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Minutes for September 26, 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 Tuesday, September 26, 1961. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Thomas, Adviser to the Board
Mr. Hackley, General Counsel
Mr. Noyes, Director, Division of Research and Statistics
Mr. Solomon, Director, Division of Examinations
Mr. Hexter, Assistant General Counsel
Mr. Hooff, Assistant General Counsel
Mr. Conkling, Assistant Director, Division of Bank Operations
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Spencer, General Assistant, Office of the Secretary
Mr. Smith, Legal Assistant, Legal Division
Mr. Collier, Chief, Current Series Section, Division of Bank Operations

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 County Trust Company, White Plains, New York, approving the establishment of a branch at 567 North Broadway, White Plains.	1
Letter to the Federal Reserve Bank of Boston regarding the status under Regulation U of a proposed loan by a member bank to a "put" and "call" dealer.	2

Item No.

Letter to Farmers State Bank of Alto, Alto, Michigan, consenting to its consolidation with The Edwin Nash State Bank, Clarksville, Michigan, and approving the operation of a branch incident to the consolidation. 3

Messrs. Hexter and Smith withdrew from the meeting at this point and Mr. Fauver, Assistant to the Board, entered the room.

Revision of bank debits series (Form FR 573) (Item No. 4). In March 1961, the Board acted to revise its instructions for the reporting of monthly bank debits figures by requesting the Federal Reserve Banks, effective with reports for June 1961, to collect data from respondent banks that would include debits against deposit accounts of mutual savings banks and of foreign banks. The reason for inclusion of debits to these accounts was to make the bank debits series consistent with the deposits component of the new money supply series.

At the meeting on September 20, 1961, the Board gave consideration to a recommendation contained in a memorandum from the Division of Bank Operations dated September 12 to return to the pre-June reporting basis, i.e., to exclude from the reports the debits against deposits due to mutual savings banks and to foreign banks. At that meeting Governor Mitchell expressed doubts as to the desirability of reversing the instructions that had been issued by the Board last spring, partly because he did not feel that the figures on the pre-June basis would be more useful than the series started in June and partly because he felt it would be unnecessarily embarrassing to the Federal Reserve to reverse these instructions. As a result of the September 20 discussion, it was understood that this matter would be brought back to the Board for further consideration after the views of members of the System Research Advisory Committee had been obtained and reported to the Board by Mr. Noyes.

In accordance with that understanding, Mr. Noyes had submitted a memorandum dated September 25, 1961, reviewing a discussion with the Heads of Research from the Federal Reserve Banks. This memorandum showed that six Reserve Banks were now collecting debits from 1069 respondents on the basis that became effective in June, while six were currently collecting the data from 677 respondents on the pre-June basis, that is, excluding debits to deposits of mutual savings and foreign banks. The six Reserve Banks that were now collecting the figures on the pre-June 1961 basis had reverted to that method upon receipt of an informal telegram from Mr. Conkling dated September 8, 1961, and Mr. Noyes' memorandum reported that the Heads of Research agreed that it would be more embarrassing for the Reserve Banks that had acted in response to that telegram to reverse again their instructions to commercial banks than it would be for the six Reserve Banks that were currently following the Board's instructions of last spring to request respondent banks to return to the pre-June basis.

At Governor Balderston's request, Mr. Conkling reviewed the basis for the recommendation last spring that the Board change its instructions to include debits to deposits of mutual savings banks and foreign banks, as well as the experience gained from reports on both the old and the new basis for June and July. From this experience, it had been found that the revision in reporting procedure caused substantial changes in the debits figures for a larger number of individual cities (about 40) than had been anticipated, as a result of which requests had been received from several users of the data--particularly those who used debits to measure changes in business activity in various localities--that the series revert to the old basis or that comparable figures be published on that basis for a year from the start of the new series.

Mr. Conkling went on to say that it seemed unduly burdensome to require the respondent banks to report on both the old and the new bases for a year in order to obtain comparable year-to-year data. Furthermore, it was felt that comparisons of deposit turnover rates based on the debits figures as recently revised with rates for back years computed on the old basis would be difficult and probably meaningless. Thus, the staff of the Research and Bank Operations Divisions had concluded that the earlier action to include debits to accounts of mutual savings banks and foreign banks had been too hasty and that it would be desirable to return to the pre-June method of reporting. Accordingly, the memorandum from the Division of Bank Operations dated September 12 recommended that procedure, even though it was realized that this would be somewhat embarrassing to the Board and to the Federal Reserve Banks.

Mr. Noyes then commented, at Governor Balderston's request, on the results of the discussion with the Heads of Research as reported in a memorandum of September 25, 1961. He noted that, since six Reserve Banks upon receiving Mr. Conkling's wire of September 8 had issued instructions to respondents to revert to the pre-June basis for reporting, and since the other six Reserve Banks were still collecting debits on the new basis that became effective in June, it would be necessary for an equal number of Reserve Banks to change their procedure whichever way the Board decided to go.

Governor Robertson raised the question whether an informal wire such as Mr. Conkling had sent to all Reserve Banks on September 8 should go out without its having been presented to the Board, to which Mr. Conkling replied in the negative. In this case, however, there seemed to be a time element that was important and his informal wire had been sent in anticipation that the Board would arrive at the conclusion recommended in the September 12 memorandum from the Division of Bank Operations.

Mr. Thomas said that he believed that debits figures collected on the basis that became effective in June of this year would be extremely unsatisfactory for use in computing deposit turnover rates for purposes of economic analysis. Fluctuations in debits for financial centers were not typical of economic activity, and for this reason deposit turnover data for large financial centers were not used for this purpose, but reliance was placed almost entirely on statistics for "outside" cities.

Governor Mitchell said that he felt the recommendation of the Division of Bank Operations represented an erroneous conclusion. As he saw it, there were two purposes in collecting bank debits figures. First, there was a desire for nationwide figures of turnover of deposits to go with nationwide figures of the money supply. Second, there was the use of debits figures as indicators of changes in local economic activity. The more accurately the debits data reflected trade and industrial transactions rather than financial transactions, the better they would serve as indicators of economic activity in a given community. He recognized that what the Board had been publishing in its monthly debits release was not very good for indicating local economic activity in that it included only core cities, but the Reserve Banks gathered data from a larger group of cities. He was entirely agreeable to taking whatever steps were necessary to improve the debits series for this purpose, but that was a different question than the one now before the Board.

Governor Mitchell went on to say that the reason he felt the Board's series should include debits to the accounts of mutual savings banks and foreign banks was that such totals were more nearly consistent with the deposit figures used in computing turnover and he believed that the total use made of the money supply for all purposes was highly significant. He recognized that there were some things in the debits figures that we would like to have out for purposes of analyzing local economic conditions, but for the purpose of computing national deposit turnover rates he believed it preferable to have the debits to mutual savings and foreign banks included, partly but not only because that would make the debits and deposits more nearly consistent. Another factor influencing his view was that the absolute level of debits was not necessarily the basis for a decision on which was the better method of reporting. No evidence had been presented to show that a better series for showing month to month fluctuations would be obtained by either method of reporting, and he would wish to have such evidence before reaching a decision on whether to revert to the old basis.

Mr. Thomas questioned again whether inclusion of the additional debits on the basis that became effective in June was actually an improvement in the series in any way. For example, he felt that debits figures for New York City were virtually worthless because of the large influence of purely financial transactions on both the volume and the fluctuations in the debits totals. He agreed with Governor Mitchell that there was much to be said for a study looking toward improvement in the quality of debits data. This, however, was a longer range study and in his opinion the present question was a purely technical matter that should be decided in favor of resuming the collection of debits on the basis used for many years prior to June.

In response to a question from Governor King as to why the staff felt last spring that inclusion of debits to accounts of mutual savings banks and foreign banks would result in improvement of the series, Mr. Thomas said that a change was made in the definition of the money supply and that it then seemed logical to make a corresponding change in the debits data that would be used for the purpose of computing turnover. However, he had not regarded this change as being of much importance at the time, and in view of the fact that the figures for perhaps 40 cities had been affected considerably he believed the best course was to return to the pre-June procedure.

Governor King then stated that he could not recall any reference having been made at the meeting on September 20 to the telegram that had been sent by Mr. Conkling to the Reserve Banks on September 8 indicating that the Board might change its instructions, and he requested that such telegram be read for the information of himself and other members of the Board.

Mr. Conkling then read the telegram, addressed to the heads of research at all Federal Reserve Banks, as follows:

> Reourtel of July 27, regarding monthly reports of bank debits. Staff consensus here, after analysis of data on old and new bases for June and July, is to revert to the old basis. Board and Bureau of Budget approval is expected.
> Please request all affected debits-reporting offices in your district to submit their September and following reports on old basis only, i.e., excluding debits against deposit accounts, and the related month-end deposits, of mutual savings banks and foreign banks. Present forms F. R. 573 may be continued until new forms are printed and forwarded with forthcoming Board's letter.

Governor King inquired of Mr. Conkling as to the basis for his feeling on September 8 that the Board would approve a reversal of the instructions to the Reserve Banks that had become effective in June.

Mr. Conkling said that the staff had studied the data for June and July and had come to the conclusion that return to the pre-June reporting basis was desirable. In view of what appeared to be an urgency for clarification of reporting procedures at some of the Reserve Banks, his wire had been sent on the assumption that this was a technical question to which there was only one logical answer.

Governor King said that he felt that this involved a question for the Board to decide. While the Board leaned heavily on the staff, this was a matter for the Board and a decision should not be given simply because the staff felt that would be logical. Personally, he would not vote to reverse the existing Board instructions.

Governor Balderston noted that the Board had the problem of trying to find the right answer to the reporting of debits. From the discussion thus far he did not think that the answer was clearly indicated on the basis of the merits of the alternative methods for reporting. He then called upon Governor Mills for comment.

Governor Mills said that he had great sympathy with the approach Governor Mitchell had presented. However, he felt that there were occasions when complete accuracy and perfection were not necessary in order to obtain useful statistics. As long as the Federal Reserve statistical data presented an accurate trend of economic movements, which he sensed was the case with the bank debits series as collected prior to June of this year, he was inclined to concur with the recommendation of the staff for reversion to the earlier basis for reporting of debits. In doing that, he was conscious of the burden of reporting placed upon commercial banks, and it seemed to him that reporting on both the old and the new basis for as much as a year would impose an unnecessary burden on the banks. For that reason, he would accept Mr. Conkling's recommendation for returning to the basis used in collecting debits figures before June of this year.

Governor Robertson said that he had not gotten from the discussion any conviction as to which of the two methods of reporting would yield better data. However, in the existing situation half the Reserve Banks had, on the basis of an informal request, already reverted to the pre-June reporting system. For the Board to request those Banks to ask their respondents to resume the revised method that was adopted effective in June would, in Governor Robertson's judgment, create more difficult relations with the respondents than for the Board to ask the six other Reserve Banks to revert to the pre-June reporting method. Thus, since he had not found a clear reason for choosing either method of reporting on the basis of the quality of the data, he would accept the staff recommendation even though he thought the staff had erred in sending to the Reserve Banks instructions to change their reports back to the old basis before the question was presented to the Board. As an additional point, Governor Robertson said he would urge that the staff undertake a study of the debits data with a view to making whatever improvements seemed called for in this series on the basis of economic needs.

Mr. Noyes commented that, of the six Reserve Banks that had reverted to the pre-June basis of reporting after receipt of the September 8 telegram from Mr. Conkling, two felt strongly that they would be embarrassed to resume the reporting procedure that became effective in June; the other four did not seem to feel strongly one way or the other. Very few Reserve Banks had received complaints with respect to the collection and publication of figures on the new basis.

Governor Shepardson said that he was still puzzled. He had gathered from the discussion on September 20 that the revised basis for reporting debits decided upon by the Board last spring was in the long-run interest of improving the quality of the data, at least for the Board's purposes in analyzing monetary developments. Now, however, the remarks of Mr. Thomas indicated that the change had not resulted in an improvement for that purpose and that some inconvenience was being caused persons who used debits figures as measures of local economic activity. Governor Shepardson recalled that he had taken the position on September 20 that some inconvenience to users of data could be expected and tolerated if real improvement in a series was to be brought about. In his opinion, the Board should not be deterred from making an improvement because such inconvenience would result. However, he now found himself in the position of not knowing whether the staff believed that the change in the basis for reporting would eventually result in improvement in available data after passage of the period of inconvenience caused by lack of comparability of figures for a year.

Mr. Conkling recalled that the other day Governor Shepardson had inquired as to which of the two methods of collecting debits he would recommend if he were starting with a clean sheet. At that time, Mr. Conkling said, his response had been that the answer to Governor Shepardson's question would depend upon the purpose of the figures. On the basis of experience since June, he believed that the series on the pre-June basis was better as an indicator of local fluctuations in business activity. Perhaps, however, if there were comparable figures for a full year the new basis would prove to be better, but this was not now the case.

Mr. Thomas interjected that, in his judgment, the series based on the new reporting procedure would be less good than the old one for purposes of economic and monetary analysis even if comparable figures were available for a year or longer.

Mr. Noyes said that he could not agree with the statement Mr. Thomas had just made. The debits series collected in the past included debits to accounts of various financial institutions: for example, in the Chicago area and in much of the United States debits to bank accounts of savings and loan associations, which were included in the figures, were of considerably greater relative importance than in the New England and mid-Atlantic areas, where mutual savings banks were concentrated. There was an inconsistency in including debits to accounts of savings and loan associations and excluding those for mutual savings banks; on logical grounds there was no reason to believe that bank accounts of savings and loan associations behaved differently than bank accounts of mutual savings banks; accounts of this type either should be in or out for all areas.

Mr. Noyes went on to say that the logic of the decision reached last spring to put the debits reports on a consistent basis across the board, so far as this type of account was concerned, seemed obvious. However, it was also obvious that the debits data had traditionally included various other financial transactions which limited their usefulness as a measure of economic activity. If it was better to have all such financial debits out of the series, then it would be logical to support the recommendation of Mr. Thomas and the Division of Bank Operations to revert to the pre-June basis of reporting--and perhaps to take further steps to change the series. If consistency in the content of the debits data for different areas appealed as a predominant objective, then the decision to include debits to bank accounts of mutual savings banks was a reasonable decision. Debits to accounts of foreign banks was another element, but very few cities were affected by such accounts.

Mr. Noyes concluded his comment with the statement that he did not believe the answer to the question of which series was better could be given dogmatically. The change decided upon by the Board last spring was in the direction of getting greater consistency in the existing debits series, but it did not, in his opinion, make a major improvement, and it did limit the usefulness of the figures for a year or so as indicators of local business activity. The task of getting all financial transactions out of the debits series--an aim that might be very desirable--was one that would require several years at best, and the question now before the Board was whether users of the figures would be better off for the present with the debits to accounts of mutual savings banks and of foreign banks in or out.

Governor Shepardson said that a lag of a year in getting comparable data would not bother him if he could be sure that a significant step forward was being taken. As he saw the situation, the Board was in an unfortunate dilemma partly because there did not appear to be a clear choice on the basis of the quality of the figures that would be produced by one method or the other, and partly because of the way the situation had developed at the Reserve Banks. Under the circumstances, perhaps the best way out would be to instruct all of the Reserve Banks to return to the pre-June method of collecting the figures since it was questionable whether the inclusion of the debits to accounts of mutual savings banks and foreign banks made the resulting figures sufficiently more useful to justify the inconvenience and embarrassment that would be caused by going forward with the revised series. For that reason, he would concur in the recommendation of the staff and in effect would approve ratification of the telegram that had gone to the Reserve Banks on September 8, 1961, even though he felt that the problem had been handled in an unfortunate manner.

Governor King said that he felt it extremely desirable that the staff have the strong backing of the Board in its work. However, in this case he considered it unfortunate that the September 8 telegram had been sent to the Reserve Banks before the September 12 memorandum of the Division of Bank Operations was circulated to and discussed by the Board. Even more unfortunate, the existence of the telegram had not been made known to the Board in connection with its discussion of the matter until the memorandum from Mr. Noyes dated September 25 had made an incidental reference to it. Governor King went on to say that he had been unable thus far to discover any strong arguments one way or the other for selecting a basis for reporting the debits figures on the grounds that better information would be produced, although he judged from the comments of Mr. Noyes that there might be a little more to be said in favor of the method used after June of this year than for the old method. Thus, since there was no great compulsion to go back to the pre-June method of reporting in order to produce more useful information--if anything, he felt there was something more to be said for the revised method than for the old one--and since he felt it desirable to assert the Board's right to have full information regarding all pertinent factors that might have a bearing on a decision the Board was about to make, he would not vote to revert to the pre-June reporting method.

Governor Mitchell said that he felt there were three issues involved in reaching a decision on this question. First, there was the question of the relationship between the Board and its staff, and in this case he did not think the staff had performed very well in bringing the facts and the issues to the Board. Second, there was the public relations issue, a question of the relations between the Board and the Reserve Banks and of the relations between the System as a whole and the commercial banks. No matter what was done now, Governor Mitchell felt that the Board's position would not look good as a result of the way in which this problem had been handled. He was confident that the Reserve Banks would not indicate to commercial banks that they had mishandled the reporting procedure--they would see to it that full responsibility for whatever changes were made would be passed on to the Board in Washington. To revert now to the pre-June reporting system would, in Governor Mitchell's opinion, make it look as though the Board could not make up its mind and thus cause a more unfavorable reaction on the Board and the System generally than if the procedure made effective in June was continued. Third, on the merits of the figures themselves, which was by all means the most important of the issues, Governor Mitchell said that he believed the information available for national economic analyses would be improved by the inclusion of the additional debits to accounts of mutual savings banks and foreign banks, and figures for most individual cities would not be affected as indicators of local economic activity. The national figures were not used as indicators of changes in economic activity as were the local debits data, where nothing else was readily available promptly, but were primarily for analyzing the use of the money supply and monetary studies. He was convinced that something would be gained by developing the national series so as to include the additional debits for mutual savings and foreign banks. These figures would then become consistent with deposits figures used in computing turnover rates, and in this case he felt consistency was desirable. The judgment that had been reached by the Board last spring was the correct one in his opinion, although at the time it was first made he was not enthusiastic about changing the debits series as requested by the Board. Having made the change, however, he could see no reason to revert to the pre-June basis for reporting. Thus, on the merits of the case, he would vote to continue collecting the figures including debits to the accounts of mutual savings banks and foreign banks, and his vote for that procedure was strengthened by consideration of the handling of the matter by the staff and his judgment as to the public relations aspects of whatever decision was made by the Board.

Governor Balderston said that he would vote to accept the staff recommendation and to revert to the pre-June method of collecting debits figures, considering all of the factors that had been brought out during two discussions of the matter and the position of the Board as he saw it.

There being no further comments, the recommendation in the memorandum from the Division of Bank Operations dated September 12, 1961 was approved, Governors King and Mitchell dissenting, with the understanding that appropriate advice would be sent to the Federal Reserve Banks. A copy of the letter sent to all Reserve Banks later in the day is attached as Item No. 4.

Governor Shepardson then stated that in view of the comments regarding the unsatisfactory nature of debits data and the suggestion that a study be undertaken looking toward improvement of these figures, the staff have in mind that it should come up within a reasonable period of time with a recommendation as to what specific program should be undertaken toward improving these figures.

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

California Banking Study. At the meeting of the Board on March 10, 1961, the Division of Examinations was requested to prepare a study of banking in California, such study to include material to the extent considered to be appropriate that might be supplied by the Divisions of Bank Operations and Research and Statistics. Under date of August 3, 1961, a memorandum from the Division of Examinations was distributed transmitting tabulations of data regarding banking in California.

At Governor Balderston's request, Mr. Solomon commented on the information contained in the tabulations that accompanied the memorandum on August 3 and pointed out some of the significant conclusions that were indicated by the figures. These conclusions included, among other things, the comment that California was the second State in the country in terms of banking assets, that the number of banks was not large in relation to the population and geographical area of the State, that the number of banking offices was relatively lower than in many other States and had not grown as rapidly during the past decade as had population, and that seven large banking organizations held a large proportion of the total banking assets of the State. Mr. Solomon pointed out that among the 117 banks remaining in California at the end of 1960, there were some quite small institutions as well as some medium-sized banks offering competition to branch banking organizations in various parts of the State. As a result of mergers during the decade from 1950 to 1960, banking resources in California had become increasingly concentrated among a smaller number of large banks operating branch systems, although only two were operating on a statewide basis and in fact only one of these was offering competition in virtually all communities in the State.

Following Mr. Solomon's comments, it was suggested that the memorandum be used as a basis for further study and discussion of banking developments in the State of California.

Application for merger by United California Bank, Los Angeles, and The Southwest Bank, Inglewood, California (Item No. 5). At the meeting on July 27, 1961, the Board agreed that action on the application of United California Bank, Los Angeles, California, for permission to merge with The Southwest Bank, Inglewood, California, would be deferred until after an opportunity had been provided for those banks to submit further information or comment to the Board. There had been distributed a memorandum from the Division of Examinations dated September 1, 1961, commenting on supplemental information received from the applicant banks, those banks having indicated that they would not desire to make an oral presentation before the Board in connection with the merger application. The Division of Examinations reaffirmed its recommendation that the application for permission to merge be approved, as had been recommended previously in its memorandum dated July 24, 1961, while Mr. Achor, Review Examiner, continued to recommend disapproval of the application as he had done in a memorandum dated July 21, 1961. After Messrs. Solomon and Hackley, in response to a question from Governor Balderston, had indicated that they had no particular comments to make regarding the application other than to say that it appeared to be a fairly close decision, Governor Balderston called upon the members of the Board for an expression of their views.

Governor Mills said that he would draw importantly on the analysis of banking in California that had been presented in the memorandum from the Division of Examinations dated August 3, 1961, and on which Mr. Solomon had commented earlier during this meeting. Adapting the information in that memorandum to the consideration of the questions now before the Board, Governor Mills said that he would concur in the recommendation of the Division of Examinations that the merger application be approved. The Board always concerned itself in a merger proposal with the question whether the effects of the merger would be to eliminate an alternative source of banking service and therefore of competition. In this case the individual unit would be eliminated, but at the same time there would be substituted the service of a larger and, in his opinion, a more efficient bank to meet the needs of the area. It was necessary to take into account the needs of the general public in the area, and there was a presumption that the larger bank that would be serving the area if the merger were approved would be able to render a wider and more efficient degree of service than the smaller bank now operating in the Inglewood area. In addition, the smaller bank now operating in the area was subject to a certain amount of criticism.

Governor Mills went on to say that there had been instances in which banks were organized and developed for the purpose of sale. Recalling the organization of The Southwest Bank a few years ago, he said there was some suspicion that that had been the long run objective here. However, taking the whole background, it was his judgment that the elimination of The Southwest Bank and its absorption by (United) California Bank was justified. This position would be consistent with the position the Board had taken several years ago when the United California Bank and First Western Bank & Trust Company sought to merge, and the view of the majority of the Board then was that such a merger would be appropriate and would set up a wholesome larger banking unit in California to compete with the other banks, including the one operating on a statewide basis. Taking into account all of the background as well as the competitive factors and services involved in the proposed merger, Governor Mills stated that he would vote to approve the application.

Governor Robertson said that he felt that the information regarding the banking structure in California presented by Mr. Solomon and by the Divisions of Examinations, Bank Operations, and Research was most helpful in studying banking developments in that State. He further believed that it would be desirable at some convenient time to arrange for a meeting with representatives of the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation to discuss banking developments in California with a view to determining whether a uniform approach by the three Federal banking supervisory agencies could be arrived at, and with the further thought that if possible these discussions also include the superintendent of banks for the State of California.

With respect to the merger application before the Board, Governor Robertson stated that he would vote to disapprove the merger of United California Bank and The Southwest Bank, and he would use the substance of the memorandum prepared by Mr. Achor as a basis for his vote to disapprove the application.

Governor Shepardson stated that he could not amplify the statement made by Governor Mills as an explanation of the reasons why he would vote to approve the proposed merger.

Governor King said that he found it difficult to conclude that an improvement in the quality of banking service was of sufficient importance to justify the elimination of another independent bank in this area, therefore, he would vote to disapprove the application for the merger of United California Bank and The Southwest Bank. He was influenced to some extent in reaching this conclusion by the fact that the United California Bank was prepared to pay a premium of around 8 per cent of the deposits to be acquired from The Southwest Bank--a premium that seemed to him to be extraordinarily high, although one that he could understand was extremely attractive to the selling stockholders.

Governor Mitchell said that the situation in California seemed to him to be unique. He did not believe that the Board by its actions should endorse the notion that some of the large banks in California should strive to become as large as the largest in order to maximize competition with that bank. He thought the Board had a responsibility to preserve the right of entry of new banks into California and the right of a small bank to grow by opening branches or otherwise. The Board should not do anything to encourage the merger movement in a State where there was already a relatively high degree of concentration of banking resources. He believed that the desire to merge had become an obsession of some of the banks that had little to justify it other than a desire to get larger. In his opinion, this was not good for the State or good for banking, and it was not good for the economy generally. In this particular case the stockholders of The Southwest Bank obviously were pleased with an attractive offer for their shares, but on the assumption that the management factors of the smaller bank could be improved or that that bank could be sold to some bank other than United California Bank, he would vote to disapprove the application.

Governor Balderston said that he found the California banking situation perplexing. He in the past had advocated trying to close the gap between the largest bank in the State and other competing banks. He was also impressed, however, by the report presented by Mr. Solomon earlier indicating that the number of banks remaining in the State of California was only 117. Although he continued to favor building up United California Bank as a stronger competitor for the largest bank in the State, he would prefer to see that progress in its growth result from establishing new branches rather than from absorbing existing institutions. Absorption of The Southwest Bank would reduce by one the number of banks in the State, and it seemed to him that competition would be lessened by such a merger. Consequently, he would vote to disapprove the application.

There being no further discussion, the application of United California Bank for permission to merge with The Southwest Bank was disapproved, Governors Mills and Shepardson dissenting. A copy of the letter sent to the applicant bank under date of September 26, 1961, pursuant to this action is attached as Item No. 5.

Manufacturers-Hanover merger. Mr. Hackley reported that he had received a telephone inquiry from the Office of the Comptroller of the Currency asking whether there would be any objection to that Office furnishing the Department of Justice with the report the Comptroller had made to the Board in connection with the Manufacturers Trust Company merger with The Hanover Bank, which was approved by the Board on September 6, 1961. Mr. Hackley commented that he felt this was merely a courtesy call by the Comptroller's Office and represented the reverse of an earlier request to the Board by the Department of Justice for the report that the Board sent to the Comptroller on January 13, 1961, regarding the proposed merger of The Philadelphia National Bank and Girard Trust Corn Exchange Bank, both of Philadelphia, Pennsylvania. In that case, the Board had indicated no objection if the Comptroller did not object. With respect to the present request, Mr. Hackley said that he assumed the Board would offer no objection to the Comptroller furnishing Justice with the desired report.

The members of the Board having indicated their views, it was understood that Mr. Hackley would advise the Comptroller's Office that the Board would not object if the report was sent to Justice.

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:

Appointment

Myron A. Grove as Recruit Economist in the Division of Research and Statistics, with basic annual salary at the rate of $8,600, effective the date of entrance upon duty, with the understanding that his moving expenses to Washington, D. C., would be paid by the Board.

Salary increases, effective October 1, 1961

Name and title	Division	Basic annual salary From	To
	Office of the Secretary		
Edna L. Stoll, Records Clerk		$4,565	$4,670
	Research and Statistics		
Theodore Flechsig, Economist		8,955	9,215
Levon H. Garabedian, General Assistant		5,520	5,685
Nancy E. Harcourt, Secretary		4,510	4,675
Eleanor J. Pratt, Research Assistant		5,355	5,520
Natalie C. Strader, Survey Statistician (Economics)		6,435	6,600
	Personnel Administration		
Ann W. Raybold, Personnel Clerk		4,510	4,675

Salary increases, effective October 1, 1961 (continued)

Name and title	Division	Basic annual salary From	To
	Administrative Services		
James R. Carnahan, Guard		$4,025	$4,130

Acceptance of resignation

Sarah A. Foret, Statistical Clerk, Division of Research and Statistics, effective at the close of business September 29, 1961.

Secretary

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

Item No. 1
9/26/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 26, 1961

Board of Directors,
The County Trust Company,
White Plains, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by The County Trust Company, White Plains, New York, at 567 North Broadway, White Plains, New York, 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 25, D. C.

Item No. 2
9/26/61

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

September 26, 1961

Mr. Dana D. Sawyer, Vice President,
Federal Reserve Bank of Boston,
Boston 6, Massachusetts.

Dear Mr. Sawyer:

Reference is made to your letter of September 1, 1961, enclosing a letter of August 31, 1961 from the Industrial National Bank of Providence, Rhode Island, describing a proposed loan to a "put" and "call" dealer and asking whether the loan would be subject to Regulation U.

Under the arrangement described, a put-call dealer buys, for example, 100 shares of A Company stock at $50 per share. At the same time he acquires a "put" option to sell 100 shares of A Company stock at that price at any time within a specified period - for example, 90 days. He also sells a "call" option (guaranteed by a brokerage concern) under which the holder may call upon him to sell 100 shares of A Company stock at $50 per share at any time within 90 days. The 100 shares actually owned by the dealer necessarily will be sold within the 90-day period, either by exercise of the call (when A Company stock is selling above $50 per share) or by exercise of the put (when A Company stock is selling below $50 per share). In either event the put-call dealer receives $5,000 for the stock, which is used to reimburse the bank that lent him that amount to purchase the 100 shares of A Company stock.

The question presented is whether, in this situation, a loan by the bank to enable the put-call dealer to buy the 100 shares of A Company stock is subject to Regulation U. The loan is admittedly "for the purpose of purchasing . . . stock registered on a national securities exchange", so the only question is whether the loan is "secured directly or indirectly by any stock" (section 221.1(a)). The certificate for 100 shares of A Company stock must remain in the possession of the brokerage concern that has guaranteed the call sold by the dealer, in order to assure that concern of its ability to deliver the stock if the call is exercised. The bank's "security" for its loan is an assignment by the put-call dealer of his right to the proceeds of the sale of the 100 shares of A Company stock; as stated above, said stock assuredly will be sold for $5,000 within 90 days, either by exercise of the call or by exercise of the put. It is assumed that the brokerage concern is notified of the assignment of the dealer's right to the proceeds of the sale of the stock, so that said concern is obligated to turn over those proceeds to the bank when the stock is sold.

In an interpretation published in the June 1961 Bulletin at page 657 (FRLS #8166), the Board stated that

> "any arrangement under which stock is more readily available as security to the lending bank than to other creditors of the borrower may amount to indirect security within the meaning of Regulation U."

The Board also pointed out that

> "A wide variety of arrangements as to collateral can be made between bank and borrower which will serve, to some extent, to protect the interest of the bank in seeing that the loan is repaid, without giving the bank a conventional direct 'security' interest in the collateral."

One cited example of such arrangements is that in which the borrower deposits stock with a third party who agrees to hold the stock until the loan has been paid off.

In this case the certificate for 100 shares of A Company stock is held by such a third party (the brokerage concern) under an arrangement whereby the stock will be sold within a specified period and the loan will be paid with the proceeds. In substance, therefore, the stock is held by a third person for the benefit of the lending bank. As the June 1961 interpretation stated, the specific arrangements there described were merely illustrative of various methods designed to protect the lending bank through the holding of stock either by the bank itself or by a third party for the benefit of the lending bank. The arrangement described in the letter of Industrial National Bank seems clearly to fall within this category, and, consequently, it is the opinion of the Board of Governors that such bank loans are "secured indirectly" by stock and are subject to the margin requirements of Regulation U.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 3
9/26/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 26, 1961

Board of Directors,
Farmers State Bank of Alto,
Alto, Michigan.

Gentlemen:

The Board of Governors of the Federal Reserve System, after consideration of all factors set forth in Section 18(c) of the Federal Deposit Insurance Act, hereby consents to the consolidation of Farmers State Bank of Alto, Michigan, and The Edwin Nash State Bank, Clarksville, Michigan, as such consolidation is believed to be in the public interest. The Board of Governors also approves the operation of a branch by the resulting bank at 132 South Main Street, Clarksville, Michigan.

This approval is given: (1) provided the proposed consolidation is effected within six months from the date of this letter and substantially in accordance with the Consolidation Agreement dated July 11, 1961, and (2) shares of stock acquired from dissenting stockholders are disposed of within six months from the date of acquisition.

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
9/26/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 26, 1961.

Dear Sir:

Reference is made to the Board's letter of May 3, 1961, enclosing the revised monthly bank debits report form F.R. 573 that was revised to include debits against deposits due to mutual savings banks and to foreign banks.

On the basis of the deposits involved, it had been assumed that the debits against these accounts would be relatively small, and limited to relatively few of the larger cities. However, the data for the months of June and July, which were received on both the old and new bases, showed that debits against these accounts were quite large and widespread and had wide month-to-month fluctuations, making comparisons with any back data difficult and possibly meaningless. In June, for example, the effect of the added debits was over five per cent in 18 centers, from two to five per cent in 22 others, and from one to two per cent in 12 centers. It seems unduly burdensome to request the reporting banks to report on both bases for an entire year for purposes of comparability; and in view of the indicated fluctuations, it seems impracticable to request estimates of year-ago figures to be made by the Reserve Banks.

Accordingly, the Board has decided to revert to the old basis of reporting debits in order to maintain comparability in the series. Form F.R. 573 is being revised to exclude the debits against deposit accounts, and the related month-end deposits, of mutual savings banks and foreign banks. Please request respondents to continue reporting on present form F.R. 573, but exluding these accounts, until the new forms are printed.

Very truly yours,

Merritt Sherman,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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

Item No. 5
9/26/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 26, 1961.

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

Gentlemen:

Reference is made to your request submitted through the Federal Reserve Bank of San Francisco for consent under the provisions of section 18(c) of the Federal Deposit Insurance Act to merge with The Southwest Bank, Inglewood, California, and for approval to operate branches at the present locations of offices of The Southwest Bank.

The proposed merger would eliminate existing and potential competition between the two banks, would reduce alternative sources of banking services, and would increase the already high concentration of commercial banking resources of the area in a few banks. Even though the proposed merger probably would result in strengthened management and a somewhat increased range of banking services at the present offices of The Southwest Bank, these benefits do not appear sufficient to outweigh the adverse features of the proposal.

Section 18(c) of the Federal Deposit Insurance Act provides that the Board of Governors shall not approve a proposed merger unless, after considering all the factors stated in this section of the Act, the Board finds the transaction to be in the public interest. For the reasons stated above, the Board does not find that the proposed merger would be in the public interest and, accordingly, the application is denied.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.