

Minutes for September 20, 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

Gov. Mills

Gov. Robertson

Gov. Balderston

Gov. Shepardson

Gov. King

Gov. Mitchell

Minutes of the Board of Governors of the Federal Reserve System on
 Wednesday, September 20, 1961. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Robertson, Acting Chairman
 Mr. Shepardson
 Mr. King
 Mr. Mitchell

Mr. Sherman, Secretary
 Mr. Fauver, Assistant to the Board
 Mr. Hackley, General Counsel
 Mr. Noyes, Director, Division of Research
 and Statistics
 Mr. Harris, Coordinator of Defense Planning
 Mr. Hooff, Assistant General Counsel
 Mr. Conkling, Assistant Director, Division of
 Bank Operations
 Mr. Daniels, Assistant Director, Division of
 Bank Operations
 Mr. Benner, Assistant Director, Division of
 Examinations
 Mr. Leavitt, Assistant Director, Division of
 Examinations
 Mr. Spencer, General Assistant, Office of the
 Secretary
 Mr. Collier, Chief, Current Series Section,
 Division of Bank Operations

Discount rates. The establishment without change by the Federal Reserve Bank of Boston on August 18, 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:

Item No.

Letter to the Federal Reserve Bank of Atlanta regarding an inquiry from National American Bank of New Orleans, New Orleans, Louisiana, as to the status of a proposal to amend the common trust fund provisions of Regulation F.

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	<u>Item No.</u>
Letter to The National Bank of Commerce, New Orleans, Louisiana, regarding reported absorption of exchange on nonpar items.	2
Letter to The First National Bank of Tuscola, Tuscola, Illinois, disapproving its application for full fiduciary powers.	3
Letter to the Federal Reserve Bank of Minneapolis authorizing building alterations to provide a fall-out shelter and stand-by power for essential operations during any interruption of regular power service, at an estimated cost of \$110,000.	4
Letter to the Comptroller of the Currency recommending favorably with respect to an application to organize a national bank at Zapata, Texas.	5
Letter to Depositors Trust Company, Augusta, Maine, approving the establishment of a branch in the Rockland Plaza Shopping Center, Rockland.	6
Letter to The First Pennsylvania Banking and Trust Company, Philadelphia, Pennsylvania, approving the establishment of a branch at 255 East County Line Road, Bucks County.	7
Letter to Old Kent Bank and Trust Company, Grand Rapids, Michigan, approving the establishment of a branch at 807 Eastern Avenue, S. E.	8
Letter to United California Bank, Los Angeles, California, approving the establishment of a branch in Downey.	9
Letter to the Bureau of the Budget reporting on enrolled bill S. 902, "to amend the Small Business Investment Act of 1958, and for other purposes."	10

Messrs. Harris, Daniels, and Benner then withdrew from the meeting.

With respect to Item No. 2, Governor Robertson suggested that, in anticipation of a subsequent meeting with the Comptroller of the Currency

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and the Chairman of the Federal Deposit Insurance Corporation regarding the absorption of exchange, the Board schedule a meeting at which it would review the entire nonpar problem with a view to developing the position it might wish to take in a joint meeting with the other supervisory agencies. There was agreement with the desirability of this procedure, and it was understood that the topic would be placed on the agenda for consideration at a meeting of the Board during the week beginning October 23, 1961.

Prior to approval of Item No. 3, a letter to The First National Bank of Tuscola disapproving its application for fiduciary powers, Mr. Benner responded to requests to review the factors that led to the recommendation that the application be disapproved, as well as to questions regarding actions that might be taken to correct the unsatisfactory condition of the affiliated State member bank, which had been carried as a problem bank for several years.

Revisions in Form F. R. 573. There had been circulated a memorandum from the Division of Bank Operations dated September 12, 1961, regarding Form F. R. 573, used in collecting debits to demand deposit accounts of individuals, partnerships, and corporations, States and political subdivisions, mutual savings banks, and foreign banks. As stated in the memorandum, incident to revisions made in the reports of condition described in the Board's letter of March 16, 1961, the monthly bank debits form was revised as of June 1961 to include debits against deposits due to mutual savings banks and foreign banks. Inclusion of these accounts had been

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recommended in order to make the bank debits series consistent with the deposits component of the money supply series. Subsequently, analysis of June and July data on the new basis indicated that large month-to-month fluctuations in the revised series, as well as lack of comparability with data for earlier periods, impaired their usefulness for some purposes. Because it did not seem feasible to estimate back data for year-ago comparison or to require banks to report on both bases for a year, and also because of doubts as to whether debits figures on the revised basis would actually be more useful than on the old basis, the Division of Bank Operations was recommending a reversal of the decision earlier this year to include debits against deposits due to mutual savings banks and foreign banks. Copies of proposed letters to that effect to the Federal Reserve Banks and Bureau of the Budget had been circulated to the Board.

Mr. Conkling stated that, in retrospect, it appeared the earlier recommendation to include in the bank debits series the debits against deposit accounts of mutual savings and foreign banks was too hasty. It was known at the time that the inclusion of such debits would affect the data for New York City and a few other large centers, but it had not been anticipated that it would have so much effect on so large a number of centers as was now evident. It was now apparent that inclusion of debits against deposits due to mutual savings banks and foreign banks, which

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have a rapid turnover, caused a rise in turnover rates to the extent that comparisons with back data would be difficult and probably meaningless. Also, inclusion of such debits changed the nature and usefulness of the published series for some cities. The problem had been discussed with the Division of Research and Statistics, and the conclusion had been reached that the debits series should revert to the old basis in effect prior to the June 1961 revision, even though this would cause some embarrassment to the Federal Reserve.

Governor Mitchell said that he felt reversal of the Board's earlier action would be so embarrassing that he doubted the wisdom of that course. From the standpoint of the Board's relations with the Reserve Banks and reporting banks, such a move would make it appear that the Board had not known what it was doing when it requested the inclusion of debits to accounts of mutual savings banks and foreign banks. On the merits of the question, Governor Mitchell's feeling was that there was about as much to be said for the revised basis of reporting as for the old. Inclusion of debits to accounts of mutual savings and foreign banks made those figures consistent with the deposits used in computing turnover rates, and in this case there was something to be said for consistency. With respect to the use of debits as indicators of local business activity, Governor Mitchell said that the addition of mutual savings and foreign banks would make no difference for most cities since banks did not hold such accounts in most parts of the country. For these reasons, he found

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it difficult to come to a conclusion that, on the merits, the old procedure was better than the new; therefore, since from the standpoint of the Board's relations with the Reserve Banks and the reporting banks a reversal would reflect unnecessarily on the Board, he would continue with the revised series.

During the ensuing discussion, Governor Shepardson inquired of Mr. Conkling which would be the better series if one could start with a clean sheet of paper, and Mr. Conkling responded that this would depend on the purpose of the data. He agreed with Governor Mitchell that there were at least two purposes: many persons used individual city figures as one of the few indicators of local business conditions that was promptly available, and for those users it would be desirable to omit all debits that reflected purely financial transactions, as did debits to accounts of mutual savings and foreign banks. There were, of course, other debits of that kind that had not been gotten out of the figures. If the purpose of the figures was for national analysis of use of the money supply, such as the use made by members of the Board's staff, it probably would be better to have the figures on the revised basis.

Mr. Noyes said that he also thought the revised series preferable for national analysis of the money supply use, but he would not want to give the impression that this made the case black or white. It was easy to sound more dogmatic on the relative merits of the two series

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than was warranted by the actual practical differences. While he felt that, for the purposes of the Board's work, the decision to include debits to mutual savings and foreign bank accounts had been correct, the improvement was minor and technical; and the change did affect the usefulness of individual city figures as indicators of local business transactions.

Governor Shepardson then said that whenever any series was overhauled to make it better, it was likely to cause some inconvenience to some users and to cause a lack of comparability with old data for a period of time. However, that was not an argument for not making improvements. The Government statistical program was constantly working to make available data more comprehensive, accurate, and useful, and if the revision in debits agreed upon earlier this year was clearly a step in that direction for the purposes of monetary analysis, his disposition would be to go forward with the revised series.

Governor King inquired whether, even though some extra work was caused for reporting banks, the best procedure would be to ask that they report on both the old and the new basis until there was a year's overlap in the data.

Mr. Conkling responded that the Board's request for a change in reporting procedure was made for June, that he had asked the Reserve Banks to have reports submitted on both bases for July and August, that

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the forms called for reports only on the new basis, and that he did not know to what extent the Reserve Banks actually were receiving the data on both bases.

Governor Robertson suggested during further discussion of the question that Mr. Noyes be requested to obtain the views of the System Research Advisory Committee on the relative merits of the alternative reporting procedures and on the extent to which embarrassment would be caused for the System if it should revert to the former basis for reporting. There was agreement with this suggestion, and it was understood that the matter would be taken up again in the light of Mr. Noyes' report.

Messrs. Noyes, Conkling, and Collier withdrew from the meeting at this point.

Report on competitive factors (Wilber, Nebraska). A draft of report to the Federal Deposit Insurance Corporation on the competitive factors involved in the proposed purchase of assets and assumption of liabilities of Wilber State Bank by Saline State Bank, both of Wilber, Nebraska, had been distributed with a memorandum from the Division of Examinations dated September 13, 1961.

In discussion of the conclusion to the report, agreement was expressed with a suggestion it indicate that although there would be lessening of competition, in view of the population of the area to be

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serviced, alternative sources of banking service would be consistent with the service needs of the community.

The report was then approved unanimously for transmittal to the Corporation. The conclusion in the report, as transmitted, read as follows:

The proposed purchase of assets and assumption of liabilities of Wilber State Bank by Saline State Bank would eliminate competition as the two banks offer virtually identical services in the same trade area. Although the resulting bank would be about twice as large as the other bank in Wilber, there is no evidence to indicate that the proposed transaction would have significant adverse effects on the latter institution. Moreover, there would be alternative sources of banking services consistent with the needs of a community of this size.

Foreign travel by Mr. Noyes. Governor Shepardson referred to the discussion at the meeting on September 14, 1961, and to the Board's action in approving the sending of a representative from the Board to attend a meeting of economists to be held at the Bank for International Settlements, Basle, Switzerland, on November 11-13 at which the principal topic for discussion would be the statistical measurement of the liquidity of the banking system and the instrument by which the central bank influences bank liquidity. He stated that the question of Board representation at that meeting, as well as representation from the Federal Reserve Bank of New York, had now been cleared by Chairman Martin with Dr. Holtrop, Chairman of the Board of Directors and President of the Bank for International Settlements, who had written to the Federal Reserve Bank of New

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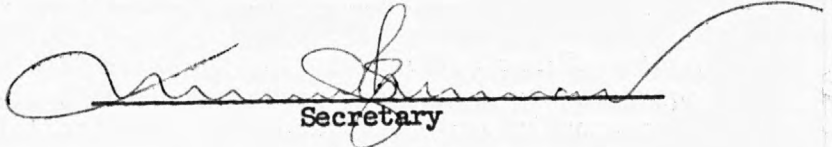
York on September 5 regarding System representation at the meeting. As a result, it was now proposed that Mr. Noyes attend the meeting as head of a System delegation to consist of himself and Mr. Garvy, Adviser at the Federal Reserve Bank of New York.

Governor Shepardson recommended that the Board authorize the necessary foreign travel for Mr. Noyes to attend this meeting, with the understanding that he would be authorized to claim reimbursement for expenses on the trip on an actual expense basis if he elected to do so.

Governor Shepardson's recommendation was approved unanimously.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board memoranda from the Division of Bank Operations and the Office of the Controller dated September 18 and 19, 1961, respectively, recommending that the Board sponsor a dinner to be given at a local hotel on October 4, 1961, for representatives of the Federal Reserve Banks attending a conference of Reserve Bank accounting officers, at an estimated cost of \$350, which would provide for about 35 guests, including 20 Reserve Bank representatives, members of the Board, and designated members of the Board's staff; and that the cost of the dinner be authorized as an overexpenditure in the 1961 budget of the Division of Bank Operations.



Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM Item No. 1
WASHINGTON 25, D. C. 9/20/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 20, 1961

Mr. Harold T. Patterson, First Vice
President and General Counsel,
Federal Reserve Bank of Atlanta,
Atlanta 3, Georgia.

Dear Mr. Patterson:

Reference is made to your letter of September 8, 1961, with which was enclosed a copy of a letter addressed to Mr. R. M. Stephenson, Assistant Vice President at your New Orleans Branch, by National American Bank of New Orleans which is contemplating establishment of a common trust fund under the provisions of Regulation F and inquires as to the status of a recent proposal by the Board to amend the provisions of subparagraph (3) of paragraph (a) of Section 207.17--the common trust fund provisions of Regulation F.

The proposed amendment would make ineligible for participation in a common trust fund, established and maintained under the provisions of Section 207.17, the funds of an inter vivos trust revocable by the settlor and providing for the payment of the principal of the trust to the settlor's estate at his death.

This amendment proposal was released to the press on November 29, 1960, and was simultaneously published in the Federal Register for the purpose of obtaining views and comments with respect to it. This proposed change in the Regulation and the comments received regarding it have been the subject of comprehensive study by the Board's staff. The subject of the proposed amendment concerns a difficult feature of common trust fund administration. Therefore, it is not possible to predict what final action will be taken with respect to this matter or when action will be taken. The proposal, however, has not been in any sense abandoned.

The Board agrees with your suggestion that National American Bank of New Orleans be advised of the existing provisions of paragraph (a), Section 207.17, Regulation F, which prohibit the use of common trust funds as investment trusts for other than strictly fiduciary purposes; it would appear desirable also to call the bank's attention to

Mr. Harold T. Patterson

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the Board's administrative interpretations relative to the provisions of Section 17(a).

It will be appreciated if you would advise National American Bank of New Orleans along these lines.

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
9/20/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 20, 1961



Mr. John Oulliber, President,
The National Bank of Commerce,
New Orleans 9, Louisiana.

Dear Mr. Oulliber:

The Board appreciates your interest in the nonpar problem as set forth in your letter of August 25, 1961.

Somewhat similar reports of violation of Regulation Q led to the Board's ruling of August 4, 1960. Following widespread protests from member banks regarding the administrative burdens of that ruling, the Board reinstated the \$2.00 rule on November 8 (published in the November issue of the Federal Reserve Bulletin, page 1226) and at the same time began a survey, in cooperation with the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation, to obtain statistical information from representative banks.

Enclosed is a copy of a memorandum dated March 27, 1961, showing the results of the survey. Copies were furnished to the cooperating banks and agencies, including representatives of the American Bankers Association, the Association of Reserve City Bankers, and NABAC, The Association for Bank Audit Control and Operation.

The problem and the solution are still under consideration and the Board would appreciate any additional suggestions thereon.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosure

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM Item No. 3
WASHINGTON 25, D. C. 9/20/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 20, 1961



Board of Directors,
The First National Bank of Tuscola,
Tuscola, 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 on July 21, 1961.

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. In respect to capital adequacy, substantial dividend payments made over the past several years have precluded the retention of satisfactory amounts of earnings in capital accounts. A dividend paying policy which is as liberal as your policy appears to be, is 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.

The Board has also given due consideration to the affiliated State Bank of Eureka, Eureka, Illinois, of which the Edwards brothers are the principal owners and managers as they are of The

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First National Bank of Tuscola. The management policies employed in the State Bank of Eureka have been unsatisfactory and the subject of criticism for a long period by supervisory authorities, and do not indicate the sincerity and capacity essential to the exercise of trust powers in another bank controlled by the same management.

For these reasons the Board does not consider the assumption of additional responsibilities as a corporate fiduciary by your bank to be warranted and does not approve your application for trust powers.

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
9/20/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 20, 1961

Mr. Frederick L. Deming, President,
Federal Reserve Bank of Minneapolis,
Minneapolis 2, Minnesota.

Dear Mr. Deming:

This refers to your letter of August 30, 1961, in which approval is requested for building alterations in the Minneapolis building to provide a fallout shelter and stand-by power for essential operations during any interruption of regular power service.

The Board authorizes your Bank to proceed with the project, as outlined in your letter, at an estimated cost of \$110,000, including a contingency allowance of \$3,700.

It is noted that the shelter plan has been reviewed and approved by the local Civil Defense office. It appears that the area of 6,000 plus square feet of floor space for 600 persons is somewhat less than the 12-1/2 square feet a person referred to as follows in Step No. 2 of Subitem 3 of the "Summary of Fallout Shelter Principles for Reserve Banks", transmitted with the Board's circular letter of July 13, 1961:

Allow a minimum of 12-1/2 square feet per person, exclusive of stand-by equipment and fixed equipment located in the shelter area. A minimum of 10 square feet per person will be required for eating, sleeping, and exercising; meeting this criterion will require use of tiered bunks and minimum food preparation equipment. About 2-1/2 feet per person will be required for storage of furnishings and supplies.

This is called to your attention inasmuch as the floor areas of 10 square feet per person for eating, sleeping, and exercising and about 2-1/2 square feet per person for storage of furnishings and supplies were recommended by the central office of OICM upon reviewing a draft of the "Summary."

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 5
9/20/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 20, 1961



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

Attention: Mr. G. W. Garwood,
Deputy Comptroller of the Currency.

Dear Mr. Comptroller:

Reference is made to a letter from your office dated July 28, 1961, enclosing copies of an application to organize a national bank at Zapata, Texas, and requesting a recommendation as to whether or not the application should be approved.

A report of investigation of the application made by an examiner for the Federal Reserve Bank of Dallas indicates generally favorable findings with respect to each of the factors usually considered in applications of this nature. Accordingly, the Board of Governors recommends favorable consideration of the proposal.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM Item No. 6
WASHINGTON 25, D. C. 9/20/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 20, 1961



Board of Directors,
Depositors Trust Company,
Augusta, Maine.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch in the Rockland Plaza Shopping Center, Rockland, Maine, by Depositors Trust Company, provided the branch is established within one year 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 Item No. 7
WASHINGTON 25, D. C. 9/20/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 20, 1961



Board of Directors,
The First Pennsylvania Banking
and Trust Company,
Philadelphia, Pennsylvania.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Philadelphia, the Board of Governors of the Federal Reserve System approves the establishment of a branch at 255 East County Line Road, Warminster Township, Bucks County, Pennsylvania, by The First Pennsylvania Banking and Trust Company, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM **Item No. 8**
WASHINGTON 25, D. C. **9/20/61**

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 20, 1961

Board of Directors,
Old Kent Bank and Trust Company,
Grand Rapids, 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 807 Eastern Avenue, S. E., Grand Rapids, Michigan, by Old Kent Bank and Trust Company, provided the branch is established within one year from the date of this letter, and branch operations now conducted at 758 Wealthy Street, S. E., will be discontinued simultaneously with the establishment of the above branch.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM **Item No. 9**
WASHINGTON 25, D. C. **9/20/61**

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 20, 1961



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

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch in the downtown business section of Downey, California, by United California Bank, provided the branch is established within one year 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

Item No. 10
9/20/61

JAMES LOUIS ROBERTSON
MEMBER OF THE BOARD

September 20, 1961.

Mr. Phillip S. Hughes,
Assistant Director for Legislative Reference,
Executive Office of the President,
Bureau of the Budget,
Washington 25, D. C.

Dear Mr. Hughes:

This is to advise, in response to your request of September 18, 1961, for the views of the Board on the enrolled bill, S. 902, "To amend the Small Business Investment Act of 1958, and for other purposes", that the Board has no objection to approval of this bill by the President,

Sincerely yours,

(Signed) J. L. Robertson

J. L. Robertson.