

1609  
6/61

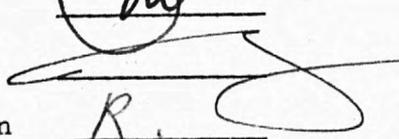
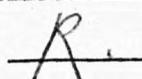
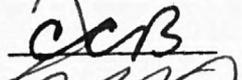
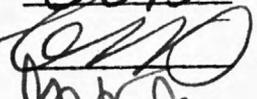
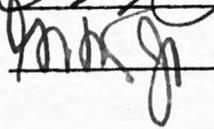
Minutes for July 17, 1961

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></u>
Gov. Mills	<u></u>
Gov. Robertson	<u></u>
Gov. Balderston	<u></u>
Gov. Shepardson	<u></u>
Gov. King	<u></u>

Minutes of the Board of Governors of the Federal Reserve System  
on Monday, July 17, 1961. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Hackley, General Counsel  
Mr. Farrell, Director, Division of Bank Operations  
Mr. Solomon, Director, Division of Examinations  
Mr. Goodman, Assistant Director, Division of  
Examinations  
Mr. Leavitt, Assistant Director, Division of  
Examinations  
Mr. Landry, Assistant to the Secretary  
Mr. Massey, Chief, Reserve Bank Operations Section,  
Division of Bank Operations

Discount rates. The establishment without change by the Federal Reserve Banks of New York, Cleveland, Richmond, St. Louis, Minneapolis, and Dallas on July 13, 1961, and by the Federal Reserve Bank of Kansas City on July 14, 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 or distributed to the Board. The following items, which had been circulated or distributed to the Board and copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:

Item No.

1

Letter to The Chase Manhattan Bank, New York, New York, approving an extension of time to establish a branch at 22 Grace Avenue, Great Neck Plaza, Nassau County.

7/17/61

-2-

Item No.

- Letter to The Bank of Georgia, Atlanta, Georgia, approving an extension of time to establish a branch at the corner of Moreland and Custer Avenues, S. E. 2
- Letter to the Federal Reserve Bank of Chicago waiving the assessment of a penalty incurred by The Merchants National Bank of Muncie, Muncie, Indiana, because of a deficiency in its required reserves. 3
- Letter to Oklahoma State Bank, Ada, Oklahoma, interposing no objection to the declaration of dividends on June 14 and December 13, 1960. 4
- Letter to United California Bank, Los Angeles, California, approving an extension of time to establish a branch in San Bernardino. 5
- Letter to United California Bank, Los Angeles, California, granting permission to accept drafts or bills of exchange drawn for the purpose of furnishing dollar exchange. 6
- Letter to the Comptroller of the Currency recommending favorably with respect to an application to organize a national bank at St. George, South Carolina. 7
- Letter to the Bureau of the Budget recommending that a proposed uniform statute amending the Negotiable Instruments Law to eliminate the necessity of protests with respect to domestic drafts and checks be submitted to the Committee of State Officials on Suggested State Legislation of the Council of State Governments for consideration. 8
- Letter to the Chairman of the House Committee on Government Operations reporting on H. R. 7865, a bill "To repeal that portion of the Act of March 3, 1893, which prohibits the employment, in any Government service or by any officer of the District of Columbia of any employee of the Pinkerton Detective Agency or any similar agency." 9

7/17/61

-3-

With respect to Item No. 6, a letter to United California Bank granting permission to accept drafts or bills of exchange drawn for the purpose of furnishing dollar exchange, Governor Balderston inquired whether it did not appear that a quantity of such drafts had already been accepted by the bank. In reply, it was indicated that in effect the application was for a continuance by United California Bank of the power enjoyed by the former First Western Bank and Trust Company under State authority, previous to its merger with California Bank. Some question had arisen regarding the legal necessity for the successor bank to make application and the filing of the request therefore was delayed.

In this connection, Mr. Goodman replied to a number of questions directed to him by Governor Mills concerning the trend of staff thinking with respect to the proposed revision of Regulation C. In the course of this discussion, Governor Mills stated reasons why he would not be inclined toward liberalization of the Regulation, to which Mr. Goodman responded that the intent might be stated in terms of clarifying what was really meant by various provisions of the Regulation.

Mr. Young, Assistant Counsel, entered the meeting at this point.

Procedure for handling Reserve Bank budgets. There had been distributed under date of July 12, 1961, copies of a memorandum from Mr. Farrell submitting an outline of the proposed procedure for handling

7/17/61

-4-

the analysis and consideration of the 1962 budgets of the Federal Reserve Banks which, as noted in the memorandum, was the same as that approved by the Board last year for handling the 1961 budgets.

There being no objection, the recommended procedure was approved unanimously.

Messrs. Goodman, Leavitt, and Massey withdrew from the meeting at this point.

Suit against Wegematic Corporation. Governor Shepardson referred to receipt of a letter from the Justice Department regarding the Board's suit against Wegematic Corporation, New York City, (formerly called Alvac Corporation and Logistics Research, Inc.), for failure to fulfill a contract with the Board for delivery and installation of a general purpose electronic digital computer system. According to its letter, the Justice Department had decided not to accept the compromise proposal for settlement made by the Corporation and intended to proceed to prosecute the suit. The letter also indicated the likelihood that Wegematic Corporation would wish to have depositions taken from some members of the Board's staff, and perhaps from a member or members of the Board.

Mr. Young recalled that at the time the United States Attorney notified the Board through the Justice Department of the compromise offer made by Wegematic Corporation, the Board had stated in a letter to the Justice Department dated February 14, 1961, that it would have

7/17/61

-5-

no objection to acceptance of the offer. Thereafter, he said, the offer had been considered by the Civil Division of the Justice Department, which had decided against accepting it.

In the discussion that ensued, the view was expressed by the staff that since the case had been placed in the hands of the Justice Department for disposition the Board probably had relinquished authority to determine whether the compromise offer made by Wegematic Corporation should be accepted. In any event, the attorney for the Corporation apparently had stated that his client was no longer interested in effecting a compromise. With respect to the taking of depositions from members of the Board and the staff, Governor Shepardson expressed willingness to make such a deposition if necessary. This, it was felt, might suffice, and no objection to such a procedure was indicated by the Board. It was further suggested, however, that if depositions by more than one Board member were requested, such depositions might be made by Governors Balderston, Mills, and Shepardson, who had constituted a committee of the Board for the purpose of considering problems in regard to the acquisition of an electronic computer system.

Mr. Young then withdrew from the meeting.

Request from Department of the Army. Governor Robertson reported on further developments regarding the request of the Department of the Army for the services of an appropriate person from within the System for the purpose of assisting in handling certain problems of bank

7/17/61

-6-

supervision in the Ryukyu Islands, as referred to at the Board meeting on June 15, 1961. He noted that pursuant to the suggestion made to the Department that Vice President Armistead of the Richmond Reserve Bank might be available for such an assignment following his retirement in September 1961, negotiations had been entered into between the Department of the Army and Mr. Armistead. However, Governor Robertson said, he had received a telephone call from the Army last Friday asking if the System would bear the expense of Mr. Armistead's assignment. His reply had been to the effect that in his opinion it was doubtful whether the Board would accede to such a request since, by virtue of the nature of his contemplated duties, Mr. Armistead should not be serving in the Ryukyus as a representative of the Federal Reserve System. Governor Robertson noted that he had spoken only for himself, as he had clearly indicated to the Department of the Army during the telephone conversation. Therefore, he would like to have the Board's thinking on this matter.

Agreement was expressed with the position taken by Governor Robertson.

Possibility of suit against the Board. Governor Robertson stated that last Friday Mr. F. G. Awalt, an attorney in the District of Columbia, visited him in his office, with Mr. Hackley also present. According to Mr. Awalt, bankers in Newark, New Jersey, had requested that he handle for them a possible suit against the Board to challenge the reclassification of Newark, New Jersey, as a reserve city should

7/17/61

-7-

this occur. The basis of the challenge would be, apparently, that the Board's action was arbitrary and capricious, and there would be used in evidence against the Board statements said to have been made by its staff in conversation with representatives of Newark banks to the effect that the pending rule for classification of reserve cities had been formulated in a manner calculated to make certain that selected cities fell within the rule. His reply had been, Governor Robertson said, that he felt there would be slight chance of success should such a suit be instituted on the grounds indicated, since the services of the staff were only advisory in nature. As to the Board itself, the fact that it had considered numerous alternative proposals prior to reaching a decision to publish in the Federal Register a plan representing what it considered to be the most equitable application of the statute would seem to militate against the success of a suit based on the contention that the Board had been arbitrary and capricious. In any event, however, this was a decision made by the Board, and the view expressed by any particular staff member would not appear relevant.

In the discussion that followed, Governor Mills inquired as to the possibility that the Board might be enjoined from promulgating and implementing a regulation by the entering of a suit against it by a dissident party.

Mr. Hackley replied that this was a question which had been considered by the Legal Division on other occasions. There was always some doubt as to what a court might hold. If a court felt that a Board

7/17/61

-8-

action had been arbitrary and capricious, it might possibly enjoin the Board from making the action effective, but in this case he considered the prospect unlikely. In any event, however, it had been indicated that the Newark banks did not propose to seek an injunction. Rather, they apparently would seek judicial review of the Board's action.

In further discussion, it was brought out that although savings might accrue to the Newark banks if lengthy legal proceedings should delay application of the higher reserve requirements that would result from the designation of Newark as a reserve city, it seemed likely that any litigation would be settled by the time the higher reserve requirements became effective under the prospective schedule for implementing the revised classification formula.

Continental Bank and Trust Company. Mr. Hackley reported on the present status of the motion by The Continental Bank and Trust Company, Salt Lake City, Utah, entered on July 6, 1961, in the United States District Court for the District of Columbia to alter, amend, or vacate the judgment of the Court rendered on June 27, 1961, dismissing Continental's complaint against the Board's order of July 18, 1960, requiring the bank to increase its capital funds by not less than \$1.5 million through the sale of common stock. At present the Justice Department was waiting to hear whether Judge McGuire, who had dismissed the original complaint by Continental and was presently on vacation, would grant the motion of the Justice Department to dismiss the July 6 motion by

7/17/61

-9-

Continental without requiring argument. This should be known shortly. In the meantime, the time for filing any brief on Continental's motion to stay proceedings pending a decision on its July 6 motion would expire July 20. Depending on developments, it might then be appropriate for the Board to decide whether the hearing set for September 6, 1961, for the purpose of taking evidence on issues of fact involved in the Board's show cause order of June 28, 1961, should be deferred.

Pan American Bank of Miami. Governor Robertson reported, in response to a question, on the pending sale of the Pan American Bank of Miami, Miami, Florida. The sale, he indicated, might be consummated by as early as the end of the current month, and the purchasing group included persons of good reputation and substantial means.

The meeting then adjourned.

Secretary's Notes: On July 14, 1961, Governor Robertson, acting in the absence of Governor Shepardson, approved on behalf of the Board the following items:

Memorandum from Mr. Hackley, General Counsel, recommending an increase in the basic annual salary of W. Sutton Potter from \$7,425 to \$7,820, with a change in title from Legal Assistant to Assistant Counsel in the Legal Division, effective July 23, 1961.

Letter to the Validation Board for German Dollar Bonds, New York, New York, advising that the Board of Governors would address envelopes to member and nonmember banks for sending the Validation Board's announcement regarding the validation of bonds, as requested in a letter dated July 12, 1961, addressed to Mr. Ralph A. Young.

7/17/61

-10-

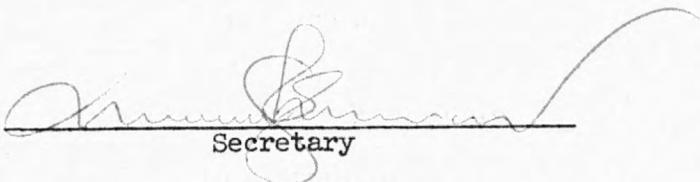
Governor Shepardson today approved on behalf of the Board the following items:

Memorandum from Peter Gajewski, Economist in the Division of Research and Statistics, requesting permission to assist in the management of an apartment house for one or two hours a month with no compensation.

Memorandum from the Division of Administrative Services recommending acceptance of the resignation of Gladys W. Garber, Mailing List Clerk and Flexowriter Operator in that Division, effective at the close of business July 21, 1961.

Governor Shepardson today noted on behalf of the Board that applications for retirement had been filed by the following persons in the Division of Administrative Services, effective at the close of business July 31, 1961:

Lydia M. Adwell, Salad Maker  
Charles E. Crowell, Chauffeur  
William Hyde, Sergeant, Guard Force  
Daniel Lane, Operator, Mimeograph



Secretary

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

Item No. 1  
7/17/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 17, 1961

Board of Directors,  
The Chase Manhattan Bank,  
New York 15, New York.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors has approved an extension until October 16, 1961, of the time within which The Chase Manhattan Bank may establish a branch at the southwest corner of Grace Avenue and Park Place, Great Neck Plaza, Nassau County, New York. It is noted that the official address for the branch is to be 22 Grace Avenue, Great Neck Plaza, Nassau County, New York.

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  
7/17/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 17, 1961

Board of Directors,  
The Bank of Georgia,  
Atlanta, Georgia.

Gentlemen:

Pursuant to your request, the Board of Governors of the Federal Reserve System further extends the time within which The Bank of Georgia may establish a branch at the corner of Moreland and Custer Avenues, S. E., Atlanta, Georgia, to November 15, 1961, under the authorization contained in the Board's letter dated September 14, 1960.

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  
7/17/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 17, 1961

Mr. Laurence H. Jones,  
Vice President and Cashier,  
Federal Reserve Bank of Chicago,  
Chicago 90, Illinois.

Dear Mr. Jones:

This refers to your letter dated July 7, 1961, regarding a penalty of \$466.03 incurred by The Merchants National Bank of Muncie, Muncie, Indiana, on a deficiency in its required reserves for the computation period ended May 3, 1961, which your letter indicates resulted largely from a combination of errors at your Bank.

In view of the circumstances outlined in your letter and the time that has elapsed since the deficiency occurred, the Board concurs in your recommendation and authorizes your Bank to waive the assessment of the penalty of \$466.03 for the period ended May 3, 1961.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

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

Item No. 4  
7/17/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 17, 1961.



Board of Directors,  
Oklahoma State Bank,  
Ada, Oklahoma,  
Ada, Oklahoma.

Gentlemen:

The Board of Governors of the Federal Reserve System has received a copy of your letter of June 9, 1961, addressed to Mr. L. F. Mills, Vice President, Federal Reserve Bank of Kansas City, in which you request that no objection be taken to two dividends declared in 1960 in contravention of Section 9, paragraph 6, Federal Reserve Act, and Section 5199(b), United States Revised Statutes. These dividends were declared on June 14 and December 13, 1960, in amounts of \$20,000 and \$30,000, respectively.

After giving careful consideration to the facts related to this matter, the Board has no objection to the declaration of the two dividends mentioned above. This letter does not authorize any other declaration of dividends in 1961 or later.

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. 5  
7/17/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 17, 1961

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

Gentlemen:

The Board of Governors of the Federal Reserve System extends until April 2, 1962, the time within which United California Bank may establish a branch in the downtown business district of San Bernardino, California, under the authorization contained in the Board's letter of January 19, 1961.

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. 6  
7/17/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 17, 1961



United California Bank,  
Los Angeles, California.

Gentlemen:

The Board of Governors of the Federal Reserve System authorizes your Bank, pursuant to the provisions of Section 13 of the Federal Reserve Act, to accept drafts or bills of exchange drawn for the purpose of furnishing dollar exchange as required by the usages of trade in such countries, dependencies, or insular possessions of the United States as may have been designated by the Board of Governors, subject to the provisions of the Federal Reserve Act and the Board's Regulation C issued pursuant thereto. Section 13 of the Federal Reserve Act provides that no member bank shall accept such drafts or bills in an amount exceeding at any one time the aggregate of one-half of its paid-up and unimpaired capital and surplus.

The right is reserved to terminate this authorization upon 90 days' notice to your Bank as provided in the Regulation.

Enclosed is a list of the countries with respect to which the Board of Governors has found that the usages of trade require the furnishing of dollar exchange. The Board of Governors may at any time, after 90 days' published notice, remove from such list the name of any country, dependency, or insular possession contained therein.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.

Enclosures

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

Item No. 7  
7/17/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 17, 1961

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

Attention: Mr. W. M. Taylor,  
Deputy Comptroller of the Currency.

Dear Mr. Comptroller:

Reference is made to a letter from your office dated March 8, 1961, enclosing copies of an application to organize a national bank at St. George, South Carolina, 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 Richmond indicates that future earnings prospects are satisfactory and that a degree of need exists for the bank. A proposed capital structure of \$175,000 appears a bit low on the basis of estimated deposit volume and makes no provision for growth. The management factor is not entirely satisfactory, as neither of the proposed officers appears qualified to head this bank. Accordingly, the Board of Governors recommends approval of the application provided there is supplied an initial capital structure of \$200,000 and that arrangements are made for management satisfactory to your office.

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. 8  
7/17/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 17, 1961

Mr. William D. Carey,  
Executive Assistant Director,  
Bureau of the Budget,  
Washington 25, D. C.

Dear Mr. Carey:

This is in reply to your letter of June 16, 1961, inquiring whether the Board has any proposals for State Legislation which it would desire to present to the Bureau of the Budget for consideration by the Committee of State Officials on Suggested State Legislation of the Council of State Governments.

The Executive Council of the American Bankers Association has approved a recommendation made by the Association's Committee on State Legislation for enactment by the States of a proposed uniform statute amending the Negotiable Instruments Law to eliminate the necessity of protest with respect to domestic drafts and checks. It is understood that the ABA Committee has transmitted copies of the proposed statute to the various State bankers associations urging that they sponsor its enactment.

The proposed statute was drafted in collaboration with a Committee of the Conference of Presidents of the Federal Reserve Banks. In the opinion of the Board, enactment of this statute by the various States would be desirable.

Accordingly, the Board recommends that this proposal be submitted to the Committee of State Officials on Suggested State Legislation of the Council of State Governments for its consideration. Copies of the proposed statute and an accompanying statement by the Executive Council of the American Bankers Association are enclosed.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

Enclosures.



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 9  
7/17/61

OFFICE OF THE VICE CHAIRMAN

July 18, 1961

The Honorable William L. Dawson,  
Chairman,  
Committee on Government Operations,  
House of Representatives,  
Washington 25, D. C.

Dear Mr. Chairman:

This is in response to your request of June 28, 1961, for a report on the bill, H.R. 7865 "To repeal that portion of the Act of March 3, 1893, which prohibits the employment, in any Government service or by any officer of the District of Columbia of any employee of the Pinkerton Detective Agency or any similar agency."

The Board in the past has had no occasion to employ personnel of the type referred to in the law and does not anticipate any future need for such special services. The Board, therefore, has no comments to offer on H.R. 7865.

Sincerely yours,

(Signed) C. C. Balderston

C. Canby Balderston,  
Vice Chairman.