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Minutes for July 10, 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	<u>W</u>
Gov. Mills	<u>[Signature]</u>
Gov. Robertson	<u>[Signature]</u>
Gov. Balderston	<u>CCB</u>
Gov. Shepardson	<u>[Signature]</u>
Gov. King	<u>[Signature]</u>

Minutes of the Board of Governors of the Federal Reserve System
on Monday, July 10, 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. King

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thomas, Adviser to the Board
Mr. Young, Adviser to the Board and Director,
Division of International Finance
Mr. Fauver, Assistant to the Board
Mr. Landry, Assistant to the Secretary
Mr. Petersen, Special Assistant, Office of
the Secretary

Messrs. Furth, Hersey, Sammons, Irvine, Reynolds,
Elrod, and Wallace and Miss Logue of the
Division of International Finance

Messrs. Garfield, Koch, Brill, Dembitz, Williams,
Solomon, Eckert, Wood, Millea, Altmann,
Trueblood, Peret, Manookian, and Yager, and
Miss Dingle of the Division of Research and
Statistics

Miss Nichols, Economist, Federal Reserve Bank of
Chicago

Economic review. The Divisions of International Finance and
Research and Statistics presented a review of recent foreign and domestic
economic and financial developments.

At the conclusion of this presentation, Miss Nichols and all
members of the staff except Messrs. Sherman, Kenyon, Thomas, and Landry
withdrew and the following entered the room:

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Mr. Hackley, General Counsel
 Mr. Masters, Associate 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. Sprecher, Assistant Director, Division of Personnel Administration
 Mr. Collier, Chief, Current Series Section, Division of Bank Operations
 Mr. Achor, Review Examiner, Division of Examinations

Items circulated to the Board. The following items, which had been circulated to the Board and copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:

	<u>Item No.</u>
Letter to the Federal Reserve Bank of Boston regarding adjustment of the lower limits of salary grades 1 and 2. (With similar letters to the Federal Reserve Banks of New York, Philadelphia, Richmond, Atlanta, St. Louis, Kansas City, and San Francisco.)	1
Letters to the Federal Reserve Banks of Boston, New York, and Philadelphia regarding a call for reports of condition as of June 30, 1961, from foreign banking and foreign financing corporations.	2-4

Mr. Molony, Assistant to the Board, entered the room at this point, and Mr. Sprecher withdrew.

Request from Franklin National Bank (Item No. 5). Franklin National Bank, Mineola, New York, had written to the Board under date of June 1, 1961, indicating its intention to apply for two branches in New York City and requesting "a reasonable period of time to adjust to the

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increased reserve requirements". In a letter dated June 27, 1961, the Federal Reserve Bank of New York expressed the opinion that "the granting of country bank status even temporarily would . . . give the bank a competitive advantage with little or no basis in logic or equity."

Copies of a draft of letter to the Federal Reserve Bank of New York requesting it to advise Franklin National that the Board believed it would not be justified in granting permission to the bank to continue its country bank status, even temporarily, in the event it opened a branch in New York City had been distributed under date of July 7, 1961.

In discussion, no disagreement with the view expressed in the proposed reply was indicated. However, Governor Mills suggested that the letter be addressed to Franklin National Bank, rather than to the Federal Reserve Bank of New York, since the bank's request had been directed originally to the Board, and there was agreement with this suggestion.

Accordingly, the letter, addressed as suggested, was approved unanimously. A copy is attached as Item No. 5.

Mr. Thomas then withdrew from the meeting.

Application of United California Bank (Item No. 6). Distribution had been made of a memorandum from the Division of Examinations dated June 29, 1961, concerning an application by United California Bank, Los Angeles, California, for permission to merge with Farmers and Merchants Bank, Hemet, California, and to operate a branch at the present location of the latter.

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The recommendations of both the Federal Reserve Bank of San Francisco and the Division of Examinations were favorable. Reports on competitive factors received from the Comptroller of the Currency and the Federal Deposit Insurance Corporation were not adverse, but the report received from the Department of Justice expressed certain reservations, principally from the standpoint of the general program of expansion of the applicant bank.

In commenting on the application, Mr. Leavitt noted that Farmers and Merchants was a small, one-office bank located in a community of some 5,400 persons approximately 85 miles east of downtown Los Angeles in Riverside County. Although Farmers and Merchants was the oldest bank in the area, it had failed to show appreciable growth during a time of considerable expansion of the Hemet area. It had not provided additional banking services, it followed ultraconservative lending policies, and management was not aggressive. The lack of growth of the bank was also traceable in part to strong competition from Security-First National Bank, Los Angeles, whose branch in Hemet was the only other banking facility serving that community. Also, Farmers and Merchants' president was eager to retire at an early date and there was no satisfactory successor. On the other hand, the resulting bank would provide the community and the present and potential customers of Farmers and Merchants with a stronger, more aggressive banking institution that would offer a complete range of banking services and be an active competitor in the area.

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Governor Robertson said that although he had opposed the merger of Bank of Encino into United California Bank (approved by the Board on June 16, 1961), he would vote to approve the present application, even though he felt there was much to be said for the position taken by the Department of Justice. He cited as bases for his position on the present application the weak and unaggressive management of Farmers and Merchants, the bank's weak capital structure, and its small size. These factors indicated that the resulting bank would provide better competition in this particular area with Security-First National Bank. At the same time, if future applications of United California Bank presented characteristics similar to the Encino case, he would expect to oppose them.

Unanimous approval was then given to the application by United California Bank. A copy of the letter sent to the bank pursuant to this action is attached as Item No. 6.

Messrs. Conkling, Hooff, Goodman, Collier, and Achor then withdrew.

Letter to Congressman Moss (Item No. 7). There had been distributed under date of July 7, 1961, copies of a draft of letter to Chairman Moss of the Special Government Information Subcommittee of the House Committee on Government Operations, in reply to his letter of June 23, 1961, inquiring whether the Board permitted monitoring of incoming telephone calls, whether, if so, electronic devices were used for that purpose, and whether the Board had regulations on the subject. The proposed reply would point out that no

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monitoring was done by the Board's telephone operators, no electronic devices were used to monitor telephone calls, and no occasion had arisen that would suggest the necessity for the Board to promulgate any regulations covering the monitoring of telephone calls.

In a discussion of the proposed reply, it was noted that there seemed no reason to believe that the Board was the only recipient of an inquiry of this kind. With reference to a possible additional paragraph in the draft reply which would refer to use by the Board of a dictaphone device to record certain incoming telephone calls during World War II and the use of a signal to warn those on the line that the call was being monitored, which device had been discontinued about 1950, a view was expressed that it would seem unnecessary to include such information. The equipment, it was noted, was no longer on hand.

Unanimous approval was then given to the letter to Congressman Moss, a copy of which is attached as Item No. 7.

All of the members of the staff then withdrew and the Board went into executive session.

Delegations of authority to Governor Shepardson. The Secretary was later informed that the Board had vested in Governor Shepardson for the year beginning August 1, 1961, the direction of its internal affairs of a managerial nature. This meant that the directors of divisions would continue to take up with him matters pertaining to Board personnel, budget, and housekeeping, and that the Board as a whole would continue to keep in touch with the operating problems of the staff and determine questions of

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policy. Governor Shepardson's designation included authorization to approve travel requests in accordance with the official travel regulations of the Board. The action also continued the authorization conferred by the Board on Governor Shepardson at its meeting on June 26, 1957, to approve on behalf of the Board (1) all proposed personnel actions relating to Board employees other than members of the official staff; and (2) the proposed appointment of examiners, assistant examiners, and special or special assistant examiners of the Federal Reserve Banks, with the understanding that all such approvals would continue to be entered in the minutes as of the date of approval.

Travel by Mr. Young. The Secretary was informed by Governor Shepardson that during the executive session the Board authorized travel by Mr. Young, Adviser to the Board and Director, Division of International Finance, to attend meetings of the Economic Policy Committee of the Organization for European Economic Cooperation, and of a working group of such Committee, to be held in Paris during the period July 22-27, 1961. Further, if it should seem necessary or desirable that Mr. Young be accompanied on this trip by another member of the Board's staff, the Board likewise authorized similar travel on the part of such person. In connection with this action, the Board authorized the providing of an appropriate representation allowance for Mr. Young.

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. 8) approving the designation of 15 persons as special assistant examiners.

Telegram to the Federal Reserve Bank of St. Louis (attached Item No. 9) approving the appointment of John McCarthy as assistant examiner.

Memorandum from the Division of Administrative Services recommending the appointment of James T. Jones as Messenger in the Division, with basic annual salary at the rate of \$3,185, effective the date of entrance upon duty.


Secretary

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

Item No. 1
7/10/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 11, 1961

Confidential (FR)

Mr. George H. Ellis,
President,
Federal Reserve Bank of Boston,
Boston 6, Massachusetts.

Dear Mr. Ellis:

Recent amendments to the Fair Labor Standards Act have increased the minimum hourly wage to \$1.15 effective September 3, 1961.

The Board feels that it would be inappropriate for a Federal Reserve Bank to have an employees' salary structure containing a grade limit below this minimum of \$2,392 per year, irrespective of whether actual salaries paid by the Bank are in excess of that level. Accordingly, you are requested to give consideration to raising the lower limits of Grades 1 and 2 in the employees' structure at Boston to \$2,392, at least, prior to September 3 without raising the maximums of these ranges. The Board is prepared to approve such adjustments if recommended by your Board of Directors.

The Board is aware that in the grades affected, this will temporarily depart from the accepted concept of a uniform 35 per cent spread between the minimum and maximum of the grade. However, it is felt that adjusting the lower ranges in this manner will tend to lessen the effect of the increases on the balance of the structure. A similar procedure was followed by the Reserve Banks concerned when the minimum wage was raised to \$1.00 an hour in 1956.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 2
7/10/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 10, 1961

Mr. B. F. Groot, Vice President,
Federal Reserve Bank of Boston,
Boston 6, Massachusetts.

Dear Mr. Groot:

Enclosed is a copy of a letter dated today, addressed to Boston Overseas Financial Corporation, calling for a report of condition as of June 30, 1961. You will observe that the letter requests that the report called for be submitted in duplicate to the Federal Reserve Bank for transmittal to the Board of Governors.

Upon receipt of the report it will be appreciated if you will have a proof made of the footings and obtain the correction of any obvious errors in the report. Please forward the original copy of the report to the Board and retain a copy for your files.

A complete review of the report will be made in the Board's Division of Examinations, and any correspondence which may be necessary as a result thereof will be initiated by the Board with a copy to you for your information.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

Enclosure

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

Item No. 3
7/10/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 10, 1961

Mr. Howard D. Crosse, Vice President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Crosse:

Enclosed are copies of letters calling for reports of condition as of June 30, 1961, from the following foreign banking and foreign financing corporations in the Second District operating under the provisions of Section 25 and Section 25(a) of the Federal Reserve Act:

Bankers Company of New York
Chase Manhattan Overseas Corporation
International Banking Corporation
The Gallatin Company, Inc.
Virgin Islands National Bank
Bank of America
Bankers International Corporation
Bankers International Financing Company, Inc.
Chase International Investment Corporation
Chemical International Finance, Ltd.
The First Bank of Boston (International)
Morgan Guaranty International Banking Corporation
Morgan Guaranty International Finance Corporation

You will observe that the letters request that the reports called for be submitted in duplicate to the Federal Reserve Bank for transmittal to the Board of Governors.

Upon receipt of the reports it will be appreciated if you will have a proof made of the footings and obtain the correction of any obvious errors in the reports. Please forward the original copy of the reports to the Board and retain a copy for your files.

A complete review of the reports will be made in the Board's Division of Examinations, and any correspondence which may be necessary as a result thereof will be initiated by the Board with a copy to you for your information.

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. 4
7/10/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 10, 1961

Mr. Joseph R. Campbell, Vice President,
Federal Reserve Bank of Philadelphia,
Philadelphia 1, Pennsylvania.

Dear Mr. Campbell:

Enclosed is a copy of a letter dated today, addressed to Philadelphia International Investment Corporation, calling for a report of condition as of June 30, 1961. You will observe that the letter requests that the report called for be submitted in duplicate to the Federal Reserve Bank for transmittal to the Board of Governors.

Upon receipt of the report it will be appreciated if you will have a proof made of the footings and obtain the correction of any obvious errors in the report. Please forward the original copy of the report to the Board and retain a copy for your files.

A complete review of the report will be made in the Board's Division of Examinations, and any correspondence which may be necessary as a result thereof will be initiated by the Board with a copy to you for your information.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

Enclosure

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

Item No. 5
7/10/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 10, 1961.

Mr. Arthur T. Roth,
Chairman of the Board,
The Franklin National Bank,
Franklin Square, New York.

Dear Mr. Roth:

This refers to your letter of June 1, containing a suggestion that your bank be given a reasonable period of time to adjust to increased reserve requirements in the event it opens a branch in New York City.

The Board has given sympathetic consideration to your suggestion, but has concluded that the granting of permission to continue its country bank status, even temporarily, would give your bank a competitive advantage over the New York bank that has recently opened branches in New York City and is maintaining the higher reserve requirement, as well as over the central reserve and reserve city banks of longer standing.

The Board is of the opinion that the character of your bank's business, as reflected by its total demand deposits and its competition with other banks in the city, is more nearly like that of the central reserve and reserve city banks in New York than that of banks to which the Board has granted permission to maintain reduced reserves. Accordingly, the Board believes that it would not be justified in granting it permission to continue to carry country bank reserves, even temporarily, in the event it opens a branch in New York City.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 6
7/10/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 10, 1961

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

Gentlemen:

The Board of Governors of the Federal Reserve System, after consideration of all the factors set forth in section 18(c) of the Federal Deposit Insurance Act, hereby consents to the merger of Farmers and Merchants Bank, Hemet, California, with and into United California Bank, under the charter and title of the latter bank, as it finds the transaction to be in the public interest. The Board of Governors also approves the operation of a branch by the resulting bank at 200 East Florida Avenue, Hemet, California.

This approval is given provided (1) the proposed merger is effected within six months from the date of this letter and substantially in accordance with the Agreement of Merger, dated March 20, 1961, and (2) shares of stock acquired from dissenting shareholders are disposed of within six months from the date of acquisition.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 7
7/10/61

OFFICE OF THE CHAIRMAN

July 10, 1961

The Honorable John E. Moss, Chairman,
Special Government Information Subcommittee
of the Committee on Government Operations,
House of Representatives,
Room 217, George Washington Inn,
Washington 25, D. C.

Dear Mr. Chairman:

Your letter of June 23, 1961, inquires as to whether the Board permits monitoring of incoming telephone calls; if so, whether electronic devices are used for that purpose; and whether the Board has regulations on the subject.

No monitoring is done by our telephone operators, no electronic devices are used to monitor telephone calls, and no occasion has arisen that would suggest the necessity for the Board to promulgate any regulations covering the monitoring of telephone calls.

Inquiries made at offices of Board and staff members since the receipt of your letter show that, on occasion, secretaries are asked to listen to at least a portion of a telephone call for information they may need in their work or for help they may provide as, for example, in locating reference material pertinent to the conversation. Frequently, a secretary is brought on the line to take down figures, or names and addresses for mailing purposes, or quoted matter that is needed in verbatim form, and that fact is made known usually to the other party to the call. In some cases, more extensive notes may be taken, but transcribing conversations is not customary, and certainly no practice is made of transcribing telephone calls to or from any particular groups or classes of callers: if a conversation is to be taken down verbatim or in detail, that fact ordinarily would be indicated in advance to the other party to the call. Any question as to whether an individual should ask his secretary to listen to part or all of a telephone call is left to the judgment of the individual, and no circumstances have come to the attention of the Board to indicate reasons for handling the matter otherwise.

The Honorable John E. Moss

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The Board does not now foresee an occasion for installing any devices to monitor telephone calls, and it does not believe that the existing practice of permitting individuals to have their secretaries listen in on some telephone conversations, either in part or in whole is objectionable.

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. 8
7/10/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



July 10, 1961

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 June 30, 1961, the Board approves the designation of the following employees as special assistant examiners for the Federal Reserve Bank of Cleveland:

Thomas J. Kyde
Ralph E. Perry
James R. Curry
William M. Fraysure
Joseph L. Lacey

Thomas Petroze
John Rothwell
Rodney McCane
Robert L. Pickett
Jerry S. Wilson

The authorizations heretofore given your Bank to designate Messrs. Kyde, Perry, Petroze, and Rothwell as special assistant examiners are hereby canceled.

The Board also approves the designation of the following employees as special assistant examiners for the Federal Reserve Bank of Cleveland for the purpose of participating in examinations of member banks except those listed opposite their names:

- Donald Ashcraft - The Central Trust Company, Cincinnati, Ohio
- Ronald Barnett - The First National Bank and Trust Company of Covington, Covington, Kentucky
- Lawrence Gibson - The American National Bank of Newport, Newport, Kentucky
- Arthur Kessnick - The Central Trust Company, Cincinnati, Ohio; and The Fifth Third Union Trust Company, Cincinnati, Ohio
- Ralph R. Voss - The Fifth Third Union Trust Company, Cincinnati, Ohio

Mr. Paul C. Stetzelberger

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Previous authorizations to designate these individuals as special assistant examiners for your Bank are hereby canceled.

Appropriate notations have been made in our records of the names to be deleted from the list of special assistant examiners.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

TELEGRAM
LEASED WIRE SERVICEItem No. 9
7/10/61BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

July 10, 1961

KRONER - ST. LOUIS

Reurlet June 30, 1961, Board approves appointment of
John McCarthy as assistant examiner for Federal Reserve
Bank of St. Louis. Please advise effective date of
appointment.

(Signed) Elizabeth L. Carmichael
CARMICHAEL