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Minutes for June 13, 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

Gov. Mills

Gov. Robertson

Gov. Balderston

Gov. Shepardson

Gov. King

Minutes of the Board of Governors of the Federal Reserve System  
on Tuesday, June 13, 1961. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Shay, Legislative Counsel  
Mr. Molony, Assistant to the Board  
Mr. Fauver, Assistant to the Board  
Mr. Hackley, General Counsel  
Mr. Noyes, Director, Division of Research  
and Statistics  
Mr. Farrell, Director, Division of Bank Operations  
Mr. Solomon, Director, Division of Examinations  
Mr. O'Connell, Assistant General Counsel  
Mr. Brill, Associate Adviser, Division of Research  
and Statistics  
Mr. Conkling, Assistant Director, Division of  
Bank Operations  
Mrs. Semia, Technical Assistant, Office of the  
Secretary  
Mr. Eckert, Chief, Banking Section, Division of  
Research and Statistics

Discount rates. The establishment without change by the Federal Reserve Bank of Boston on June 12, 1961, of the rates on discounts and advances in its existing schedule was approved unanimously, with the understanding that appropriate advice would be sent to that Bank.

Report on competitive factors (Jacksonville-Carolina Beach, North Carolina). There had been distributed a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of First National Bank of Jacksonville, Jacksonville,

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North Carolina, with Bank of Carolina Beach, Carolina Beach, North Carolina. The conclusion of the report read as follows:

The proposed merger will eliminate no existing competition. By increasing the ability of First National Bank of Jacksonville to compete, competition may be stimulated.

The report was approved unanimously for transmission to the Comptroller of the Currency.

Bill to amend Small Business Investment Act (Item No. 1). At its meeting on June 12, 1961, the Board considered a draft of letter to the Budget Bureau reporting on S. 902, a bill to amend the Small Business Investment Act of 1958. At the conclusion of the discussion, the staff was asked to prepare a revised draft of letter, based on points that had been raised by members of the Board, and such a revision was distributed prior to today's meeting.

After a brief discussion, the revised letter to the Bureau of the Budget was approved unanimously. A copy is attached as Item No. 1.

Mr. Brill then withdrew from the meeting.

Request by Department of Justice. A memorandum dated June 9, 1961, from Mr. Noyes had been distributed in connection with a letter received from Assistant Attorney General Loevinger, requesting a list of the 1900 member banks that submitted reports in the 1955 business loan survey. If that involved too large a task, Mr. Loevinger asked in the alternative to be informed which of 43 banks listed in his letter,

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all in Kentucky or nearby States, had submitted reports in the survey. The letter and the memorandum indicated that the Department of Justice apparently desired this information so that it might request selected respondent banks to furnish copies of their survey reports for use in connection with the Department's activities relative to bank mergers.

As pointed out in the memorandum, the survey was conducted on a voluntary basis, using a sample of banks selected on a probability basis. Reports were received from about 95 per cent of the banks invited to participate, and each bank was given assurance that its report would be held confidential. The request from Justice therefore raised the question whether the respondent banks would regard supplying the information to Justice a breach of confidentiality, with possible adverse effects on bank cooperation in future surveys.

In commenting on the request, Mr. Noyes noted that rather obviously the information from the 1955 survey was desired to enable the Department of Justice to make judgments with respect to the competitive situation in the Lexington area so far as bank lending was concerned. On a previous occasion, when the Department wanted similar information in regard to a case arising in the New York area, it assumed, correctly, that the larger banks in the area had been respondents in the 1955 survey and requested information direct from those banks. The present request sought advice from the Board on which of a group of banks had responded. If the Board should accede to requests of this kind and Justice then

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got in touch with the respondent banks, the banking community might get the impression that data reported voluntarily to the Federal Reserve would later become available to the Department of Justice or others. Thus, an impediment to cooperation in Federal Reserve surveys could result, particularly if banks felt that their figures would be contrasted with those of other banks.

Quite aside from the possible adverse effect on the willingness of respondents to participate in Federal Reserve surveys, Mr. Noyes expressed misgivings as to the statistical soundness of the use Justice apparently wanted to make of the survey information. This was because the survey had employed sampling techniques. A blowing up of the sample, as Justice apparently contemplated, would not necessarily provide reliable statistical information on the characteristics of the loan portfolios of individual banks.

Mr. Solomon stated that, although ordinarily he could see an advantage in cooperating with the Department of Justice, he had misgivings about singling out individual banks that had cooperated in a survey on a voluntary basis. Accordingly, he had sympathy with the point of view expressed by Mr. Noyes. In a sense, it might be said that the Board should deal more carefully with the confidentiality of information received on a voluntary basis than information contained in reports required by law.

Governor Robertson inquired whether compliance with the request from Justice might not save trouble for the banks listed. If the Justice

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Department found that, of the 43 banks it listed, only a small number had participated in the survey, the Department might be dissuaded from going further. Otherwise, it might subpoena the desired records from all of the banks listed, thus making it necessary for all of the banks, including those that did not participate in the survey, to develop the information. An alternative possibility would be to inform the Justice Department of the number of the 43 banks that had participated in the survey without supplying the names.

In response to an inquiry, Mr. Noyes indicated that perhaps about 15 of the 43 banks had participated.

After further discussion concerning the use that might be made of the survey information, if obtained by the Department of Justice from the banks concerned, Governor Mills stated that in his opinion it was important to look at the principle involved. As he saw it, that principle placed an obligation on the Board and the System to preserve and protect the anonymity of contributors of data. As he had expressed himself on various occasions, he had a strong feeling about avoiding a breach of confidence in relationships between the Federal Reserve System and the commercial banking system. This feeling went not only to use of examination reports but also to the release of information obtained on a voluntary basis. Furthermore, experience with requests from the Department of Justice for various kinds of data indicated to him that compliance with one led to receipt of others. Therefore, although it

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seemed too bad in this instance to put the Department of Justice to the necessity of approaching banks directly, without advice on whether they had participated in the 1955 survey, he did not see any escape from it.

In reply to a question by Governor Mills as to whether the studies and analyses of survey findings on a regional basis that had been published in the monthly reviews of at least some of the Reserve Banks might not serve the needs of the Justice Department while at the same time preserving the anonymity of the respondents, Mr. Noyes expressed doubt that the regional studies would serve the purposes of the Department, since it apparently desired individual bank data.

Governor Shepardson expressed the view that there would seem to be a justification for treating voluntary reports differently from officially required reports. It had seemed to him in the past that there was some basis for furnishing to the Justice Department the information it needed from documents such as examination reports. However, in regard to voluntary reports, he felt that a distinction could be made. Therefore, he would be inclined to favor Governor Robertson's suggestion, that is, to indicate only the number of banks listed in the letter from Justice that had participated in the survey. Further, in view of the questionable validity of a blown-up sample, it would seem well to inform Justice of the apparent inadequacy of the survey information for its purpose.

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Governor Balderston also was inclined to feel that the Board should not furnish the names of the respondent banks. Whenever a research operation of this kind was conducted, in his view the Board had a moral commitment to conceal the figures of the individual banks and make public only combined data. If the Board should tell Justice that any particular banks had responded and the Department then sought survey data from those banks, that might endanger the chance of success of future surveys. He would not object to advising how many of the 43 banks had responded, but with a caution about the problem involved in trying to blow up the sample for individual banks.

Mr. Noyes commented that it might not make much difference from a public relations standpoint whether the Board did or did not advise Justice of the names of the banks that were included in the 1955 survey. If it did not, but Justice nevertheless wrote to all of the banks and requested copies of the survey report from each bank that had filed one, the effect would be detrimental from the point of view of obtaining cooperation in future surveys. The important thing was to try to persuade the Department not to lean on Federal Reserve surveys as a basis for its statistical efforts.

After further discussion, the staff was requested to draft a reply to the letter from the Department of Justice reflecting the consensus of the views expressed at this meeting. In this connection,

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it was suggested by Chairman Martin that after a reply to the Justice Department was agreed upon by the Board, the letter might be held for discussion with Assistant Attorney General Loevinger should he be available for a luncheon meeting with the members of the Board sometime in the near future.

Messrs. Shay, Noyes, Farrell, Conkling, and Eckert then withdrew from the meeting.

Continental Bank matter. There had been distributed to the Board copies of a telegram received from Vice President Galvin of the Federal Reserve Bank of San Francisco furnishing certain requested information based on the examination of Continental Bank and Trust Company, Salt Lake City, Utah, made as of April 25, 1961. This information, relating to the bank's capital position, had been requested because oral argument on the Board's motion to dismiss the complaint filed against it by Continental was scheduled to be heard tomorrow, June 14, in the United States District Court for the District of Columbia.

Mr. O'Connell asked the Board's permission to discuss the contents of Mr. Galvin's telegram with Mr. Powell, Special Counsel to the Board, and with Mr. Vance, the Department of Justice attorney who would represent the Board at the hearing, and to give them copies of the telegram. Thus, this information would be available to Mr. Vance as a basis for such statements as might seem appropriate at the hearing if Continental should make certain contentions regarding improvement of its capital position.

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Governor Mills recalled that in earlier phases of the proceeding Continental had challenged the introduction of data reflecting developments subsequent to the date of the Board's hearing on the capital adequacy of Continental. He inquired, therefore, whether any statement based on the information in Mr. Galvin's telegram might not be subjected to a similar challenge.

Mr. O'Connell replied in terms that no statement by counsel representing the Board was contemplated unless Continental itself made certain assertions, whereupon it would have waived its right to protest a rebuttal of such assertions based on comparable data.

After further discussion concerning the capital position of Continental and the present status of the proceeding, Mr. Hackley verified, in response to a question, that the proposal was simply to make Mr. Vance familiar with the contents of the telegram from Mr. Galvin so that he would be forewarned, and in a position to make appropriate reply, if Continental should refer at the hearing tomorrow to a substantial improvement in its capital. It seemed doubtful that the point would be raised, and it was not contemplated, in any event, that any statement by Mr. Vance would cite specific information in Mr. Galvin's wire.

It was then indicated that there would be no objection to furnishing copies of the telegram to Mr. Vance, and to Mr. Powell, for the purpose indicated.

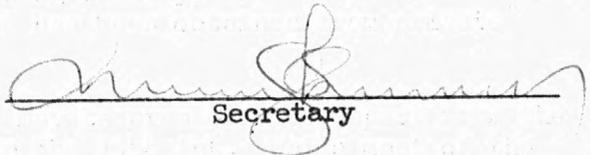
The meeting then adjourned.

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Secretary's Notes: In accordance with the recommendation contained in a memorandum dated June 9, 1961, from the Division of Personnel Administration, Governor Shepardson today approved on behalf of the Board a letter to Dr. Charles H. Goodman confirming arrangements made with him by the Division to conduct a 24-hour course in Practices and Principles of Supervision for Federal Reserve Board Supervisors as an activity of the Employee Training and Development Program, with compensation in the amount of \$1,200.

Pursuant to the recommendation contained in a memorandum from the Controller dated June 7, 1961, Governor Shepardson also approved today on behalf of the Board the reemployment of Jean S. Barber, following maternity leave, as Accounting Clerk in the Office of the Controller, with basic annual salary at the rate of \$4,830, effective June 19, 1961.

  
Secretary

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

Item No. 1  
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ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

June 13, 1961



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

Dear Mr. Hughes:

This is in reply to your memorandum of May 26 requesting the Board's views on S. 902, a bill to amend the Small Business Investment Act of 1958.

The Board has been following with interest the development of the new financial institutions authorized under the Small Business Investment Act of 1958. It is our understanding that the number of investment companies has been growing rapidly, and that, in the aggregate, most of the capital employed has been obtained from private sources.

The Board feels that it may be premature to depart from the financing arrangements provided in the 1958 Act. While most of the companies licensed to date are capitalized at or close to the minimum required by the Act, and have obtained the maximum Government contribution to capital authorized, a number of companies have been successful in raising large amounts of private capital without any Government contribution at all. It is not clear, therefore, that present ceilings on Government subscriptions to capital are critical factors limiting the size of investment companies.

The Board also questions the desirability of Section 4 of S. 902, which would increase the authority of SBIC's to borrow supplemental funds from the Small Business Administration. If such an amendment were adopted, SBIC's could operate with \$3 of Government funds for every dollar of private funds obtained, compared with the maximum ratio of \$2 to \$1 at present. Such an amendment would appear to be a step away from the stated policy of the Act of stimulating the flow of private capital into the small business area and insuring the maximum participation of private financing sources.

Mr. Phillip S. Hughes

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Finally, the Board questions the propriety of permitting companies heavily dependent on Government funds and tax concessions to grant stock options to officers and employees.

The Board has no comments on the other amendments proposed in S. 902.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.