



Minutes of the Board of Governors of the Federal Reserve System  
on Friday, May 19, 1961. The Board met in the Board Room at 10:00 a.m.

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

Mr. Kenyon, Assistant Secretary  
Mr. Shay, Legislative Counsel  
Mr. Molony, Assistant to the Board  
Mr. Fauver, Assistant to the Board  
Mr. Noyes, Director, Division of Research  
and Statistics  
Mr. Holland, Adviser, Division of Research  
and Statistics  
Mr. Koch, Adviser, Division of Research  
and Statistics  
Mr. Landry, Assistant to the Secretary  
Mr. Yager, Economist, Government Finance  
Section, Division of Research and  
Statistics

Mr. Mitchell, Vice President, Federal Reserve  
Bank of Chicago

Money market review. Mr. Koch reported on bank credit, the money  
supply, and bank liquidity, after which Mr. Yager described current  
developments in the Government securities market.

Following these reports, Mr. Mitchell and all members of the  
staff with the exception of Messrs. Kenyon, Shay, Fauver, and Landry  
withdrew, and the following entered the room:

Mr. Hackley, General Counsel  
Mr. Solomon, Director, Division of  
Examinations  
Mr. Johnson, Director, Division of  
Personnel Administration  
Mr. O'Connell, Assistant General Counsel  
Mr. Hooff, Assistant General Counsel

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Mr. Masters, Associate Director, Division  
of Examinations  
Mr. Benner, Assistant Director, Division  
of Examinations  
Mr. Leavitt, Assistant Director, Division  
of Examinations  
Mr. Young, Assistant Counsel

Discount rates. The establishment without change by the Federal Reserve Banks of New York, Philadelphia, Minneapolis, and San Francisco on May 18, 1961, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

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 Bank of Lansing, Lansing, Michigan, granting its request for permission to exercise fiduciary powers.	1
Letter to the Federal Reserve Bank of Chicago approving the payment of salaries to the Bank's carpenters and plumbers at certain rates.	2
Letter to United California Bank, Los Angeles, California, approving the establishment of a branch in the vicinity of Baker Avenue and Harbor Boulevard, Costa Mesa.	3
Letter to the Federal Reserve Bank of Richmond approving the payment of salaries to certain officers at the rates fixed by the Bank's Board of Directors.	4

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Study of branch banking in California. At the meeting on March 10, 1961, Governor Robertson expressed the view that a need existed for consideration by the bank supervisory agencies concerned, both Federal and State, of the expansion of branch banking in the State of California and the manner in which the banking structure of that State was developing. As a result of discussion of this matter, the staff was requested to undertake a factual study regarding the branch banking situation in California and related issues.

In reply to an inquiry by Governor Robertson as to the progress that had been made on the study, Mr. Solomon said preliminary data indicated that although branch banking offices had increased in California since 1950, the increase had been at a substantially lesser rate, proportionately, than the growth in population, bank deposits, and retail sales. Work was progressing, he said, on the collateral question of concentration in the field of banking. Mr. Solomon added that the study was being expedited and that it was hoped the final results would be available at an early date.

Report on competitive factors (Johnstown and Nanty Glo, Pennsylvania).

There had been distributed a draft of report to the Comptroller of the Currency on the competitive factors involved in a proposed merger of Nanty Glo State Bank, Nanty Glo, Pennsylvania, into United States National Bank in Johnstown, Johnstown, Pennsylvania. The report concluded as follows:

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The proposed merger of Nanty Glo State Bank, Nanty Glo, Pennsylvania, into United States National Bank in Johnstown, Johnstown, Pennsylvania, should eliminate little competition in either the Johnstown area or the Nanty Glo area. In the Nanty Glo area (including Ebensburg) the merger could stimulate competition, although not to such an extent as to have serious consequences for other banks.

Unanimous approval was given to the report for transmission to the Comptroller of the Currency.

Report on competitive factors (Bucyrus and Tiro, Ohio). Distribution had been made of a proposed report to the Comptroller of the Currency on the competitive factors involved in the planned merger of The Farmers & Citizens Bank, Tiro, Ohio, into The Second National Bank of Bucyrus, Bucyrus, Ohio.

The report, which contained the following conclusion, was approved unanimously for transmission to the Comptroller of the Currency:

The proposed merger of The Farmers & Citizens Bank, Tiro, Ohio, into The Second National Bank of Bucyrus would eliminate only a small amount of competition. While the proposed transaction would enhance, slightly, the charter bank's position, it does not appear that banking competition in the area would be materially affected.

Report on H. R. 3331 (Item No. 5). Distribution had been made under date of April 20, 1961, of a memorandum from Mr. Walter Young submitting for the Board's consideration a draft report to Chairman Spence of the House Committee on Banking and Currency on H. R. 3331, which would provide for approval by the Federal Deposit Insurance Corporation, rather than by the Board of Governors, of branches of member State banks, and by the former as

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well as by the Comptroller of the Currency, of the establishment of domestic branches of national banks. As noted in the memorandum, H. R. 3331 was substantially the same as H. R. 9184, introduced in the 86th Congress, on which the Board reported adversely under date of March 31, 1960, to the House Banking and Currency Committee. The proposed report on H.R. 3331 was identical with the report submitted on H.R. 9184.

Following indication by the members of the Board of concurrence with the position taken in the report, the proposed letter was approved unanimously. A copy is attached as Item No. 5.

Position of American Bankers Association on H.R. 3331 and 3330.

With respect to the foregoing item, Governor Robertson noted for the Board's information that he understood the American Bankers Association was planning to submit a report on H.R. 3331 which would propose placing the power of approving State bank branches exclusively in the hands of the respective State bank supervisory authorities, though providing thirty days' advance notice to the Federal Deposit Insurance Corporation prior to the granting of such State approval to permit the Corporation to intervene if it saw fit. He had also been informed, Governor Robertson said, that the American Bankers Association would oppose H.R. 3330, which would, among other things, remove the Comptroller of the Currency from the Board of the Federal Deposit Insurance Corporation. In this connection, he said, the Association would propose that one of the members of the Board of the Corporation be either a State bank supervisor or a person selected by State bankers associations.

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Messrs. Shay, Fauver, and Young then withdrew.

Request by United States Attorney re State member bank in California (Item No. 6). There had been distributed a memorandum from the Division of Examinations and the Legal Division dated May 17, 1961, transmitting a copy of a telegram from Vice President O'Kane of the Federal Reserve Bank of San Francisco advising of an investigation being conducted by the United States Attorney for the Southern District of California relative to a possible violation of law on the part of Farmers and Merchants Bank of Long Beach, Long Beach, California, a State member bank. In connection with this investigation, the Reserve Bank had been requested to permit one of its examiners to discuss with representatives of the Federal Bureau of Investigation the circumstances surrounding a loan of \$210,000 made by the Farmers Bank to one F. M. Riedman in 1959, and to afford, if necessary, access to information appearing in the Reserve Bank's examination files related to this loan. It was the recommendation of the Division of Examinations and the Legal Division that the Federal Reserve Bank of San Francisco be authorized under section 7(b) of the Board's Rules of Organization to transmit orally or in writing to the United States Attorney, or his representatives, information relating to the matter under investigation based upon reports of examination of Farmers and Merchants Bank and related data, but not be authorized to make the examination reports themselves available to the investigators.

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The information transmitted would be for the use of the Department of Justice in pursuing its investigation and not for disclosure incident to any subsequent prosecution or other action. The recommendation envisaged that any communication of such information would be made in the presence of, or subject to review by, the Reserve Bank's General Counsel. There was attached to the memorandum a draft of a telegram to the Reserve Bank prepared along the lines of the foregoing recommendation.

At the request of the Chairman, Mr. O'Connell commented on the staff memorandum. Mr. Hackley supplemented Mr. O'Connell's remarks by noting that the request made of the Reserve Bank by the United States Attorney did not appear to differ in principle from others recently made by the Department of Justice, with which the Board had complied.

Governor Mills stated that he would have the same objection to acceding to the current request that he had raised with regard to the other cases referred to by Mr. Hackley. As he saw it, the relationship between a bank and its customers is one of strictest confidence, similar to that obtaining between a doctor and his patient or a lawyer and his client. He did not believe that it was proper to divulge information breaching that confidence, except pursuant to subpoena, especially in view of the fact that the only reason the Federal Reserve was in possession of such information was by virtue of having examined the bank to appraise the quality of its assets. In his view the Board had distorted its Rules of

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Organization by interpreting cooperation with other Government agencies in matters of this kind in such a way as to invade the Constitutional rights of the individual, in essence placing him on trial without the prior privilege of confronting his accuser. Therefore, he would reject the current request.

In reply to a question from Chairman Martin, Mr. O'Connell said that in his judgment the principle involved in this case was no different from that involved in other requests of the Department of Justice, with which the Board had complied, for access to information contained in reports of examination of State member banks. In this case, however, as contrasted with certain recent bank merger cases, there was apparent evidence of the commission of a crime, possibly on the part of officers or directors of the State member bank. Thus, there was the question whether the Board would want to be in the position of withholding pertinent information.

Mr. Solomon commented that the request in the present case was less sweeping than on other occasions, since the Department of Justice was not asking to examine reports of examination of Farmers and Merchants Bank but was merely requesting permission to discuss with representatives of the Federal Reserve Bank the matter of a loan made by Farmers and Merchants, along with access to any information in the Reserve Bank's files relating to this particular loan.

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Following further discussion, during which it was noted that compliance with the current request would appear to be in line with the general practice that the Board had followed in similar cases involving cooperation with the Department of Justice, the telegram to the Federal Reserve Bank of San Francisco, a copy of which is attached as Item No. 6, was approved, Governor Mills dissenting.

Messrs. O'Connell and Leavitt withdrew from the meeting at this point.

Panel discussion on common trust funds. Two memoranda from Mr. Masters dated May 11 and May 18, 1961, regarding a panel discussion on common trust funds scheduled to be held in Room 1202 of the Federal Reserve Building on Monday, May 22, 1961, at 10:00 a.m. had been distributed. The memoranda indicated that pursuant to the request made at the meeting on November 28, 1960, for a comprehensive study of all features of the Board's common trust fund regulation, arrangements had been completed for one phase of such study to include a panel discussion of developments relating to the administration by banks of common trust funds. The panel discussion would not be open to the public or the press, but a transcript of the proceedings would be prepared. It was intended that the discussion serve as a prelude not only to subsequent consideration by the Board of specific liberalizing proposals now pending before it, but also to provide necessary background for a later public hearing on a pending

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amendment to section 17(a) of Regulation F, Trust Powers of National Banks, that had been published in the Federal Register for comment.

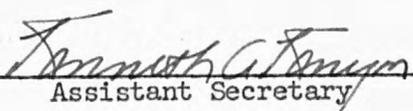
Following remarks by Mr. Masters relative to the panel presentation, it was indicated that the arrangements were agreeable to the Board.

The meeting then adjourned.

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

Memorandum from the Division of Personnel Administration recommending the acceptance of the resignation of Alma Davita Clift, Secretary in that Division, effective at the close of business May 31, 1961.

Memorandum from Shirley R. Sherman, Secretary in the Office of the Secretary, requesting permission to do clerical and typing work for Georgetown University on specified dates while on annual leave.

  
Assistant Secretary

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

Item No. 1  
5/19/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

May 19, 1961

Board of Directors,  
Bank of Lansing,  
Lansing, Michigan.

Gentlemen:

This refers to your request for permission, under applicable provisions of your condition of membership numbered 1, to exercise fiduciary powers.

Following consideration of the information submitted, the Board of Governors of the Federal Reserve System grants permission to the Bank of Lansing to exercise the fiduciary powers now or hereafter authorized by its charter and the laws of the State of Michigan.

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  
5/19/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

May 19, 1961



Confidential (FR)

Mr. H. J. Newman,  
Vice President,  
Federal Reserve Bank of Chicago,  
Chicago 90, Illinois.

Dear Mr. Newman:

The Board of Governors approves the payment of salaries by the Federal Reserve Bank of Chicago to the incumbents of the positions shown below at the rates indicated, effective June 1, 1961, in accordance with the request contained in your letter of May 5, 1961.

<u>Title</u>	<u>Annual Salary</u>
Head Carpenter	\$8,486.40
Carpenter	7,637.76
Plumber	7,862.40

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  
5/19/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

May 19, 1961

Board of Directors,  
United California 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 Baker Avenue and Harbor Boulevard, Costa Mesa, Orange County, California, by United California 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. 4  
5/19/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

May 19, 1961

CONFIDENTIAL (FR)

Mr. Alonzo G. Decker, Jr.,  
Chairman of the Board,  
Federal Reserve Bank of Richmond,  
Richmond 13, Virginia.

Dear Mr. Decker:

The Board of Governors approves the payment of salaries to the following officers of the Federal Reserve Bank of Richmond for the period June 1 through December 31, 1961, at the salary rates indicated, fixed by your Board of Directors as advised in your letter of May 11, 1961:

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
Welford S. Farmer	General Counsel	\$15,000
Victor E. Pregeant, III	Assistant Vice President and Secretary	14,000
Roger P. Schad	Assistant General Auditor	10,000

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 5  
5/19/61

OFFICE OF THE CHAIRMAN

May 19, 1961

The Honorable Brent Spence, Chairman,  
Committee on Banking and Currency,  
House of Representatives,  
Washington 25, D. C.

Dear Mr. Chairman:

This is in response to your request of April 15, 1961, for a report on H.R. 3331 "To amend section 9 of the Federal Reserve Act, as amended, section 18(d) of the Federal Deposit Insurance Act, and section 5155 of the Revised Statutes, as amended."

The effect of this legislation would be to require State member banks to secure the approval of the Federal Deposit Insurance Corporation rather than the Board of Governors, as under existing law, for the establishment of branches, and to require national banks not only to secure the approval of the Comptroller of the Currency but that of the FDIC as well for the establishment of domestic branches. As to foreign branches of national banks, the bill might be regarded as requiring the approval of the FDIC in addition to the approval of the Board.

In the absence of any sound reason for this legislation, the Board does not recommend its favorable consideration. In the Board's view the legislation is unnecessary, and consideration of branch applications should be the function of the Federal agency which has responsibility for examination and supervision of applicants. Interchange of reports of examination and related data among supervisory agencies, while useful, cannot be an adequate substitute for information derived from continuing bank examination and supervisory contacts with the banks concerned.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

T E L E G R A M  
LEASED WIRE SERVICEItem No. 6  
5/19/61BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTON

May 19, 1961

O'Kane - San Francisco

Reurtel May 12 Board authorizes discussion by Examiner Walker or other designated Bank representatives with FBI relative to 1959 loan and renewals thereof by Farmers and Merchants Bank of Long Beach to F. R. Riedman,\* discussion to include, if necessary, information relevant to above matter derived from your Bank examination files. United States Attorney and FBI should be advised that any information transmitted is for use by Department of Justice in pursuing investigation and not for disclosure incident to any subsequent prosecution or other action. Suggest specific reference to section 7(b) of Board's Rules of Organization. This authorization contemplates access by the investigators to the substance of reports of examination that relates to the matter under investigation but does not authorize direct access by them to the confidential sections of these reports nor possession by them of the reports. Suggest you be present during conversations by Examiner Walker and others with FBI or United States Attorney's representatives and that you approve any written transmissions resulting from such conversations.

(Signed) Kenneth A. Kenyon

Kenyon

\* Should have read F. M. Riedman