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Minutes for August 30, 1961

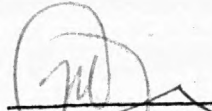
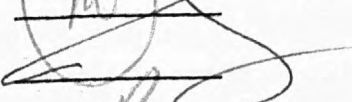
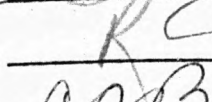
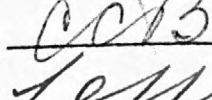
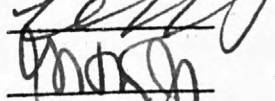
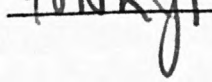
To: Members of the Board

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 Wednesday, August 30, 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. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Noyes, Director, Division of Research and
Statistics
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Chase, Assistant General Counsel
Mr. Conkling, Assistant Director, Division of
Bank Operations
Mr. Hostrup, Assistant Director, Division of
Examinations
Mr. Sprecher, Assistant Director, Division of
Personnel Administration
Mr. Fuerth, Legal Assistant
Mr. Smith, Legal Assistant
Mr. Thompson, Supervisory Review Examiner,
Division of Examinations
Mr. Smith, Assistant Review Examiner, Division
of Examinations

Treatment of brokers' security drafts as cash items in process
of collection for reserve purposes (Item No. 1). The Federal Reserve
Bank of Boston, in the light of an inquiry from a member bank, had
submitted to the Board the question whether brokers' security drafts
should be treated as "cash items in process of collection" for reserve
purposes. It was understood that these drafts were drawn by dealers
upon other dealers, and sometimes upon banks, that they were payable
at sight, and that they were forwarded by the dealer's bank for collection
to correspondent banks. The drafts were accompanied by the securities,

8/30/61

-2-

and it was understood to be the practice of banks in the Boston District where such drafts were deposited to allow customers immediate credit in their demand deposit accounts for the full amount of the drafts.

With its letter, the Boston Reserve Bank transmitted copies of correspondence from other Reserve Banks in response to letters sent to them by Vice President Groot. From this correspondence, it appeared that there was some lack of uniformity in the practice of banks in various parts of the country with respect to the treatment of drafts of the kind in question. It also appeared that such items, if forwarded for collection through a Federal Reserve Bank, were handled as noncash items.

The Boston letter and the attached correspondence had been circulated to the Board, along with a memorandum of comment from Mr. Veret of the Legal Division, the conclusion of which suggested that the answer to the question raised by the Boston Bank might depend on whether the member banks involved had developed (as the New York Clearing House banks had developed) a cash item procedure for security drafts to such an extent that a custom was indicated. The memorandum also brought out that Regulation D, Reserves of Member Banks, was not drafted so as to require a uniform answer to the question. Within the confines of the Regulation, therefore, variations would appear to be permissible unless a need for uniformity became more apparent than in the present instance.

The file circulated to the Board also contained a draft of suggested reply to the Boston Reserve Bank which would take the position

8/30/61

-3-

that in those cases where such drafts were handled as collection items (either because the drawer so directed or because they were forwarded through a Federal Reserve Bank, which handled them as noncash items in accordance with the provisions of Regulation G, Collection of Noncash Items), they obviously were not cash items in process of collection. However, if all of the banks in a given area followed the same procedure for collecting these items as for collecting checks, and if the banks to which such items were sent effected remittance on the same basis as with respect to checks, there would appear to be no reason why such items should not be regarded as "cash items in process of collection" for reserve purposes.

In discussion of the matter, Mr. Noyes commented that there might be some doubt about the desirability, in the longer run, of stimulating the use of drafts in lieu of checks. Thus, before going too far in the direction of giving tacit approval to the apparently increasing tendency toward the use of drafts as cash items, the Federal Reserve might want to consider the problem rather carefully. In this connection, Mr. Noyes referred to a recent article on the subject that had appeared in the Wall Street Journal and added that he had heard expressions of concern both within and outside the System. He also commented that his remarks were directed more toward the broad philosophical aspects of the matter than to the specific inquiry.

8/30/61

-4-

Mr. Conkling commented on a possible need for review of the definition of "cash items in process of collection", following which Mr. Farrell discussed the operational problems of the Reserve Banks in the handling as cash items of various kinds of drafts, such as the so-called envelope drafts, that were not suitable for handling through the new high-speed check processing equipment. He indicated that these problems were continuing to receive the attention of the Presidents' Conference.

Governor Mills pointed out the practice to which Mr. Noyes had alluded was well established and had a long history. While it may have grown, he doubted whether this was a subject that required urgent remedial treatment. After Governor Mills had described how such drafts ordinarily were handled, Mr. Noyes agreed that there was a great deal of precedent involved. However, he understood that the practice was spreading to encompass a number of fringe uses.

After further discussion of various aspects of the matter, the Proposed letter to the Federal Reserve Bank of Boston, a copy of which is attached as Item No. 1, was approved unanimously. As to the broader area of discussion, Governor Balderston suggested that the Board might wish to obtain the views of the Federal Advisory Council. There was general agreement with this suggestion, and it was understood that the topic would be proposed for inclusion on the agenda for the forthcoming meeting of the Board and the Council.

8/30/61

-5-

Discount rates. The establishment without change by the Federal Reserve Bank of Atlanta on August 28, 1961, of the rates on discounts and advances in its existing schedule was approved unanimously, with the understanding that appropriate advice would be sent to that Bank.

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:

	<u>Item No.</u>
Letter to the Federal Reserve Bank of New York approving of its acting as fiscal agent in connection with a proposed issue of bonds by the International Bank for Reconstruction and Development.	2
Letter to Cherry Creek Bank, Denver, Colorado, granting permission to maintain reduced reserves, effective as of the date the bank is admitted to membership under a national bank charter.	3
Letter to Chairman Dawson of the House Committee on Government Operations reporting on H. R. 8637, a bill that would establish a limit on the total budgeted expenditures for each fiscal year in relation to estimated net budget receipts for the same year.	4

Application of First Security Corporation. There had been distributed to the Board copies of a memorandum from the Division of Examinations dated August 15, 1961, recommending approval of an application by First Security Corporation, Salt Lake City, Utah, to acquire

8/30/61

-6-

the shares of Sanpete Valley Bank, Mt. Pleasant, Utah. There had also been distributed copies of a memorandum from the Legal Division dated August 25, 1961, expressing the opinion that in the event of judicial review approval of the application would be regarded as a reasonable exercise of the Board's discretion whereas denial might possibly be more difficult to support, particularly in view of the Board's approval in 1959 of the application of First Security Corporation to acquire the Fillmore State Bank, Fillmore, Utah.

At the request of the Board, Messrs. Solomon and Thompson reviewed the facts of the case and the reasons underlying the favorable recommendation of the Division of Examinations, their comments being based essentially on the Division memorandum that had been distributed. Mr. Smith, speaking for the Legal Division, reiterated the comment in the memorandum from that Division that it would appear somewhat easier to support approval than denial, especially in view of the decision in the Fillmore case.

The members of the Board then expressed their views, beginning with Governor Mills, who said that on balance he believed the favorable recommendation was in order. Although he did not regard this as an open and shut case, it was in his opinion a stronger application than the Fillmore application since the acquisition of the Fillmore bank by First Security resulted in the elimination of all competition in the county concerned. Nevertheless, this application contemplated a further

8/30/61

-7-

concentration on the part of First Security Corporation along the pattern of irrigation extending southward from Salt Lake City. This was just a band of territory; the area beyond the valley was wasteland. While alternative sources of banking facilities would remain in the area, one important independent source of such facilities would be eliminated. Considering the area concerned, he did not regard the bank proposed to be acquired as a small bank. Instead, it was a relatively large bank for the size of the community served, and a bank of such size as to serve adequately the needs of the community. The effect of the proposed transaction would be to exchange the services of that bank for competent services rendered by First Security Corporation, but a trend was being established that would make it more difficult for the remaining independent banks to compete over a period of time and would encourage a further tendency on the part of those banks to move from independent ownership into the hands of First Security Corporation.

Governor Shepardson inquired whether the memorandum from the Division of Examinations did not tend to belabor the question of the availability of successor management in the bank proposed to be acquired. In view of the recent death of the top officer and the physical incapacity of the officer next in line, he raised the question whether there was not a real problem in attempting to employ competent management at a salary within the earning capacity of the bank, which was stated to be less than average for banks in the area.

8/30/61

-8-

The reply given by Messrs. Solomon and Thompson was to the effect that no evidence had been presented to show that a serious attempt had been made to secure competent management. Therefore, it was difficult to conclude with finality that competent management could not be obtained except through acquisition of the bank by First Security. It was recognized that a management problem existed and that it might not be easy to correct, but the intention was to suggest in the memorandum presenting the case for the Board's consideration that there was no way of knowing with certainty how difficult it might be for the independent bank to correct the situation. It was noted, however, that the State Commissioner of Banks had stated that because of the management problem he would interpose no objection to the proposed transaction, even though he recognized that First Security had expanded and in some areas of the State controlled the banking situation.

Governor Balderston inquired whether any expression had been made by the Department of Justice on this case, to which Mr. Thompson and Mr. Smith (Examinations) replied that several weeks ago a representative of the Department talked with Mr. Smith and asked when it seemed probable that the case would come up for decision. The Justice Department representative indicated that he was not sure whether the Department would wish to submit any comments to the Board. There had been no request from Justice to inspect the application, nor had any communication been received from the Department since the date of the telephone conversation.

8/30/61

-9-

Thereupon, the application of First Security Corporation was approved unanimously, and the Legal Division was requested to draft an order and a supporting statement for the Board's consideration.

Messrs. Molony, Chase, Hostrup, Fuerth, Thompson, Smith (Legal), and Smith (Examinations) then withdrew from the meeting.

Federal Advisory Council topics (Item No. 5). There had been distributed to the Board copies of a draft of letter to the Secretary of the Federal Advisory Council suggesting topics for inclusion on the agenda for the meeting of the Council to be held on September 18, 1961, and for discussion at the joint meeting of the Board and the Council on the following day.

In discussion, Chairman Martin noted the understanding reached earlier in this meeting that a question would be added to the suggested agenda with regard to the apparently increasing tendency to use drafts, some with documents attached, as cash items in lieu of checks.

Certain suggestions were made with regard to the phrasing of some of the questions set forth in the draft letter, and it was understood that these suggestions would be taken into account in preparing the letter to the Council in final form.

Governor Balderston noted the substantial number of topics and sub-topics proposed for discussion at the joint meeting. He raised the question whether there was any reason to feel that the number was excessive, but subsequent comments did not indicate that such an opinion

8/30/61

-10-

existed. It was noted that an effort had been made over the past year or so to vary the questions included on the agenda and make them more specific, pursuant to a suggestion that such an approach might contribute to the value of the joint meetings, and Chairman Martin expressed the general view that any steps that might encourage expressions of opinion on the part of the Council could be regarded as desirable.

Thereupon, the proposed letter to the Secretary of the Federal Advisory Council was approved unanimously, subject to incorporation in it of the changes that had been agreed upon at this meeting. A copy of the letter, as sent, is attached as Item No. 5.

Request of American Bankers Association (Items 6 and 7). There had been circulated to the Board a memorandum from the Division of Bank Operations dated August 16, 1961, regarding a request from a representative of the American Bankers Association that there be made available to the Association basic banking structure codes, along with certain loan information from the reverse side of condition reports submitted by insured commercial banks as of June 30, 1961. These data were to be used by the Association in developing a new sampling plan for conducting its semiannual surveys of agricultural credit conditions and in constructing another sample to be used in making instalment credit surveys. The Divisions of Bank Operations and Research and Statistics recommended that the requested data be furnished provided the Comptroller of the Currency and the Federal Deposit Insurance Corporation were agreeable

8/30/61

-11-

insofar as the data extended to reports submitted by national banks and insured nonmember banks. Proposed letters to those two agencies were submitted with the memorandum.

After discussion, unanimous agreement was expressed with the staff recommendation. Copies of letters sent to the Comptroller's Office and to the Federal Deposit Insurance Corporation pursuant to this action are attached as Items 6 and 7, respectively.

Messrs. Noyes and Conkling then withdrew from the meeting.

Revision of officers' salary structure at Cleveland (Item No. 8).

There had been circulated to the Board a draft of letter to the Federal Reserve Bank of Cleveland approving a requested revision in the salary structure of the salary administration plan applicable to officers of that Bank.

There being concurrence in the favorable recommendation of the Division of Personnel Administration, the proposed letter was approved unanimously. A copy is attached as Item No. 8.

In this connection, Governor Balderston noted that thus far the Board's Budget Committee and the Division of Personnel Administration had discouraged any changes at the upper end of the salary structures for officers of the respective Reserve Banks. However, at some of the Budget Committee meetings with Reserve Bank Presidents, attention had been drawn to administrative difficulties that would occur if the lower end of the structure was such that nonofficial personnel could obtain

8/30/61

-12-

higher salary rates than the lower paid officers. The revised structure approved for the Cleveland Bank took this factor into account, but there was no increase at the upper end of the structure. In terms of the Reserve Banks generally, this presented the problem that officer salaries tended to be compacted, thereby lessening the opportunity for salary flexibility incident to changes of positions and other promotions. Accordingly, Governor Balderston suggested that the time might come when the Board would wish to consider revisions at the upper end of the structures of the various Banks as well as at the lower end. In fact, this point might come up for discussion when the 1962 budgets of all of the Reserve Banks were before the Board for consideration toward the end of this year. This problem, of course, had a relationship to the salaries of the Presidents and First Vice Presidents of the Federal Reserve Banks, which suggested that the Board might want to reconsider the question of the salary levels of those officers at some appropriate time.

Mr. Sprecher then withdrew from the meeting.

Continental-City Bank merger (Items 9 and 10). Chairman Martin reported that Assistant Attorney General Loevinger had called on the telephone yesterday with reference to the report on competitive factors that the Board rendered to the Comptroller of the Currency on February 27, 1961, with regard to the merger in Chicago, Illinois, recently approved by the Comptroller, involving the Continental Illinois National Bank

8/30/61

-13-

and Trust Company and the City National Bank and Trust Company. In accordance with the procedure agreed upon in the Board's letter of August 3, 1960, a copy of that report had been sent to the Justice Department after the proposed merger was approved by the Comptroller.

Chairman Martin said Judge Loevinger recalled that the Board had permitted the Department to use in evidence the report on competitive factors rendered by the Board to the Comptroller of the Currency in connection with a merger in Philadelphia, Pennsylvania, concerning which the Department instituted an antitrust action. Judge Loevinger had indicated that the Chicago matter was urgent because the Department of Justice intended to institute a proceeding today seeking to enjoin the merger of the two banks. Chairman Martin said he had told Judge Loevinger that he would refer the question to the Board promptly and that he would endeavor to advise of the Board's decision today. He had then referred the question to the Legal Division for study.

Mr. Chase verified that in the Philadelphia case the Board had agreed, after checking with the Comptroller of the Currency and obtaining his permission, to allow the Justice Department to offer the Board's report on competitive factors in evidence. Mr. Chase said that he called the Comptroller's Office yesterday to attempt to ascertain the Comptroller's attitude on the current request and that he understood the Comptroller or his representative would call Chairman Martin this morning. Mr. Chase also noted that in this instance there had been no request, as there was

8/30/61

-14-

in the Philadelphia case, from counsel for the applicant bank to obtain a copy of the Board's report. However, he suggested that, as in the Philadelphia case, the Board might wish to furnish a copy of the report to the applicant bank if it permitted the Justice Department to use the report in evidence.

After Chairman Martin commented that he had not received any telephone call this morning from the Comptroller or his representative, Governor Mills inquired why the Board should not follow the same procedure as in the Philadelphia case, thus permitting the Department of Justice to use the Board's report on the Continental application in the manner requested and at the same time sending a copy of the report to the Chairman or President of Continental. Although no request for the report had been received from the applicant bank, he felt that, as in the Philadelphia case, it would be only fair play to send the bank a copy of the report.

Agreement with Governor Mills' suggestion having been indicated by other members of the Board, Governor Balderston suggested that any letter to the Assistant Attorney General include the request that if the report should be used in evidence it be made clear that the report related only to competitive factors and not to other factors required by the statute to be taken into account by the Comptroller of the Currency in making his decision on a merger application.

8/30/61

-15-

There ensued further discussion regarding the question of awaiting word from the Comptroller during which it was recalled that in the Philadelphia case the Comptroller, as the recipient of the Board's report on competitive factors, had indicated that although he would not object in that instance to the report being used in evidence, he would not favor such a procedure as a general practice.

Having this consideration in mind, it was agreed that, if Chairman Martin should be advised by the Comptroller or a person representing him that no objection would be interposed to the Board's acceding to the request of the Department of Justice, the Assistant Attorney General would be advised by an appropriate letter from Chairman Martin that the Board would not object to the Department's offering such report in evidence in the antitrust proceeding instituted by the Department with respect to the proposed merger. It was understood that a copy of any such letter to the Assistant Attorney General would be sent to the Continental Illinois National Bank and Trust Company, along with a copy of the Board's report on competitive factors.

Secretary's Note: After the meeting, Chairman Martin received advice by telephone from Mr. Robert H. Knight, General Counsel of the Treasury, which indicated that the Treasury would not object to the Board's acceding to the request of the Assistant Attorney General. Accordingly, there were sent to the Assistant Attorney General and to Continental Illinois National Bank and Trust Company the letters of which copies are attached as Items 9 and 10, respectively.

8/30/61

-16-

Reimbursement for borrowed personnel. Governor Shepardson referred to a memorandum from the Division of Examinations dated August 29, 1961, relating to reimbursement of Federal Reserve Banks in connection with the borrowing of their personnel to assist the Board's field examining staff. The memorandum noted that under an arrangement in effect for many years, men borrowed from Reserve Banks to assist in the examination of other Reserve Banks had been receiving, in addition to their regular salaries paid by the respective Banks, (1) transportation expenses, (2) a per diem in lieu of subsistence on the same basis as provided for the Board's examiners, (3) overtime calculated on the basis regularly in effect at their own Banks, and (4) an extra compensation computed at the rate of \$5 per day, but not exceeding \$25 in total. Upon review of the matter, particularly in light of the recent increase to \$16 of the maximum allowable to Board employees as per diem in lieu of subsistence, the Division recommended elimination from the existing arrangement of the provision for extra compensation. It was suggested that such revision be made applicable to the current examination of the Federal Reserve Bank of New York, which began on August 25, 1961, but with the proviso that the amount to be paid to the respective borrowed employees not be less than they would have received under the arrangements announced when the plans for borrowed assistance for this examination were made.

Upon recommendation of Governor Shepardson, the proposal of the Division of Examinations, as set forth in the memorandum, was approved unanimously.

8/30/61

-17-

Holiday greetings. Governor Shepardson referred to a memorandum from the Secretary's Office dated August 28, 1961, inquiring as to the Board's wishes in respect to the sending of seasonal greetings this year. The memorandum pointed out that, for reasons taken into consideration at the time, the Board on September 21, 1960, agreed that insofar as the 1960 season was concerned the use of printed greeting cards would be discontinued and Chairman Martin would send, on behalf of the Board, such letters as he deemed appropriate to heads of other central banks and to ministers of finance.

After discussion, it was agreed to continue, for 1961, the procedure followed in 1960.

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 increase

Paul L. Tedrow, from \$3,710 to \$4,805 per annum, with a change in title from Guard to Operating Engineer, Division of Administrative Services, effective the date of entrance upon his new duties.

Advance of sick leave

John E. Osborne, Steamfitter-Operating Engineer, Division of Administrative Services, from September 7 through October 31, 1961, with the understanding that under the terms of the Board's Leave Regulations he would not be required to repay this advance upon his retirement on the latter date.

8/30/61

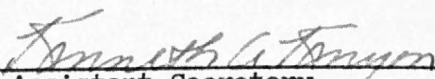
-18-

Acceptance of resignation

Joel E. Greenwood, Research Assistant (Summer), Division of Research and Statistics, effective at the close of business September 1, 1961.

Outside teaching activity

Robert F. Emery, Economist, Division of International Finance, granted permission to teach an elementary economics course and a money and banking course at the Southeastern University on two evenings a week.


Assistant Secretary

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

Item No. 1
8/30/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 30, 1961

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

Dear Mr. Groot:

Reference is made to your letter of July 18, 1961 which raises the question whether brokers' security drafts may be treated as "cash items in process of collection" for reserve purposes.

These drafts are drawn by dealers upon other dealers and sometimes upon banks, are payable at sight, and are forwarded by the dealer's bank for collection to correspondent banks. The drafts are accompanied by the securities, and it is the general practice of the banks to which you refer where the drafts are deposited, to allow their customers immediate credit in their demand deposit accounts for the full amount of the drafts. Some banks in other Federal Reserve districts charge interest on uncollected amounts.

Regulation D, Reserves of Member Banks, provides in section 204.1(g)(3) that "Cash items in process of collection shall include such other items in process of collection, payable immediately upon presentation in the United States, as are customarily cleared or collected by banks as cash items."

In some cases these drafts are handled as collection items (either because the drawer so directs, or because they are forwarded through a Federal Reserve Bank which handles them as non-cash items in accordance with the provisions of Regulation G), and in those cases they obviously are not cash items in process of collection. In other instances however, it appears that all of the banks in a given area (such as member banks of the New York Clearing House) follow the same procedure for collecting these items as for collecting checks, and the correspondent commercial

Mr. Benjamin F. Groot

-2-

banks to which such items are sent effect remittance for such items on the same basis as is employed in respect of checks. In the circumstances, there would appear to be no reason why such items when handled in this manner may not be regarded as "cash items in process of collection" for reserve purposes.

While uniformity is, of course, generally desirable, the meaning of cash items in process of collection, as defined in Regulation D, depends partly upon local custom. In other words, any items payable immediately upon presentation that are customarily cleared or collected by banks as cash items would fall within the definition, unless the items are actually handled as noncash items as, for example, when they are collected through and handled by a Reserve Bank as noncash items under Regulation G.

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
8/30/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 30, 1961



Mr. F. T. Davis,
Assistant Vice President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Davis:

This refers to your letter of August 25, 1961, and its enclosures, concerning the proposed issue by the International Bank for Reconstruction and Development of its Two-Year Bonds of 1961 due September 15, 1963. In that letter you state that it is proposed to amend Schedule A of the Fiscal Agent Agreement, dated as of February 6, 1950, between the International Bank and your Bank to include the Bonds in question.

The Board of Governors approves of your Bank acting as Fiscal Agent in respect of the proposed issue by the International Bank of Two-Year Bonds of 1961 due September 15, 1963 and approves the execution and delivery by your Bank of an Agreement with the International Bank in the form, or substantially in the form, of Supplement No. 20 to the Fiscal Agency Agreement, dated as of February 6, 1950, between your Bank and the International Bank, enclosed with your letter.

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
8/30/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



August 30, 1961

Board of Directors,
Cherry Creek Bank,
Denver, Colorado.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Kansas City, the Board of Governors, acting under the provisions of Section 19 of the Federal Reserve Act, grants permission to the Cherry Creek Bank to maintain the same reserves against deposits as are required to be maintained by banks located outside of central reserve and reserve cities, effective as of the date the bank is admitted to membership under a national bank charter.

Your attention is called to the fact that such permission is subject to revocation by the Board of Governors.

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
8/30/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 30, 1961

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

Dear Mr. Chairman:

This is in response to your letter of August 14, 1961, requesting a report on H. R. 8637. This Bill would establish a limit on the total budgeted expenditures for each fiscal year in relation to the estimated net budget receipts for the same year.

The objective of debt retirement, toward which this Bill is aimed, is certainly praiseworthy. It is questionable, however, whether the type of budgetary and debt retirement program that would result from this proposal would be desirable from the standpoint of economic stabilization, particularly in periods of economic recession.

As you know, budget receipts, with unchanged tax rates, vary automatically in response to fluctuations in economic activity and incomes. Certain types of expenditures, particularly those under unemployment compensation programs, are also sensitive to changes in levels of economic activity. Such changes in Government receipts and expenditures result in budget deficits or reduced surpluses at times of economic recession, or in large surpluses at times of high activity. Realistic Federal budgeting would call for these possibilities to be reflected in the estimated receipts and expenditures totals submitted in the budget each year. It is not clear how a program of budgeted debt retirement at a minimum of 10 per cent of budgeted receipts, as would be provided by H. R. 8637, could be reconciled with the range of fluctuations in receipts and expenditures that could be expected to occur automatically under our present fiscal system.

One effect of these automatic variations in Federal receipts and expenditures is to moderate in some degree instability in the economy which may result from fluctuations in private activity. The Board, therefore, doubts whether a shift from present procedures to the budgeting system contemplated under H. R. 8637 would on balance be advantageous.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.,
Chairman.

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

Item No. 5
8/30/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 30, 1961.

Mr. Herbert V. Prochnow, Secretary,
Federal Advisory Council,
c/o The First National Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Prochnow:

The Board suggests the following topics for inclusion on the agenda for the meeting of the Federal Advisory Council to be held on September 18, 1961, and for discussion at the joint meeting of the Council and the Board on September 19:

1. What are the views of the Council concerning the current business situation and prospects for the remainder of 1961 and early 1962? Is rapid expansion in activity likely to continue without interruption for another six months, as it did after the autumn of 1958? How does the demand situation at present compare with the situation at that time?
2. Are there indications that increased international tension and the increase in the defense program are having any effect on business buying or on consumer buying? Has there been any shift in recent weeks in business views as to prospects for commodity prices? Is there any concrete evidence that inflationary expectations are developing?
3. Is the recent shift from inventory liquidation to accumulation likely to be followed by still more rapid accumulation?
4. Are businesses changing their plans for plant and equipment expenditures in response to the recent increase in business activity and profits? Are funds readily available from internal sources or from the capital markets to finance larger capital outlays?
5. Are consumers likely to continue to buy goods and services in only moderate volume, considering current income

Mr. Herbert V. Prochnow

-2-

levels, or will they tend to borrow more and accumulate liquid assets less rapidly than in the recent past? With the more liberal financing terms provided by new legislation, mortgage rates down from earlier highs, and disposable incomes up, is there evidence of strengthening in demand for residential properties?

6. Are demands for bank credit developing more or less actively than usual for this season of the year? In what areas is loan demand most active? Does the Council's experience confirm the observation that the slower rate of loan expansion thus far in this recovery period has been due to a heavy volume of loan repayment from the proceeds of security issues rather than a lag in the demand for new loans?

7. What does available information concerning particular products suggest as to the course of exports? Will exports generally remain close to the advanced level reached early this year or will they show important changes in one direction or another? Is increased production in this country leading to increased imports?

8. Does the Council care to make any comments on the apparently growing tendency to use drafts, some with documents attached, as cash items in lieu of checks?

9. What have been the effects of extension of Federal Reserve operations this year to other than short-term Governments?

10. What are the views of the Council regarding current monetary and credit policy?

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
8/30/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 30, 1961

Mr. Chapman Fleming,
Deputy Comptroller of the Currency,
Office of the Comptroller of the Currency,
Room 3127, Main Treasury Building,
Washington 25, D. C.

Dear Mr. Fleming:

Mr. Robert C. Bowen, Market Research Specialist, The American Bankers Association, has requested that the Association be furnished punched cards containing basic banking structure codes along with several of the loan items reported in Schedule A, loans and discounts, from the reverse of reports of condition submitted by individual insured commercial banks as of June 30, 1961. The requested loan items are:

- (a) Total loans and discounts, gross,
- (b) Real estate loans secured by farm land,
- (c) Other loans to farmers,
- (d) Other loans to individuals.

These data would be used by the Association in developing a new sampling plan for conducting its semiannual surveys of agricultural credit conditions among banks, and in constructing another sample to be used in making future instalment loan credit surveys.

The Board has approved Mr. Bowen's request for these data provided your Office and the Federal Deposit Insurance Corporation are agreeable to the Association's being furnished with punched cards containing loan data reported by individual national banks and insured nonmember banks.

A similar letter is being sent to Mr. Cramer, Federal Deposit Insurance Corporation.

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. 7
8/30/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 30, 1961

Mr. Edison H. Cramer, Chief,
Division of Research and Statistics,
Federal Deposit Insurance Corporation,
Room 765, National Press Building,
Washington 25, D. C.

Dear Mr. Cramer:

Mr. Robert C. Bowen, Market Research Specialist, The American Bankers Association, has requested that the Association be furnished punched cards containing basic banking structure codes along with several of the loan items reported in Schedule A, loans and discounts, from the reverse of reports of condition submitted by individual insured commercial banks as of June 30, 1961. The requested loan items are:

- (a) Total loans and discounts, gross,
- (b) Real estate loans secured by farm land,
- (c) Other loans to farmers,
- (d) Other loans to individuals.

These data would be used by the Association in developing a new sampling plan for conducting its semiannual surveys of agricultural credit conditions among banks, and in constructing another sample to be used in making future instalment loan credit surveys.

The Board has approved Mr. Bowen's request for these data provided your Office and the Comptroller of the Currency are agreeable to the Association's being furnished with punched cards containing loan data reported by individual insured nonmember banks and national banks.

A similar letter is being sent to Mr. Fleming, Office of the Comptroller of the Currency.

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
8/30/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 30, 1961

CONFIDENTIAL (FR)

Mr. W. D. Fulton, President,
Federal Reserve Bank of Cleveland,
Cleveland 1, Ohio.

Dear Mr. Fulton:

The Board of Governors has approved, effective January 1, 1962, the adjustments proposed in your letter of August 10, 1961, in the minimums and maximums of the salary structure of the Officers' Salary Administration Plan of the Federal Reserve Bank of Cleveland, as follows:

<u>Group</u>	<u>Minimum</u>	<u>Maximum</u>
A	\$16,500	\$22,500
B	14,500	19,500
C	12,000	17,000
D	10,500	14,500

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 9
8/30/61

OFFICE OF THE CHAIRMAN

August 30, 1961.

By Hand

The Honorable Lee Loevinger,
Assistant Attorney General,
Antitrust Division,
U. S. Department of Justice,
Washington 25, D. C.

Dear Judge Loevinger:

This is in response to your oral request for permission to offer in evidence a copy of the report submitted by the Board of Governors of the Federal Reserve System to the Comptroller of the Currency, pursuant to U. S. C. title 12, sec. 1828(c), with respect to the competitive effect of the proposed merger of City National Bank and Trust Company of Chicago, Illinois, into Continental Illinois National Bank and Trust Company of Chicago, Illinois.

The Board has no objection to the Department's offering such report in evidence in the antitrust proceeding instituted by the Department of Justice with respect to the proposed merger. The Board hopes that, in connection with any such use, it will be made clear that in accordance with U. S. C., title 12, sec. 1828(c), this report relates only to the competitive factors involved in the merger proposal and not to other factors which the Comptroller was required by the statute to consider.

The Board is furnishing to the President of the Continental Illinois National Bank and Trust Company of Chicago a copy of its report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of these banks, together with a copy of this letter.

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. 10
8/30/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 30, 1961

Mr. Tilden Cummings, President,
Continental Illinois National Bank & Trust Co.,
231 South La Salle Street,
Chicago 90, Illinois.

Dear Mr. Cummings:

At the request of Judge Lee Loevinger, Assistant Attorney General, Antitrust Division, Department of Justice, the Board has stated that it has no objection to the Department's offering in evidence in the antitrust proceeding recently filed in the Federal District Court in Chicago, a copy of the report submitted by the Board of Governors of the Federal Reserve System to the Comptroller of the Currency pursuant to U.S.C., title 12, sec. 1828(c), with respect to the competitive effect of the proposed merger of City National Bank and Trust Company of Chicago, Illinois into Continental Illinois National Bank and Trust Company of Chicago, Illinois.

For your information, a copy of that report is enclosed, together with a copy of the Board's letter to Judge Loevinger, in which it is noted that pursuant to the terms of U.S.C. title 12, sec. 1828(c) the report related only to the competitive factors involved in the merger proposal and not to the other factors which the Comptroller was required by statute to consider.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

Enclosures