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
5/18/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 18, 1961

Board of Directors,
Union Bank,
Los Angeles, California.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of San Francisco, the Board of Governors of the Federal Reserve System approves the establishment of a branch in the vicinity of the intersection of Colorado Boulevard and Lake Street, Pasadena, California, by Union Bank, provided the branch is established within one year 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. 6
5/18/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 18, 1961



Chase Manhattan Overseas Corporation,
Eighteen Pine Street,
New York 15, New York.

Gentlemen:

In accordance with your request and on the basis of the information furnished in your letter of April 12, 1961, transmitted through the Federal Reserve Bank of New York, the Board of Governors grants its consent to the establishment of a branch of The Chase Manhattan Bank (South Africa) Limited at Norwich House, Smith Street, Durban, Union of South Africa. The location of the branch may not be changed, after establishment, without the prior approval of the Board of Governors.

Unless the branch is actually established and opened for business on or before May 1, 1962, all rights granted hereby will be deemed to have been abandoned and the authority hereby granted will automatically terminate on that date.

Please advise the Board of Governors, through the Federal Reserve Bank of New York, when the branch is opened for business.

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. 7
5/18/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 18, 1961



Mr. Carl E. Allen, President,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Allen:

In reply to your letter of May 11, 1961, the Board of Governors has noted without objection the action taken by the Board of Directors of your Bank in authorizing First Vice President Scanlon and Vice President Mitchell to make a trip to Europe later this year for the purpose of visiting foreign central banks in that area. It is noted that a trip of approximately four weeks is envisaged.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

TITLE 12 - BANKS AND BANKING

Item No. 8

CHAPTER II - FEDERAL RESERVE SYSTEM

5/18/61

SUBCHAPTER A - BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

[Reg. F]

PART 206 - TRUST POWERS OF NATIONAL BANKS

Custody of Trust Securities and Investments

1. Effective May 18, 1961, § 206.12 is amended to read as follows:

§ 206.12 Custody of Trust Securities and Investments.

(a) The securities and investments of each trust shall be kept separate from the properties of the bank and shall be placed in the joint custody of two or more officers or employees of the bank designated for that purpose by the board of directors of the bank; and all such officers and employees shall be adequately bonded.

(b) The securities and investments of each trust shall be either -

(1) Kept separate from those of all other trusts, 11/ or

(2) Earmarked in a manner that adequately identifies the trust to which the particular security belongs. In such case, the records of the trust department of the bank shall contain a full description, including bond and certificate numbers, of the securities so held.

2. (a) The purpose of this amendment is to permit a national bank to earmark trust securities and investments for vault custody purposes as an alternate method of identifying the securities of separate trusts, pursuant to the requirements of this section.

11/ Except as provided in § 206.10(c) and § 206.17.

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(b) The notice, public participation, and deferred effective date described in section 4 of the Administrative Procedure Act are not followed in connection with this amendment for the reasons and good cause found as stated in § 262.2(e) of the Board's rules of procedure (Part 262), and especially because in connection with this amendment such procedures are unnecessary as they would serve no useful purpose.

(Sec. 11, 38 Stat. 262; 12 U.S.C. 248. Interpret or apply secs. 2-4, 24 Stat. 18, 19, sec. 1, 40 Stat. 1043, as amended; sec. 1, 44 Stat. 1225, as amended, sec. 11, 38 Stat. 261, as amended, 53 Stat. 68, as amended; 12 U.S.C. 30-33, 34, 248, 26 U.S.C. 584)

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

(SEAL)

(Signed) Kenneth A. Kenyon
Kenneth A. Kenyon,
Assistant Secretary.

Certified to be a true copy of the original.

(SEAL)

(Signed) Kenneth A. Kenyon
Kenneth A. Kenyon,
Assistant Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 9
5/18/61

OFFICE OF THE CHAIRMAN

May 19, 1961

The Honorable John L. McClellan,
Chairman,
Committee on Government Operations,
United States Senate,
Washington 25, D. C.

Dear Mr. Chairman:

This is in response to your request for a report on the bill S. 1688 "To establish a Department of Consumers in order to secure within the Federal Government effective representation of the economic interests of consumers; to coordinate the administration of consumer services by transferring to such Department certain functions of the Department of Health, Education, and Welfare, the Department of Labor, and other agencies; and for other purposes."

While the Board is sympathetic with efforts to protect the economic interests of consumers, it questions whether the proposed separate executive department of Government would be desirable or effective for this purpose. Existing public agencies should be guided in their decisions by due consideration of consumers as well as other interests, all included under the general welfare. To the extent that any serious problems may exist in the consumer field, the Board believes that it would be preferable to consider legislation addressed directly to these specific problems rather than to the creation of a new department whose statutory responsibilities might be difficult to define.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.
Wm. McC. Martin, Jr.

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

Item No. 10
5/18/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 18, 1961.

Mr. Phillip S. Hughes,
Assistant Director for
Legislative Reference,
Bureau of Budget,
Washington 25, D. C.

Dear Mr. Hughes:

This is in response to your request of May 15 for the views of the Board on the draft bill "To provide government industrial modernization credit insurance, and thereby make credit facilities more readily available for the modernization of the nation's industrial economy, stimulate increased productivity and growth in the domestic and foreign commerce of the United States, and for other purposes."

It is difficult to see the need for such legislation in the absence of evidence suggesting that equipment outlays of industrial concerns are significantly restricted by the lack of availability of long-term credit, or that adoption of a credit insurance program would significantly augment the supply of such credit. No documentation of such needs accompanied the draft bill submitted to the Board. Moreover, the proposed program would appear to duplicate other Government programs to facilitate the financing of business expansion that are already in operation.

There already exists, under the Small Business Investment Act, a Government-sponsored program for providing long-term financing to small businesses. As you know, this program has been expanding rapidly over the past year or so, with nearly 250 investment companies licensed at present. While many of them are still too young to have disbursed more than a small proportion of their funds, their potential lending and investing capacity is substantial. The draft bill does not indicate the size of business it is designed to assist but, since it provides only an upper limit on the size of total insurable loans to any one borrower, the program it proposes might duplicate in large part the one already in operation under the Small Business Investment Act.



Mr. Phillip S. Hughes

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It is not clear from available evidence that any program is needed to encourage financial institutions to provide additional equipment financing to industrial concerns of larger size than can be accommodated under present Small Business Administration standards. You will recall that in 1959 the Board conducted a survey of the financing experience of manufacturing companies. The results of that survey indicated that relatively few medium-size companies reported unsuccessful efforts to obtain long-term credit, even though lack of success was defined very broadly to include dissatisfaction with the interest rate or any other terms of the loan. Eighteen per cent of all medium-size manufacturers reported a need for long-term credit. Less than 3 per cent were dissatisfied with their efforts to obtain such funds, and an additional 3 per cent made no effort because they felt that any efforts would be unsuccessful. The Board is not aware of more recent data that would indicate that the situation has changed materially.

If the need for an extensive program of credit insurance on equipment financing loans can be demonstrated, the Board would favor integrating the proposed program into the present SBA programs, since that agency has not only the experience but also an operational and administrative framework for providing funds to business concerns.

If it can be demonstrated that the proposed program is not only needed but should be operated and administered apart from other existing programs, the present draft bill does not seem entirely satisfactory. Few of the provisions are sufficiently specific with respect to the terms and conditions under which equipment loans will be insurable. One provision that is specific, that limiting the maturity of loans to 7 years and 32 days, raises a serious question as to whether the program would prove of substantial benefit to many industrial concerns. The useful life of depreciable equipment used by manufacturers appears on the average to be considerably longer than this, judging from the depreciable life spans for equipment as recognized under Internal Revenue Service standards. It seems doubtful whether many loans of so short a maturity would be made to finance relatively long-lived assets.

For all the above reasons, the Board would not favor adoption of the proposed program in its present form.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.