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Minutes for August 11, 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

nm

Gov. Mills

[Signature]

Gov. Robertson

R

Gov. Balderston

CCB

Gov. Shepardson

[Signature]

Gov. King

[Signature]

Minutes of the Board of Governors of the Federal Reserve System on
Friday, August 11, 1961. The Board met in the Board Room at 10:00 a.m.

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

Mr. Kenyon, Assistant Secretary
Mr. Thomas, Adviser to the Board
Mr. Shay, Legislative Counsel
Mr. Molony, Assistant to the Board
Mr. Noyes, Director, Division of Research
and Statistics
Mr. Holland, Adviser, Division of Research
and Statistics
Mr. Spencer, General Assistant, Office of
the Secretary
Mr. Yager, Economist, Division of Research
and Statistics
Mr. Axilrod, Economist, Division of Research
and Statistics

Mr. Holmes, Manager, Securities Department,
Federal Reserve Bank of New York

Money market review. Mr. Holmes reported on recent developments
in the Government securities market, after which Mr. Thomas described
developments with respect to bank reserves, the money supply, and
related matters.

At the conclusion of these reports, Messrs. Shay, Yager, and
Holmes withdrew from the meeting and the following entered the room:

Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank
Operations
Mr. Solomon, Director, Division of Examinations
Mr. Benner, Assistant Director, Division of
Examinations
Mr. Langham, Chief, Call Report Section, Division
of Bank Operations

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Discount rates. The establishment without change by the Federal Reserve Banks of New York, Cleveland, Richmond, Kansas City, and Dallas on August 10, 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 The Reading Trust Company, Reading, Pennsylvania, approving an extension of time to establish a branch at 1330 Schuylkill Avenue.	1
Letter to The Merchants and Farmers Bank, Smithfield, Virginia, approving an investment in bank premises.	2
Letter to Wachovia Bank and Trust Company, Winston-Salem, North Carolina, approving the establishment of a seasonal branch at Patterson Avenue and Liberty Street.	3
Letter to Gulf National Bank of Gulfport, Gulfport, Mississippi, approving its application for fiduciary powers.	4
Letter to The First National Bank of Sullivan, Sullivan, Illinois, denying its application for fiduciary powers.	5
Letter to Bank of Dearborn, Dearborn, Michigan, approving the establishment of a branch at 24309 Joy Road, Dearborn Township, in lieu of one at 8650 North Telegraph Road.	6

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	<u>Item No.</u>
Letter to Bloomfield State Bank, Bloomfield, Indiana, granting its request for permission to exercise a specific fiduciary power.	7
Letter to The Lake State Bank, Richland, Indiana, granting its request for permission to exercise a specific fiduciary power.	8
Letter to Mutual Trust and Deposit Company, New Albany, Indiana, approving the establishment of a branch in Floyds Knobs.	9
Letter to the Federal Deposit Insurance Corporation regarding the application of Farmers State Bank and Trust Company, Cuero, Texas, for continuation of deposit insurance after withdrawal from membership in the Federal Reserve System.	10
Letter to the Federal Reserve Bank of San Francisco approving a revision of the minimum of Grade 1 in the employees' salary structure applicable to the Portland and Salt Lake City branches.	11

Regarding Item No. 5, there was a brief discussion at the instance of Governor Mills concerning the asset history and management factors at The First National Bank of Sullivan that had led the Division of Examinations to conclude that the bank's affairs had not been conducted in a satisfactory manner for a period of time long enough to justify approval of the application to exercise fiduciary powers. It was pointed out that the recommendation of the Federal Reserve Bank of Chicago and the views of the Chief National Bank Examiner for the District were adverse.

Report on competitive factors (Haddonfield-Collingswood, New Jersey). A draft of report to the Comptroller of the Currency on the

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competitive factors involved in the proposed consolidation of Haddonfield National Bank, Haddonfield, New Jersey, and First National Bank of Collingswood, Collingswood, New Jersey, had been distributed under date of August 7, 1961.

The report, which contained the following conclusion, was approved unanimously:

The proposed consolidation of Haddonfield National Bank, Haddonfield, New Jersey, and First National Bank of Collingswood, Collingswood, New Jersey, would eliminate only a small amount of competition between the two banks. The consolidated bank should be in a somewhat stronger competitive position than the participants are separately and it seems probable there would be an increase in competition with the other banks in the area, without appreciable adverse effects on smaller banks.

Continental Bank and Trust Company (Item No. 12). There had been distributed a memorandum dated August 10, 1961, from Mr. Hackley regarding motions now before the Board with respect to the matter of The Continental Bank and Trust Company, Salt Lake City, Utah.

In reviewing the pending motions, Mr. Hackley brought out that they involved essentially the question whether the Board's "show cause" order, which called for a hearing beginning September 6, should be stayed or vacated pending the bank's anticipated appeal from the District Court's judgment, reaffirmed on August 5, dismissing the bank's suit against the Board. Mr. Hackley further stated that before the Board reached a decision it would appear desirable to him to afford Counsel for Continental an opportunity to comment upon Board Counsel's memorandum of August 7, 1961, which

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urged proceeding with the hearing and recommended that any stay of proceedings, if decided on by the Board, be conditioned upon the following of an accelerated appellate procedure. Mr. Hackley therefore recommended that a letter in the form of the draft attached to his memorandum of August 10 be sent to Counsel for Continental.

After general discussion in which the Board expressed agreement with Mr. Hackley's recommendation, the letter to Counsel for Continental was approved unanimously. A copy is attached as Item No. 12.

Revised Form FR 416a (Item No. 13). In connection with a letter from Mr. Bryan, President of the Federal Reserve Bank of Atlanta, commenting critically on the adoption of a revised Form FR 416a (Changes in Commercial and Industrial Loans by Industry), there had been distributed a draft of reply proposed to be signed by the Director of the Division of Research and Statistics.

In discussion of the proposed letter, Governor Mills inquired if any comments had been received from other Federal Reserve Banks relative to the revised form, and Mr. Noyes observed that the Banks apparently were preparing to go ahead with the use of the form. Inasmuch as the Board's letter of July 25, 1961, concerning the revised form did not request any response, he thought it was doubtful that other comments would be received. However, Mr. Bryan's letter had asked that his views be brought to the Board's attention, and it was felt that a fairly detailed reply might be appropriate.

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Question was raised whether President Bryan's letter did not infer that the decision to adopt the revised Form 416a had been made without providing a full opportunity for the expression of views, to which Mr. Noyes replied in terms that the revision had been under consideration at the staff level for about two years and developments had been reported regularly through the customary channels. Although the matter may have come to a head somewhat more rapidly than might have been anticipated, he understood that Mr. Irons, Chairman of the Committee on Research and Statistics of the Presidents' Conference, had been properly informed. It was Mr. Noyes' impression that in most quarters the revision of the form was regarded as a relatively minor matter, involving the tidying up of a reporting series, while Mr. Bryan apparently felt that the series should be given a complete overhaul. As far as he knew, Mr. Bryan was the only person who held any strong view that this was the proper time for such an overhaul. The immediate problem seemed to be to convey to Mr. Bryan, in some appropriate manner, the fact that the staff was sympathetic with the broad objectives he had in mind and that the current revision represented a compromise, worked out mainly by Reserve Bank personnel.

Chairman Martin commented that the need for proper communication should be watched carefully in matters of this kind, and Mr. Noyes replied that this would be done.

The sending of the proposed reply to President Bryan was then approved unanimously, with the understanding that Mr. Noyes would also

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communicate with Mr. Bryan by telephone to confirm to him that the Board had discussed his letter and was cognizant of the points he had made.

A copy of the letter sent to President Bryan pursuant to this action is attached to these minutes as Item No. 13.

Messrs. Thomas, Molony, Hackley, Holland, and Benner withdrew from the meeting at this point.

Request for data on State member banks. There had been circulated a memorandum dated August 4, 1961, from the Division of Bank Operations concerning a request from a graduate student at Yale University for IBM cards or magnetic tape containing certain condition data reported by a sample of State member banks over a period of time.

In discussion, Mr. Farrell noted that the graduate student requesting the information (Stanley M. Besen) proposed to use the data in research work to fulfill requirements for a doctoral degree. The Division of Bank Operations, although sympathetic to Mr. Besen's request, recommended that it be disapproved, principally because it was felt that approval might be construed by other students as a precedent and thereby lead to similar requests. The Division also noted that the cost to the Board, including the necessary computer time, might run between \$500 and \$600, and that it would not be possible to furnish the requested data except in a form in which data reported by individual banks could be identified. These data would include unpublished figures from the reverse side of condition reports.

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Mr. Noyes indicated that the Division of Research and Statistics was inclined to feel that the request probably should be granted. While it might not be possible to furnish figures of this kind without having them in such form that data reported by individual banks could be identified if a student set out to do that deliberately, this man had been well recommended by an economics professor at Yale University and the degree of risk did not seem substantial. In addition, Mr. Noyes pointed out, it would appear worthwhile to encourage research in the field of money and banking by competent students at recognized educational institutions. If access to needed data was denied, such students might decide to direct their studies to other areas. The availability of high-speed processing equipment made it seem likely, Mr. Noyes brought out, that requests of this kind would be received from time to time.

Governor Mills indicated that he would be inclined to agree with the reasoning of the Division of Bank Operations. He felt it was asking a great deal for the Board to provide data of this sort to a graduate student and that a request of this kind could be distinguished from one received from a person of the rank of Professor Bach, Dean of the Graduate School of Industrial Administration at the Carnegie Institute of Technology, who had been furnished somewhat similar information in 1958 in connection with a proposed study.

Governor Shepardson observed that it was always difficult to know how far to go in compiling information, with some effort and expense, for

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graduate students. However, the arguments mentioned by Mr. Noyes were in line with the Board's concern about building up relations with academic institutions, and they also had relevance from the standpoint of the System's recruitment problem. He assumed that if the data were furnished in this instance, it would be specified that none of the data should be used by the student in a dissertation or otherwise in such manner as to divulge the identity of individual banks. Although some risk might be involved in this respect and there was the question of precedent to be considered, the number of graduate students doing work in this area was not too large and some encouragement would seem in order. On balance, therefore, he would be inclined to grant the request.

In reply to a question raised by Governor Shepardson, Mr. Langham pointed out that it had been the practice of the Board, when it granted requests of this kind, to furnish the data without charge.

Chairman Martin stated that he found himself rather persuaded by the reasoning that had been advanced in favor of granting the request. Thinking in terms of a competent student, he would hate to have the Federal Reserve regarded as an organization that was not flexible and appeared to attempt to withhold information. He was on the side of encouraging competent students, also, because there were relatively few working in this field who had unusual talent or capacity.

Governor Balderston expressed the view that the question of establishing a precedent was not the vital point in this case. If it

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should develop that the Board's facilities were misused or overused, that problem could be dealt with in due course. He was impressed, moreover, by the fact that the number of talented graduate students in the field of finance had been relatively small in the years since the 1930s. Further, he had found that doctoral dissertations were not infrequently of high caliber, and the topic selected by this student, having to do with the preferences of commercial banks as among various earning assets under changing conditions, was one of interest to the Board. On balance, while he recognized the difficulties involved, he would be disposed to accept a calculated risk and furnish the requested information in this particular case.

After further discussion along these lines, it was understood that the requested data would be furnished in this instance and, in accordance with the Board's usual practice, without charge.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board memoranda from the Division of Research and Statistics and the Office of the Controller dated August 2 and August 3, 1961, respectively, recommending that the organizational groupings of the Division of Research and Statistics for budget and payroll purposes be revised and established as follows, effective at the beginning of the first pay period in 1962:

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Administration (To include Officers and Officers' Secretaries only)

Banking

Business Conditions

Capital Markets

Consumer Credit

Flow of Funds

Government Finance

National Income

Statistical Operations Planning

Staff Services (To include Administration Section staff, Floating Supply, Recruit Economists, Summer Research Assistants. Also to include Economic Editing, Economic Illustrating, Research Library.)

Thomas C. Fryer
Assistant Secretary

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

Item No. 1
8/11/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 11, 1961

Board of Directors,
The Reading Trust Company,
Reading, Pennsylvania.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Philadelphia, the Board of Governors has approved an extension until March 20, 1962, of the time within which The Reading Trust Company may establish a branch at 1330 Schuylkill Avenue, Reading, Pennsylvania. The establishment of this branch was authorized in a letter dated September 20, 1960.

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
8/11/61



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 11, 1961

Board of Directors,
The Merchants and Farmers Bank,
Smithfield, Virginia.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Richmond, the Board of Governors of the Federal Reserve System approves, under the provisions of Section 24 (A) of the Federal Reserve Act, an additional investment by The Merchants and Farmers Bank, Smithfield, Virginia, of \$141,500 in bank premises.

This approval is in accord with and is for the purposes set forth in a letter dated July 10, 1961, by the president of your bank and addressed to the Federal Reserve Bank of Richmond.

It is understood that the banking premises presently owned and occupied by your bank will be disposed of within 90 days from the date of this letter and that proceeds of the sale therefrom will be applied as a reduction to the book value of the bank premises account. It is further understood that the bank premises account will be reduced by charge off or depreciation to an amount not in excess of \$125,000 and that this will be accomplished not later than the end of the calendar year 1964.

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. 3
8/11/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 11, 1961



Board of Directors,
Wachovia Bank and Trust Company,
Winston-Salem, North Carolina.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Richmond the Board of Governors of the Federal Reserve System approves the establishment by Wachovia Bank and Trust Company, Winston-Salem, North Carolina, of a seasonal branch in Taylor's warehouse at the corner of Patterson Avenue and Liberty Street, Winston-Salem, North Carolina, provided the branch is established within six months 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
8/11/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 11, 1961



Board of Directors,
Gulf National Bank of Gulfport,
Gulfport, Mississippi.

Gentlemen:

The Board of Governors of the Federal Reserve System has given consideration to your supplemental application for fiduciary powers and grants you authority to act, when not in contravention of State or local law, as trustee, executor, administrator, 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 Mississippi. 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.

In addition to the fiduciary powers herein authorized, the bank was granted authority, on June 8, 1950, to act as trustee for bond issues and registrar of stocks and bonds.

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) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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

Item No. 5
8/11/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 11, 1961

Board of Directors,
The First National Bank of Sullivan,
Sullivan, Illinois.

Gentlemen:

The Board of Governors has given consideration to your application for fiduciary powers which was forwarded through the Federal Reserve Bank of Chicago.

In passing upon an application for permission to exercise the fiduciary powers authorized by Section 11(k) of the Federal Reserve Act, the Board gives special consideration to a number of factors having a bearing on the proper exercise of the fiduciary authority requested. These include the general condition of the bank, the adequacy of its capital funds, the general character and ability of the management of the bank, and the qualifications and experience of the proposed executive officer of the trust department.

The Board has considered the condition of your bank as reflected in reports of examination made by examiners for the Comptroller of the Currency for the past several years and notes that while the present asset condition of the bank is apparently satisfactory, at certain fairly recent examinations a substantial volume of assets was classified and criticized. In respect to capital adequacy, examiners have commented on the substantial salary, bonus, and dividend payments made by the bank, stating such payments were not in keeping with prudent banking procedure of providing ample capital funds for the protection of depositors. Sound banking policy suggests the need for regular accumulation in capital accounts of a satisfactory portion of the bank's earnings to provide for normal banking risks and to give adequate support to new or broadened functions which may be contemplated, such as engaging in fiduciary activities.

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The Board is also concerned about the apparent lack of fiduciary experience and qualifications of the officer who would administer the trust activities of the bank.

In the view of the Board, the bank has not operated in a completely satisfactory manner for a sufficient period to justify the assumption of the additional responsibilities of a corporate fiduciary. Accordingly, the Board cannot approve your application for trust powers.

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
8/11/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 11, 1961

Board of Directors,
Bank of Dearborn,
Dearborn, Michigan.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors of the Federal Reserve System approves the establishment of a branch at 24309 Joy Road, Dearborn Township, Wayne County, Michigan, by Bank of Dearborn, provided the branch is established within six months from the date of this letter.

Establishment of this branch is being approved in lieu of a branch at 8650 North Telegraph Road, approved by the Board on March 30, 1961.

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. 7
8/11/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 11, 1961

Board of Directors,
Bloomfield State Bank,
Bloomfield, Indiana.

Gentlemen:

This refers to your request for permission, under applicable provisions of your condition of membership numbered 1, to act in a specific fiduciary capacity.

Following consideration of the information submitted, the Board of Governors of the Federal Reserve System will interpose no objection to Bloomfield State Bank, Bloomfield, Indiana, acting as trustee, registrar, and paying agent of a first mortgage bond issue of \$720,000 of the Eastern School Building Corporation, Greene County, Indiana. The acceptance of a large corporate trust requires the exercise of great care and fidelity, and the Board requests that you work closely with your counsel to assure conformance with the terms of the trust indenture and applicable law.

Furthermore, it is requested that your bank will not accept any other fiduciary appointments without first obtaining the permission of the Board.

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. 8
8/11/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 11, 1961

Board of Directors,
The Lake State Bank,
Richland, Indiana.

Gentlemen:

This refers to your request for permission, under applicable provisions of your condition of membership numbered 1, to act in a specific fiduciary capacity.

Following consideration of the information submitted, the Board of Governors of the Federal Reserve System grants permission to The Lake State Bank, Richland, Indiana, to act as trustee, registrar, and paying agent for a \$470,000 first mortgage bond issue of the Luce School Township Building Corporation, Spencer County, Indiana. This permission is given with the understanding that your bank will not accept any other fiduciary appointments without first obtaining the permission of the Board.

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. 10
8/11/61



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 11, 1961

The Honorable Erle Cocke, Sr., Chairman,
Federal Deposit Insurance Corporation,
Washington 25, D. C.

Dear Mr. Cocke:

Reference is made to your letter of July 24, 1961,
concerning the application of the Farmers State Bank and
Trust Company, Cuero, Texas, for continuance of deposit
insurance after withdrawal from membership in the Federal
Reserve System.

No corrective programs which the Board of Governors
believes should be incorporated as conditions to the contin-
uance of deposit insurance have been urged upon or agreed to
by the bank.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM Item No. 11
8/11/61
WASHINGTON 25, D. C.

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 11, 1961

CONFIDENTIAL (FR)

Mr. Eliot J. Swan, President,
Federal Reserve Bank
of San Francisco,
San Francisco 20, California.

Dear Mr. Swan:

The Board of Governors approves a revision of the Portland-Salt Lake City employees' salary structure, effective September 1, 1961, to the extent of establishing the minimum limit of Grade 1 at \$2,400, in accordance with the action of your Board of Directors as reported in your letter of August 3, 1961.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM Item No. 12
WASHINGTON 25, D. C. 8/11/61



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 11, 1961

Barron K. Grier, Esq.,
Miller & Chevalier,
1001 Connecticut Avenue, N. W.,
Washington 6, D. C.

Dear Mr. Grier:

In connection with the matter before the Board of Governors involving The Continental Bank and Trust Company, Salt Lake City, Utah, the Board has received from Board Counsel a Memorandum in Response to Respondent's Motion for Stay of Proceedings and to Respondent's Motion to Vacate the Board's Order to Show Cause and for Hearing Thereon. It is understood that a copy of that Memorandum has been furnished to you.

The Board is informed that on August 5, 1961, the District Court for the District of Columbia denied Respondent's Motion of July 6, 1961, to alter or amend that Court's judgment of June 27, 1961, in case No. 5097-60, to vacate the same, and for leave to file an amended and supplemental complaint.

Board Counsel's Memorandum referred to above recommends that any stay of the Board's Order of June 28, 1961, to show cause and for hearing thereon be conditioned upon the following of an accelerated appellate schedule.

Before reaching a decision as to the motions now pending before it in this matter, the Board will consider any further comments you may wish to submit not later than August 17, 1961, including comments with respect to what your plans may be to note an appeal from the District Court's judgment and, in the event of appeal, with respect to Board Counsel's recommendation regarding an accelerated appellate schedule.

Very truly yours,

Kenneth A. Kenyon,
Assistant Secretary.

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

Item No. 13
8/11/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 11, 1961.



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

Dear Mr. Bryan:

Your letter of July 27, 1961, concerning the revision of the weekly business loan series has been given consideration by the Board. They have asked me to indicate their appreciation for your expression of views, which was of interest, both with respect to the particular matter at hand and the related question of the gaps in our information on other aspects of bank lending.

In addition, the Board requested that I convey some of our general thinking on the bank loan series. As is often true in our financial statistics program, the recent revisions in the weekly Form FR 416a, Changes in Commercial and Industrial Loans by Industry, represented a compromise among considerations of data needs, collection procedures, and reporting burdens. It was the consensus of the System Research Advisory Committee that the present revisions in Form FR 416a were desirable in order to deal with the chief shortcomings of the existing series. Particular problems and points of view are not always fully served by such compromise revisions, of course, and further thinking, testing, and experimentation concerning the series may conceivably make worthwhile some additional alterations in the series in the years ahead. I would hope that included in such future changes would be some which would deal with persisting reporting bank problems.

The purpose in revising 416a procedures currently stems from the value which is attached to this series for monetary analysis. Developments in bank lending to different industries have different implications for the strength and duration of over-all business loan movements and are significant in analysis of the economy in general. Since business loan data have historically been among the key figures weighed in determining the course of general credit policy, the development of additional insight into these movements is much to be desired. The series is judged to have been very helpful in the decade of its existence on the present basis, and the revision should make the data more reliable and more useful in a number of respects. Specifically,

Mr. Malcolm Bryan

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analyses of bank credit developments presented to the Board every week and those presented to the Open Market Committee usually include observations as to the areas of strength or weakness of loan demand based on the 416a reports. The differences often lead to conclusions that would not be drawn from total figures.

We are informed that some large banks have found detailed loan classifications in one form or another useful in their own internal analyses, and we understand some are employing or planning to employ the 416a loan classification in their bookkeeping practices. Among other uses, individual bankers have reported using the data to judge loan prospects, portfolio diversification among industries, and competitive positions relative to other large banks in the financing of particular industries. It is to be expected that such respondent uses will continue to grow, and they should encourage increased willingness and accuracy in reporting and may sometimes contribute findings of broader analytical interest as well. Adoption of the current 416a revision, with its more useful and reliable basis of classification, is regarded as desirable before the older classification becomes firmly established in bank records.

Your comments concerning the liquidity and quality of bank loans touch upon an area that has been of concern to the Board, although more thus far from the point of view of bank supervision than of overall monetary policy. To assist deliberations on this subject, some statistical investigations are presently underway. Experimental tabulations from bank examination reports are being considered here to assemble aggregate information on loans of varying degrees of liquidity, classified loans, and loan delinquencies. In addition, the System Research Advisory Committee has approved efforts to broaden data collection concerning term loans, an area pioneered by the Federal Reserve Bank of New York. Additional knowledge in the general field of bank loan liquidity is to be desired, and any exploratory investigations which can cast light on the subject will be most welcome. If you or members of your staff have further thoughts or findings bearing on this issue, we should be glad to have the benefit of them.

Sincerely,

(Signed) Guy E. Noyes

Guy E. Noyes, Director,
Division of Research and Statistics.