



Minutes of the Board of Governors of the Federal Reserve System  
on Tuesday, July 18, 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. Thomas, Adviser to the Board  
Mr. Young, Adviser to the Board and Director,  
Division of International Finance  
Mr. Molony, Assistant to the Board  
Mr. Fauver, Assistant to the Board  
Mr. Hackley, General Counsel  
Mr. Farrell, Director, Division of Bank Operations  
Mr. Solomon, Director, Division of Examinations  
Mr. Masters, Associate Director, Division of  
Examinations  
Mr. Koch, Adviser, Division of Research and  
Statistics  
Mr. Williams, Associate Adviser, Division of  
Research and Statistics  
Mr. Sprecher, Assistant Director, Division of  
Personnel Administration  
Miss Dingle, Chief, Consumer Credit and Finances  
Section, Division of Research and Statistics  
Mr. Pawley, Economist, Division of Research and  
Statistics  
Mr. Spencer, General Assistant, Office of the  
Secretary

Items circulated or distributed to the Board. The following  
items, which had been circulated or distributed to the members of 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 National Bank of Monroe, Monroe,  
Georgia, approving its application for fiduciary  
powers.

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	<u>Item No.</u>
Letter to The First National Bank of Escanaba, Escanaba, Michigan, approving its application for fiduciary powers.	2
Letter to the Chairman of the Conference of Presidents regarding the check mechanization program. (With copies to the Presidents of all Federal Reserve Banks.)	3

Statement on S. 1740. There had been distributed a draft of statement that might be used by Chairman Martin in testifying before the Subcommittee on Production and Stabilization of the Senate Banking and Currency Committee on July 19, 1961, concerning S. 1740, a bill requiring disclosure of finance charges in connection with extensions of credit.

In addition, Governor Balderston had distributed to the members of the Board for their consideration a shorter alternative draft of statement, together with two memoranda that would be available to the Chairman at the hearing for use if questions should be raised with regard to the contracyclical influence of such legislation or the applicability of the bill to mortgage rates.

General discussion followed concerning the alternative drafts and the memoranda that Chairman Martin would have available for use if the shorter statement were presented. Various opinions were expressed as to which approach would be preferable, and a number of suggestions were made for changes that might be desirable in the respective documents. On the basis of these comments, it was understood that both drafts would

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be revised in line with the suggestions made, the principal one of which was that the draft originally distributed prior to this meeting be modified to incorporate in it some of the language found in the memoranda accompanying Governor Balderston's suggested alternative statement. It was then agreed that the alternative statements, revised in the light of the discussion at this meeting, would be presented to the Chairman for his consideration, the selection of which one to use being left to his discretion.

Secretary's Note: Chairman Martin subsequently decided in favor of the longer statement.

Messrs. Molony, Fauver, Koch, Williams, and Pawley withdrew from the meeting at this point, as did Miss Dingle.

Officer's salary at Atlanta Reserve Bank (Item No. 4). There had been distributed a memorandum from the Division of Personnel Administration dated July 17, 1961, together with a proposed letter to the Federal Reserve Bank of Atlanta approving the payment of salary to an officer of the Bank at the rate fixed by the Board of Directors. The directors of the Atlanta Bank had approved re-creating the office of Vice President and Cashier, and had appointed Mr. J. Emory McCorvey, Vice President, to that position at his current annual salary.

In discussion of the matter, Governor Shepardson raised the question whether it was good salary administration to make no adjustment in salary in view of the broader responsibilities that apparently were being given to Mr. McCorvey. Governor Shepardson said President Bryan

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had discussed this matter with him, and it was his impression from Mr. Bryan's comments that if the position of Vice President and Cashier were re-created the change of duties from those currently performed by Mr. McCorvey would be significant.

Other members of the Board, while recognizing the point made by Governor Shepardson, expressed the view that the question whether to increase an officer's salary in a situation of this kind perhaps should be left ordinarily to the discretion of the management of the Reserve Bank concerned. It was, however, suggested that it would not be inappropriate to discuss the matter with President Bryan informally on some appropriate occasion to bring to his attention the question that had been raised.

After further discussion along these lines, the letter to the Atlanta Bank, a copy of which is attached as Item No. 4, was approved unanimously, subject to the understanding that the point mentioned by Governor Shepardson would be brought to the attention of President Bryan.

Messrs. Farrell, Solomon, Masters, and Sprecher withdrew from the meeting at this point.

There followed discussion of a question relating to the current Treasury refunding, concerning which appropriate documentation has been placed in the files of the Federal Open Market Committee, at the conclusion of which all of the members of the staff except Mr. Sherman withdrew from the meeting.

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Governor Mills referred to morning press reports relating to current problems in the international exchanges and the proposed broader use of the International Monetary Fund, in which there was a suggestion that, in order to provide a flexible arrangement, the Fund might have access to Federal Reserve credit. After commenting on some of the proposals made by individuals with respect to possible changes in the structure of the Fund, Governor Mills stated that on the basis of press and other comments it appeared that the Federal Reserve System might become involved in a discussion of the matter. He noted that the Board had had placed before it a memorandum from Mr. Young on Federal Reserve Holdings of Foreign Currencies dated June 16, 1961, as well as additional related memoranda from other staff members. It was his opinion that the Board should avoid a position, which he could foresee as a possibility, in which it would be called upon to reach a judgment without having given full consideration to the matter. If a specific proposal were to be presented to the Board on short notice, it would be almost impossible to reach a mature judgment promptly. His personal feeling was that the System perhaps was being drawn more and more closely into an operation that involved its responsibilities. He then read the following statement expressing his views:

GOLD LOAN TO GREAT BRITAIN

Chaotic conditions in the foreign exchange markets are now subjecting West Germany to the loss of foreign exchange reserves and in so doing are subjecting the British pound sterling to heavy speculative pressure that is being reflected

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in rising prices for gold on the London market. As a means of quelling the speculative rise in the price of gold, consideration has been asked for a gold loan to the Bank of England by the Federal Reserve Banks.

In effect, this loan proposal would be a loan of gold to Great Britain which could be thrown onto the London gold market to hold down the free market price of gold. In its initial stages this transaction could take the form of a conventional loan by the Federal Reserve Banks to the Bank of England on the security of ear-marked gold held in the Federal Reserve Bank of New York. The Bank of England, in conjunction with the British Treasury, could then convert the dollar proceeds of the loan into gold at the U. S. Treasury, which gold would then be used for the purposes intended. In result, at this stage, the gold reserves of the United States would fall by the amount of the original Federal Reserve Bank gold loan with a corresponding rise in the amount of Britain's gold reserves. Disclosure of the drop in the United States gold stock might have unfortunate international financial and psychological consequences that could outweigh any advantage attempted through the loan transaction.

The mechanics for unwinding the original transaction through repayment of the Bank of England's gold loan from the Federal Reserve Banks would assume that orderly conditions having been restored to the London gold market, the British pound sterling would be strong enough on the international foreign exchange markets to permit the British Treasury to buy back gold on the London market with sterling, which gold would then be sold to the U. S. Treasury for dollars which would then be used to pay off the Bank of England's gold loan at the Federal Reserve Banks.

The above sequence of transactions represents an ideal settlement of the entire gold loan affair. If, however, likely obstacles by way of Britain's disturbed economic position should interfere with the programmed payment of the Bank of England's loan, advance security precautions should have been taken by the United States so as to insure restoration of the amount of gold loaned to Great Britain to its gold stocks. Therefore, at the origination of the loan the Bank of England should provide a written undertaking to, if necessary, sell the ear-marked gold held as collateral to its Federal Reserve Bank loan to the United States Treasury so as to restore the previous reduction of its gold stocks.

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At this point, Great Britain's gold reserves would show a reduction by the amount of the Bank of England's loan. As a subsidiary collateral arrangement, the United States Treasury should require the British Treasury to supply a written order on the International Monetary Fund assigning to the United States an amount of Great Britain's drawing rights on the International Monetary Fund equal to the gold equivalent value of the Bank of England's loan. Alternative to payment of that loan by a transfer of the ear-marked collateral gold to the United States Treasury, the funds assigned by Great Britain from its International Monetary Fund drawing could be used by the United States to acquire Netherlands guilders, French francs, or whatever other international currencies can be converted into gold most conveniently.

There followed a general discussion during which other members of the Board indicated concurrence in the view that the problem referred to by Governor Mills called for close study by the Board.

The meeting then adjourned.

Secretary's Note: Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson today approved on behalf of the Board the following actions relating to the Board's staff:

Salary increases, effective July 23, 1961

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>Office of the Secretary</u>			
Cornelia A. Bates, Supervisor, Non-Current Records and Records Disposal		\$5,820	\$6,150
Claudia A. Mahoney, Minutes Clerk		4,355	4,460

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Salary increases, effective July 23, 1961 (continued)

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>Research and Statistics</u>			
Rose E. Cassidy, Research Assistant (Data Processing)		\$6,600	\$6,765
David C. Crockett, Economist		8,340	8,600
Polly A. Mulville, Clerk		3,760	3,865

Examinations

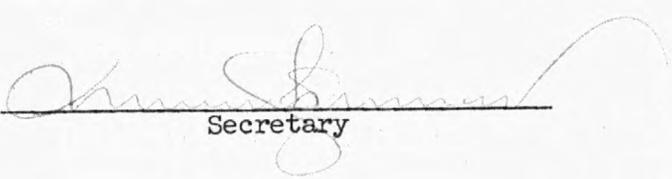
Anna S. Courtney, Supervisor, Recording and Stenographic Section		6,180	6,345
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Transfer and salary increase

Jo Ann L. Murray, from the position of Secretary in the Division of Research and Statistics to the position of Secretary in the Division of Bank Operations, with an increase in basic annual salary from \$5,170 to \$5,490, effective the date she assumes her new duties.

Change in employment status

Margaret E. Jenkins, Cafeteria Helper, Division of Administrative Services, from a part-time basis to a full-time basis, with basic annual salary at the rate of \$3,185, effective August 1, 1961.


  
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 Secretary

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

Item No. 1  
7/18/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD



July 18, 1961

Board of Directors,  
The National Bank of Monroe,  
Monroe, Georgia.

Gentlemen:

The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers and grants The National Bank of Monroe authority to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the State of Georgia. The exercise of such rights shall be subject to the provisions of Section 11(k) of the Federal Reserve Act and Regulation F of the Board of Governors of the Federal Reserve System.

A formal certificate indicating the fiduciary powers that your bank is now authorized to exercise will be forwarded in due course.

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  
7/18/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 18, 1961



Board of Directors,  
The First National Bank of Escanaba,  
Escanaba, Michigan.

Gentlemen:

The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers and grants The First National Bank of Escanaba authority to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the State of Michigan. The exercise of such rights shall be subject to the provisions of Section 11(k) of the Federal Reserve Act and Regulation F of the Board of Governors of the Federal Reserve System.

A formal certificate indicating the fiduciary powers that your bank is now authorized to exercise will be forwarded in due course.

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  
7/18/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 18, 1961

Mr. Malcolm Bryan, Chairman,  
Conference of Presidents,  
c/o Federal Reserve Bank of Atlanta,  
Atlanta 3, Georgia.

Dear Mr. Bryan:

This refers to the discussion of the check mechanization program at the joint meeting of the Board and the Presidents on June 20, 1961, during which it was mentioned that the preceding Conference of Presidents had--

1. Authorized the issuance of letters of intent to IBM for such proof inscribers as may be necessary to support (a) the high-speed sorting equipment of the Reserve Banks, and (b) reciprocal encoding arrangements with commercial banks.
2. Interposed no objection to (a) the addition of a complete IBM high-speed sorting and listing system to the pilot installation at the Federal Reserve Bank of Philadelphia, and (b) the installation of an NCR 310 system at the Federal Reserve Bank of Cleveland for test purposes.

During the joint meeting it was indicated that the Board would subsequently advise the Conference of Presidents of such views as it might care to express in regard to these matters.

The Board wishes to emphasize its continuing interest in the check mechanization program. It understands that an evaluation report by Stanford Research Institute of the pilot installations at the Reserve Banks is expected in September or October, and that the Conference of Presidents decided to defer any action with regard to additional high-speed equipment until there had been an opportunity to consider this report. The Board also understands that the Conference actions mentioned above are consistent with previous agreements concerning pilot installations, and concurs in their desirability.

A copy of this letter is being sent to the President of each Federal Reserve Bank.

Very truly yours,

(Signed) Merritt Sherman  
Merritt Sherman,  
Secretary.

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

Item No. 4  
7/18/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 18, 1961

CONFIDENTIAL (FR)

Mr. Malcolm Bryan, President,  
Federal Reserve Bank of Atlanta,  
Atlanta 3, Georgia.

Dear Mr. Bryan:

The Board of Governors approves the payment of salary to Mr. J. Emory McCorvey as Vice President and Cashier of the Federal Reserve Bank of Atlanta at the rate of \$17,000 per annum for the period July 14 through December 31, 1961.

It is noted that the rate fixed by your Board of Directors, as reported in your letter of July 14, is the same as that previously approved for the year 1961 for Mr. McCorvey at his former title of Vice President.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.