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Minutes for September 28, 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

RM

Gov. Mills

[Signature]

Gov. Robertson

CRB

Gov. Balderston

[Signature]

Gov. Shepardson

[Signature]

Gov. King

[Signature]

Gov. Mitchell

[Signature]

Minutes of the Board of Governors of the Federal Reserve System on  
Thursday, September 28, 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  
Miss Carmichael, Assistant Secretary  
Mr. Shay, Legislative Counsel  
Mr. Molony, Assistant to the Board  
Mr. Hackley, General Counsel  
Mr. Solomon, Director, Division of Examinations  
Mr. Johnson, Director, Division of Personnel  
Administration  
Mr. Harris, Coordinator of Defense Planning  
Mr. Hexter, Assistant General Counsel  
Mr. O'Connell, Assistant General Counsel  
Mr. Conkling, Assistant Director, Division of  
Bank Operations  
Mr. Leavitt, Assistant Director, Division of  
Examinations  
Mr. Veret, Legal Assistant

Discount rates. The establishment without change by the Federal Reserve Bank of Atlanta on September 25, 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 to the Board. The following items, which had been circulated to the Board and copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:

Letter to the Federal Reserve Bank of Cleveland approving the designation of First National Bank in Indiana, Indiana, Pennsylvania, as a cash agent bank.

Item No.

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Item No.

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| Letter to the Federal Reserve Bank of Richmond approving the appointment of Robert C. Duffer as Alternate Assistant Federal Reserve Agent.   | 2 |
| Letter to Trust Company of Morris County, Morristown, New Jersey, approving the establishment of a branch in the vicinity of Ridgedale and Hanover Avenues, Morris Township.   | 3 |
| Letter to Citizens Banking Company, Anderson, Indiana, approving the establishment of a branch in the Edgewood Plaza Shopping Center in the 2600 block on Nichol Avenue to replace its present branch at 3629 Nichol Avenue.                             | 4 |
| Letter to Farmers and Merchants Bank of Rockford, Rockford, Washington, approving the establishment of a branch in the vicinity of the intersection of University Street and Sprague Avenue in an unincorporated area of Spokane Valley, Spokane County. | 5 |
| Letter to the Federal Reserve Bank of Minneapolis approving a revision in the officers' salary structure.  | 6 |

With respect to Item No. 1, it was noted that the Federal Reserve Bank of Cleveland had designated 15 cash agent banks for preattack storage of currency and that, taking into account the designation of First National Bank in Indiana, Indiana, Pennsylvania, the Board had authorized 11 cash agent banks in the Fourth District to store \$92,150,000.

Following a question from Governor Shepardson, Mr. Harris stated that Vice President Harrell of the Cleveland Reserve Bank had advised him that no problems were anticipated in complying with the changes suggested in the Board's letter of July 27, 1961, to Mr. Bryan, Chairman of the Presidents' Conference, with reference to exculpation and

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indemnification provisions of the Cash Agent Agreements. In this connection Governor Mills indicated that he had the impression from reading the minutes of the Presidents' Conference of September 11, 1961, that the Reserve Banks had accepted the suggestions in the Board's July 27 letter and were preparing to recruit cash agent banks. Mr. Harris said this was also his impression but in order that there would be no doubt so far as the record was concerned, a letter to the Presidents of the Reserve Banks reiterating the Board's position with respect to Cash Agent Agreements was being prepared.

In regard to Item No. 3, Governor Shepardson raised a question with respect to the capital situation of Trust Company of Morris County, Morristown, New Jersey. Mr. Solomon stated that, while the capital structure of the bank was not entirely satisfactory, it had seemed appropriate to approve the bank's application to establish this branch. Establishment of the branch would not involve a substantial expenditure of funds, and it would provide convenient banking facilities in a service area where there were no commercial banking offices at present. According to the Board's form for analyzing bank capital, capital of the bank was 77 per cent of the indicated appropriate amount. However, at the time of the most recent examination of the bank, the New York Reserve Bank considered the capital adequate and, accordingly, had not raised with the member bank any question as to its capital situation. A matter of judgment was involved, Mr. Solomon said, and, since the

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bank had received no warning regarding its capital position, the Division of Examinations was of the opinion that it would not be appropriate to deny the branch application solely because of the bank's capital situation. Mr. Solomon said that he planned to discuss the matter of analyzing bank capital with Vice President Crosse of the New York Reserve Bank at an early date for the purpose of ironing out any difference of views between that Bank and the Board.

Governor Balderston noted that the New Jersey Commissioner of Banking and Insurance had turned down two previous requests of the member bank to establish a branch in this area on the ground that the applications were premature. However, the community had now developed and the Commissioner had approved the bank's application to establish this branch.

Governor Shepardson said that, while he would not offer an objection in this instance, in general he believed the Board should not be granting approval for further expansion of banks that were failing to provide adequate capital.

Messrs. Johnson and Harris then withdrew from the meeting.

Loan to purchase unregistered stock (Item No. 7). There had been distributed a memorandum from the Legal Division dated September 25, 1961, with reference to an inquiry from the Federal Reserve Bank of New York as to whether Regulation U, Loans by Banks for the Purpose of

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Purchasing or Carrying Registered Stocks, applied to a loan to purchase unregistered stock in the successor corporation of a partnership which is a member firm of the New York Stock Exchange. The loan would be made to a present partner of the firm who would pledge with the bank, as security, corporate stocks presently held in the individual partner's capital securities account with the firm. The sole question on which the Board was asked to rule was whether such a loan would be "for the purpose of purchasing" registered stocks, since only such "purpose" loans are subjected to Regulation U by section 221.1(a) thereof.

Attached to the memorandum was a draft of letter to the Federal Reserve Bank of New York that would refer to earlier rulings of the Board and indicate that the facts presented in this case suggested that the corporation in question would engage in all aspects of the investment business, including the dealing in registered stocks for its own account. The letter would state that for this reason it had been concluded that, while the loan might also be for other purposes, one purpose would be to enable the corporation to purchase registered stocks. Accordingly, Regulation U was deemed applicable to the loan in question.

In commenting on the matter, Mr. Veret observed that the proposed ruling would be in line with earlier rulings of the Board on the applicability of Regulation U to capital loans in partnerships. It had been felt that the fact that a corporation rather than a partnership was

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involved in this case would not substantially change the situation. He also stated that the Legal Division believed it desirable to send the proposed ruling to the Federal Reserve Banks, but there appeared to be no reason for publishing it.

After a brief discussion, the letter to the Federal Reserve Bank of New York was approved unanimously. A copy is attached as Item No. 7. It was understood that advice of the ruling would be sent to the Presidents of all Federal Reserve Banks for their information.

Mr. Veret then withdrew from the meeting.

Absorption of exchange charges. Governor Robertson referred to the Board's letter of July 26, 1961, to Mr. Gidney, Comptroller of the Currency, and Mr. Cocks, Chairman of the Federal Deposit Insurance Corporation, enclosing copies of a memorandum setting forth the results of a survey of nonpar items and suggesting that there be a joint meeting on this subject similar to the one held November 1, 1960, prior to the survey. He said that Mr. Cocks had called him on the telephone this morning and commented that he would get in touch with him in a few days, although he (Governor Robertson) did not know whether Mr. Cocks had in mind the possibility of an early meeting to discuss this subject. Governor Robertson went on to say that he felt it desirable for the Board to determine the approach it wished to take on absorption of exchange before such a meeting was arranged. Also, he raised the

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question whether it would be advisable to schedule another meeting with the other agencies prior to November 15, 1961, when a new Comptroller of the Currency was expected to take office.

Governor Mills said it was his inclination to wait until a new Comptroller took office before arranging a joint meeting with the other Federal bank supervisory agencies. He believed that the present procedures were not causing any particular problems and, therefore, there was no pressing emergency requiring early action.

Governor King expressed the hope that it would sometime be possible to have par clearance throughout the entire country. He agreed with Governor Mills that it would be preferable to defer a meeting with the other agencies on the nonpar problem until after the expected change in the Comptroller's Office, although he did not feel strongly on this point.

Governor Mitchell said he also would like to have par clearance and would prefer to discuss the matter with the new Comptroller of the Currency when he took office. However, he could see no objection to preliminary discussions with representatives of the Federal Deposit Insurance Corporation.

Governor Robertson commented that the question of rulings on absorption of exchange fell to the Board and the Federal Deposit Insurance Corporation because of their statutory responsibilities for regulations involving the payment of interest on deposits.

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However, the Office of the Comptroller of the Currency was the agency that enforced such rulings so far as national banks were concerned, and thus the Comptroller was an essential party to any arrangement that might be agreed upon. In the event Mr. Cocke should suggest an early meeting to discuss the problem, Governor Robertson felt it would be difficult to refuse to have such a meeting, although it would be understood that no definite action would be taken until after discussion with the incoming Comptroller of the Currency.

After further discussion, it was understood that Governor Robertson would handle any further discussion of the subject with Mr. Cocke in the light of the views expressed at this meeting.

During the foregoing discussion Messrs. Thomas, Adviser to the Board, and Fauver, Assistant to the Board, entered the room.

Request of Senator Douglas (Items 8 and 9). Governor Balderston reported that in a letter dated September 25, 1961, Senator Douglas, Chairman of the Senate Banking and Currency Subcommittee on Production and Stabilization, indicated that the Subcommittee needed more complete information regarding the disclosure requirements of various State laws covering the extension of consumer credit for use in connection with the consideration of bill S. 1740, cited as the "Truth in Lending Act." Specific information was needed as to the requirements of State laws in regard to the seven items of information that would be required to be disclosed on all consumer credit transactions by section 4 of that bill,

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and Senator Douglas had stated in his letter that it would be helpful if the Board would supply the Subcommittee with this compilation of State laws.

Mr. Shay noted that Chairman Martin, in testifying before the Subcommittee on S. 1740 on July 19, 1961, had suggested the desirability of investigating whether the matter of disclosure with respect to the extension of consumer credit was a problem that might appropriately be handled at a State level rather than by Federal legislation. Also, on several occasions the Board had advised the Subcommittee that the Federal Reserve had no special competence in this particular field. However, since the Subcommittee had not been successful in its efforts to secure needed information regarding State laws from other sources, Mr. Shay expressed the view that it would be difficult for the Board not to comply with the request of Senator Douglas.

Mr. Hackley suggested that it might be appropriate to acknowledge the letter from Senator Douglas reiterating that the Federal Reserve had had little experience in this field but that it would be willing to assist by preparing the requested compilation of State laws and would endeavor to furnish it as soon as possible, although that might not be until after the desired date of December 1. Mr. Hackley went on to say that the Legal Division had made compilations of State laws in other areas, such as laws relating to reserve requirements. In such instances the Legal Division had prepared the entire compilation which was then sent to counsel of the

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Reserve Banks for checking. At the present time the Board's Legal Division was shorthanded and it occurred to him that the preparation of the compilation requested by Senator Douglas might be expedited by asking counsel of the Reserve Banks to prepare excerpts from State laws on the subject. The Board's Legal Division could then collate and coordinate into an alphabetical arrangement the excerpts submitted. Also, if feasible, a brief tabulation or chart digesting salient points in the State laws could be prepared. If such a procedure was acceptable, the Board might wish to send a letter to the Presidents of all Federal Reserve Banks requesting their assistance. Also, since a conference of the Reserve Bank counsel would be held at the Board during the week of October 2, they could then be alerted regarding this matter.

During the discussion that ensued, the members of the Board indicated that it would be desirable to comply with Senator Douglas' request, even though that would involve substantial additional work for the Board's Legal Division and Reserve Bank counsel. Among suggestions made as to procedures to be followed, Governor Robertson said that the acknowledgment to Senator Douglas should not indicate that it might not be possible to furnish the material by December 1, as requested. Governor Mitchell said he would not wish to have the acknowledgment indicate a lack of competence on the part of the Federal Reserve in this field, or otherwise indicate the Board was "dragging its feet." Mr. Hackley said that he had not meant to suggest that the staff was not competent to prepare the

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compilation, but that because of its lack of experience in the particular field covered by Senator Douglas' bill, a greater amount of time would be required to complete the task. Mr. Molony noted that the Board previously had taken the position that the purposes of Senator Douglas' bill were desirable, but the Board did not feel that it should have the responsibility for administering such legislation since it had no special competence in the field of trade practices.

Governor Robertson said that even though he was aware of the position mentioned by Mr. Molony, he did not think it appropriate to repeat this in the acknowledgment informing Senator Douglas that the Board would furnish the requested compilation.

The discussion concluded with the understanding that letters to Senator Douglas and the Presidents of all Federal Reserve Banks would be prepared in the light of the views expressed at this meeting, and that Mr. Hackley would inform Reserve Bank counsel of the request at the conference to be held in the Board's building beginning October 2. Copies of the letters sent to Senator Douglas and to the Reserve Bank Presidents are attached as Items 8 and 9.

Mr. Thomas withdrew from the meeting during the foregoing discussion.

Rules of organization and procedure. There had been distributed a memorandum from the Legal Division dated August 10, 1961, with reference to a revision of the Board's Rules of Organization and Rules of Procedure

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which had been issued pursuant to the Administrative Procedure Act of June 11, 1946. The Rules became effective September 11, 1946, and had been amended in a few minor respects since that time.

At a meeting on September 8, 1959, the Board requested the staff to undertake a review and revision of the Rules of Organization and Rules of Procedure. Attached to the August 10 memorandum was a draft of proposed revision that had been prepared by the Legal Division in collaboration with the Secretary's Office, and in consultation with other Divisions at the Board.

In the proposed revision an attempt was made to bring up to date a description of the Board's organization, to eliminate obsolete provisions, and to clarify, restate, or expand some of the procedural provisions in the light of current practices.

At the Board's request, Mr. Hackley commented on various aspects of the revision. It was proposed, he said, to replace the present Rules relating to "Organization" and "Procedure" by four separate Rules, as follows: (1) Rules of Organization, (2) Rules Regarding Information, Submittals, and Requests, (3) Rules of Procedure, and (4) Rules of Practice for Formal Hearings. All of these Rules would be published in the Federal Register, but only the last three would appear in the Code of Federal Regulations since the Rules of Organization are not permanently codified. It was contemplated that the four Rules would be printed together in the Board's pamphlet edition under the title of "Rules of Organization and Procedure."

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With respect to the Rules of Organization, Mr. Hackley commented that they would be changed only to bring up to date the description of functions of various divisions of the Board and to eliminate obsolete material. No material changes were proposed for the Rules of Procedure, but obsolete references would be deleted and new references to bank holding company and bank merger applications would be included. A revised list of Board forms (now in the text of the Rules) would appear as an Appendix. The portion to be described as "Rules Regarding Information, Submittals, and Requests" for the most part would incorporate provisions now contained in sections 6, 7, and 8 of the present Rules, which define published and unpublished information and set forth a general rule that no unpublished information shall be disclosed "except as authorized by the Board."

The present Rules further provide that certain kinds of unpublished information of a confidential nature will not be disclosed at all except in confidence to other Government agencies for use in the performance of their official duties. However, Mr. Hackley pointed out, there have been times when question has arisen as to the disclosure of such confidential information to persons other than Government agencies, such as making confidential sections of examination reports available to Continental Bank and Trust Company in the hearing on capital adequacy of that bank. There have also been questions as to whether information of this kind should be disclosed even to other Government agencies, e.g., giving reports of examinations to the Department of Justice.

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Mr. Hackley stated that the staff had concluded that it would not be feasible to attempt to itemize the various circumstances in which confidential information should be disclosed either to Government agencies or to other persons. As an alternative, it was suggested that the Board might wish to consider issuing a document for internal use within the Board and Federal Reserve Banks that would contain authorizations pursuant to the Rules for the disclosure of certain unpublished information in specified circumstances. Such blanket authorizations could cover those situations in which it was clearly appropriate to disclose certain information to other Government agencies, to officers and employees of the Reserve Banks, or to others. This would in effect serve to confirm and codify existing practices approved by the Board and tend to clarify the Board's policy on this subject. It would help also to reduce the number of instances in which specific Board authority would be necessary.

Mr. Hackley noted that there was attached to the August 10 memorandum a draft of such an internal document which listed eight categories in which unpublished information might be made available without specific Board authorization. The document also listed four types of cases in which specific authorization would be necessary but in which it would be the Board's general policy to make the information available.

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So far as the section on unpublished information in the proposed Rules was concerned, Mr. Hackley stated that the only changes suggested were (1) to include in the section as to disclosure of information to Government agencies a specific reference to the Department of Justice, and (2) to make somewhat more flexible the present absolute prohibition against disclosure of confidential information to persons other than Government agencies, so that certain information might be disclosed if the Board should determine that disclosure would clearly be in the public interest.

Mr. O'Connell then commented on revisions in the proposed Rules of Practice for Formal Hearings as outlined in the August 10 memorandum. He observed that the purpose of the revision was to conform the Rules as much as possible to those of other agencies that conduct administrative proceedings involving the taking of evidence and, at the same time, to afford an opportunity for participants in such proceedings to know in advance the procedures with which they would be faced. The suggested revision reflected (1) actual changes in the Board's procedures since September 1946, and (2) proposed changes, both deletions in and additions to the 1946 edition of the Rules, that were felt to be in the best interests of the Board and of the public in its dealings with the Board.

Mr. Hackley then referred to the Board's plan to consider further in October procedures to be followed in connection with bank merger and bank holding company applications. If the Board desired, at least some

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of the procedures adopted with respect to such applications appropriately could be included in the Board's Rules of Procedure in a separate section. If the Board should be disposed to adopt the proposed Rules, Mr. Hackley said that it would not be necessary to publish them in the Federal Register for comment by the public. However, he felt that it would be helpful to submit them to the Federal Reserve Banks for comment.

Governor Balderston noted that a new Comptroller of the Currency was expected to take office on November 15, and he expressed the thought that the Board might wish to publish before that date whatever procedures it might adopt for handling bank merger applications. This would suggest that, if the proposed Rules of Organization and Procedure were to be sent to the Reserve Banks for comment, the Banks should be asked to furnish their comments by about mid-October.

Referring to the general rule that appeared in both the present Rules and in the proposed revision against disclosure of unpublished information except as authorized by the Board, Governor Mitchell said that he was opposed to a prohibition of this type inasmuch as it was violated daily. While he believed that the Reserve Banks and the Board were justified in refusing to release statistical information relating to an individual institution, he could see no reason for refusal to release information covering a group of institutions; yet such information was unpublished and, according to the Rules, could not be released except on authorization of the Board. He believed it was wrong for the Rules to

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imply that information must be published before it could be disclosed, and he thought it might be feasible to list in the Rules items that the Board was not willing to have disclosed.

Governor King said he assumed that the prohibition against the release of unpublished information without Board authorization was based on the premise that it would not be desirable to leave to individual members of the Board's organization generally the judgment as to what information on a variety of subjects should be disclosed. Everyone would agree that some types of information should not be disclosed and, as a practical matter, he could understand that the only way to control this was to make a general prohibition against releasing information unless the Board had said that it should be made public. He felt that the alternative was, in effect, for the Board to delegate to each member of its organization the responsibility for judging what should be disclosed. His own view was that it would be better to have a general rule that would permit anyone to give out some clearly defined types of information but to require that questions as to other information be brought back to the Board for decision. He would lean to this kind of a rule even though there might be some instances where it would be violated.

Governor Robertson said that one trouble was that the present Rules were extremely restrictive. He thought they might be changed to expand in specific terms the kinds of information that could be given out freely.

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In response to a question from Governor Balderston as to whether the Rules might state in positive terms what types of information could be released, Mr. Hackley said that he believed such an approach would present difficulty. However, he noted that a list of unpublished items of information that might be disclosed with the Board's approval had been included in the draft document proposed for internal distribution to Board and Federal Reserve Bank employees that had been attached to the August 10 memorandum. These items had been listed with the thought that they would indicate some kinds of information that the Board would almost automatically approve for release upon request.

Governor Mills commented that the Board had lived with the present Rules of Organization and Procedure for 15 years without serious problems resulting from the provisions regarding disclosure of unpublished information. He realized that it might be desirable to tidy up the current Rules; however, he had no quarrel with them as they now stood. So far as the Rules of Practice for Formal Hearings were concerned, he would rely on the view expressed by counsel that the Rules proposed were equitable to all parties concerned. As he saw it, the real problem involved a matter on which he had expressed his views in the past. As proposed, the Rules would provide that the Department of Justice would be permitted to have certain unpublished information. This had connotations about which he was greatly concerned. By granting such permission, the Board was giving the Justice Department entry into

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confidential matters without a subpoena. The Board, he believed, had an obligation to the banks examined by the Federal Reserve and to the customers of those banks; accordingly, it was his view that the Board had no right to release confidential information from examination reports without notice to the banks. He added that the only advantage he could see in the proposed Rules with respect to making certain material available to the Justice Department was the fact that by their adoption the Board would be putting the public on notice as to what it proposed to do rather than doing it secretly.

Governor Mills went on to say that he felt there was another aspect that deserved further study. He then referred to public hearings on bank holding company cases under section 3 of the Bank Holding Company Act of 1956 and the practice of making the details of holding company applications available for public inspection prior to such hearings. In this connection he recalled a case in which it had been felt that the release of confidential material relating to a proposed acquisition of stock could be damaging to the applicant if such material were to come into the hands of a competitor. For this reason, Governor Mills hoped that any decision on procedures would be postponed until all aspects could be considered exhaustively.

Governor Robertson said he thought it incumbent on the Board to bring the Rules of Organization and Procedure up to date, and he felt the Board should proceed promptly in that direction. There was,

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however, one point that still needed to be clarified, and that related to the type of unpublished information that the Board would not want to have disclosed. He doubted that any good purpose would be served by sending the proposed Rules to the Reserve Banks for comment, but he thought it desirable for the Legal Division to review them in the light of today's discussion and for the matter to be brought back to the Board for consideration at the end of October along with the procedures relating to bank merger and bank holding company applications. It also was his view that it would be desirable to incorporate the latter procedures in the proposed Rules of Procedure and publish them in the Federal Register, provided this would not result in too much delay.

Governor Shepardson said he could see no real need for sending the proposed Rules to the Reserve Banks for comment. As to the portion of the Rules dealing with unpublished information, it seemed to him that it should be possible to define some additional areas of unpublished information that might be disclosed freely. While he was not certain as to the exact language to be used, he believed that employees of the Board and the Federal Reserve Banks should be permitted to reveal general unpublished economic information not relating to the private affairs of any person or organization or to monetary and credit policy.

Governor King agreed that the Rules need not be sent to the Reserve Banks for comment. He would not adopt the Rules at this time,

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however, having in mind that it might be desirable to consider them at the time the Board took up procedures that might be adopted relating to bank merger and bank holding company applications. With respect to the release of unpublished information, he thought it would probably not be feasible to prepare a detailed statement as to what might be disclosed without coming back to the Board. The choice seemed to be either to have a rule that was quite restrictive and which admittedly might result in some violations in actual practice, or to leave the matter quite wide open, with the individual employee left with nothing but his sense of propriety as a guide.

Governor Mitchell then observed that the proposed Rules of Organization and Procedure were in four parts. He said he was prepared at this time to adopt all of the Rules except the one relating to the disclosure of unpublished information. He thought it was not necessary to send the Rules to the Reserve Banks for comment and he believed it advisable to dispose of this matter as soon as possible. He felt the Legal Division would have no difficulty in incorporating the suggestions made at today's meeting with respect to the release of unpublished information.

Mr. O'Connell noted that a number of the Reserve Banks had in the past furnished counsel to conduct hearings for the Board. Accordingly, it had been thought that it would be advantageous to have the comments of Reserve Bank counsel at least on the Rules of Practice for Formal

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Hearings. He also commented that difficulties might be expected to result from including in the Rules a list of specific unpublished information that could not be disclosed.

Mr. Hackley said the Legal Division would review the proposed Rules regarding unpublished information and make whatever changes seemed feasible, having in mind especially authorization for release of general statistical information not relating to the private affairs of an individual or a corporation.

Governor King reiterated his concern as to the problems that might arise if individual employees were given blanket authorization to determine what types of unpublished information should be released. It would be difficult for employees to know where to draw the line, and he did not think it desirable to place that responsibility on them.

Governor Mills said that if the Board should be disposed to adopt the proposed rule with respect to making confidential material available to the Justice Department, he would wish to have the record show that he had strong feelings contrary to the favored position that would be accorded that Department. He did not see how the Board could put a Government agency ahead of civil laws that would prevent furnishing material to any other citizen or corporation. To say that it was implicit in the law that the Department of Justice should be eligible to receive otherwise confidential information was, he thought, a distortion of the principles of confidentiality itself.

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Governor Shepardson said he also felt that consideration should be given to the point raised by Governor Mills about voluntarily furnishing material to the Department of Justice that would normally be obtained under subpoena or some other legal procedure.

Governor Balderston then referred to Governor Robertson's suggestion that the Legal Division review the proposed Rules in the light of the discussion at today's meeting and that the matter be considered along with the procedures on bank merger and bank holding company applications at the end of October.

Governor Mitchell reiterated his preference for adopting today those parts of the Rules on which there was no disagreement. However, after other members of the Board had expressed a preference for considering the four proposed Rules at a later date, it was agreed that such a procedure would be followed. In the meantime, it was understood that the Legal Division would revise certain portions of the proposed Rules for the Board's consideration. Also, it was understood that the draft of Rules of Practice for Formal Hearings would be sent to Reserve Bank counsel for comment.

The meeting then adjourned.

Secretary's Notes: On September 27, 1961, Governor Shepardson approved on behalf of the Board a letter to the Federal Reserve Bank of Dallas (attached Item No. 10) approving the appointment of James B. Watson as assistant examiner.

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Governor Shepardson today approved the following items:

Memorandum from the Division of Personnel Administration recommending the appointment of Carol H. Karstetter as Clerk-Stenographer in that Division, with basic annual salary at the rate of \$4,355, effective the date of entrance upon duty.

Letter to Mr. William S. Swingle, President of the National Foreign Trade Council, Inc., New York, New York, responding to the Council's invitation to send guest observers to the National Foreign Trade Convention to be held in New York City, October 30-November 1, 1961, and advising that Messrs. Hersey and Gemmill of the Board's Division of International Finance would attend.



Secretary

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

Item No. 1  
9/28/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

September 28, 1961

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

Dear Mr. Fulton:

The Board has approved the proposal contained in a letter from the Federal Reserve Bank of Cleveland, June 22, 1961, for the preattack storage of \$3,500,000 in currency in the First National Bank in Indiana, Indiana, Pennsylvania, an authorized Cash Agent Bank.

It is understood that the general terms, conditions, and procedures for effecting the preattack storage of currency with this Cash Agent are substantially the same as those approved by the Board in its letters of May 26, 1960, and August 23, 1961\* with respect to other Cash Agent Banks in the Fourth District.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

\* Should be August 23, 1960.

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

Item No. 2  
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ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

September 28, 1961



Mr. Alonzo G. Decker, Jr.,  
Chairman of the Board and  
Federal Reserve Agent,  
Federal Reserve Bank of Richmond,  
Richmond 13, Virginia.

Dear Mr. Decker:

In accordance with the request contained in your letter of September 14, 1961, the Board of Governors approves the appointment of Mr. Robert C. Duffer as Alternate Assistant Federal Reserve Agent at the Federal Reserve Bank of Richmond to succeed Mr. J. Franklin Wilson.

This approval is given with the understanding that Mr. Duffer will be solely responsible to the Federal Reserve Agent and the Board of Governors for the proper performance of his duties, except that, during the absence or disability of the Federal Reserve Agent or a vacancy in that office, his responsibility will be to the Assistant Federal Reserve Agent and the Board of Governors.

When not engaged in the performance of his duties as Alternate Assistant Federal Reserve Agent, Mr. Duffer may, with the approval of the Federal Reserve Agent and the President, perform such work for the Bank as will not be inconsistent with his duties as Alternate Assistant Federal Reserve Agent.

It will be appreciated if Mr. Duffer is fully informed of the importance of his responsibilities as a member of the staff of the Federal Reserve Agent and the need for maintenance of independence from the operations of the Bank in the discharge of these responsibilities.

It is noted from your letter that, upon approval of this appointment by the Board of Governors, Mr. Duffer will execute the usual Oath of Office which will be forwarded to us showing the effective date of the appointment.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

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

Item No. 3  
9/28/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

September 28, 1961



Board of Directors,  
Trust Company of Morris County,  
Morristown, New Jersey.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by Trust Company of Morris County, Morristown, New Jersey, in the vicinity of the intersection of Ridgedale and Hanover Avenues, Morris Township, Morris County, New Jersey, 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. 4  
9/28/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

September 28, 1961



Board of Directors,  
Citizens Banking Company,  
Anderson, Indiana.

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 in the Edgewood Plaza Shopping Center in the 2600 block on Nichol Avenue, Anderson, Indiana, by Citizens Banking Company, provided the branch is established within nine months from the date of this letter, and branch operations now conducted at 3629 Nichol Avenue, Edgewood, Indiana, are discontinued simultaneously with the establishment of the new branch.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.

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

Item No. 5  
9/28/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

September 28, 1961

Board of Directors,  
Farmers and Merchants Bank of Rockford,  
Rockford, Washington.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch in the vicinity of the intersection of University Street and Sprague Avenue in an unincorporated area of Spokane Valley, Spokane County, Washington, by Farmers and Merchants Bank of Rockford, 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. 6  
9/28/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

September 28, 1961

CONFIDENTIAL (FR)

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

Dear Mr. Deming:

The Board of Governors has approved, effective January 1, 1962, the following minimum and maximum salaries for the respective officer salary groups at the Federal Reserve Bank of Minneapolis, as requested in your letter of September 15, 1961.

<u>Group</u>	<u>Minimum</u>	<u>Maximum</u>
A	\$16,000	\$22,500
B	13,500	18,500
C	11,500	15,500
D	10,000	13,500

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

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

Item No. 7  
9/28/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

September 28, 1961

Mr. Howard D. Crosse, Vice President,  
Federal Reserve Bank of New York,  
New York 45, New York.

Dear Mr. Crosse:

Reference is made to your letter dated June 21, 1961, presenting the question whether Regulation U applies to a loan to purchase unregistered stock in the successor corporation of a partnership which is a member firm of the New York Stock Exchange. The loan would be made to a present partner of the firm who would pledge with the bank, as security, corporate stocks presently held in the individual partner's capital securities account with the firm. According to the letter of May 22, 1961, from the law firm of Dewey, Ballantine, Bushby, Palmer & Wood, the firm in question "is engaged in all phases of the investment banking and broker-dealer business."

The Board was asked to view this inquiry without regard to the question whether the loan will enable the borrower to reduce or retire indebtedness which was originally incurred to purchase registered stock or to carry such stock for customers. Therefore, the views expressed herein are without reference to the possible applicability of paragraph (b)(1) of section 221.3 of Regulation U, relating to "carrying" loans. The sole question is whether the loan would be "for the purpose of purchasing" registered stocks.

The Board has in the past taken the position that Regulation U applies to loans to individuals when the proceeds are used to contribute capital as partners to a brokerage firm. For example, see 1946 Bulletin 995 (F.R.L.S. #8127). As you pointed out, there appears to be no valid basis for distinguishing the present case from those covered by the rulings relating to partnerships. In economic fact, there is little difference, for this purpose, between a partnership interest and a stockholder interest in a broker-dealer concern. This is underscored by the New York Stock Exchange rule restricting trading in the stock of corporate member concerns.

Mr. Howard D. Crosse

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In the Board's opinion, the rulings to the effect that the original purpose of a loan is controlling are not decisive with respect to the present case. In fact, the ruling of June 25, 1937 (S-11, F.R.L.S. #8120) specifically states:

"It should be borne in mind in this connection, however, that the original purpose of the loan should not be determined upon a narrow analysis of the immediate use to which the proceeds of the loan are put. Instead, the fundamental purpose of the loan should be considered to be controlling."

The facts presented to the Board in this case indicate that the corporation in question will engage in all aspects of the investment business, presumably including dealing in registered stocks for its own account. For this reason, the Board has concluded that, while the loan may also have other purposes, one purpose is to enable the concern to purchase registered stocks. At this time it is not necessary to re-examine the correctness of earlier interpretations to the effect that Regulation U applies to such a loan where the concern in question purchases and carries securities only for its customers and not for its own account.

For the reasons stated above, you are requested to inform the inquirer that Regulation U is deemed applicable to the loans in this case.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 8  
9/28/61

OFFICE OF THE VICE CHAIRMAN

September 28, 1961.



The Honorable Paul H. Douglas, Chairman,  
Subcommittee on Production and Stabilization,  
Committee on Banking and Currency,  
United States Senate,  
Washington 25, D. C.

Dear Mr. Chairman:

This is in response to your letter of September 25, 1961, requesting that we prepare for the use of your Subcommittee a compilation of State laws regarding the extension of consumer credit to the extent that they relate to the seven items of information that would be required to be disclosed by section 4 of S. 1740, the truth in lending bill.

We shall be glad to undertake the preparation of a compilation of the kind requested with the hope that it may be completed for submission to you by the first of December.

Sincerely yours,

(Signed) C. C. Balderston

C. Canby Balderston,  
Vice Chairman.

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

Item No. 9  
9/28/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

September 28, 1961.



Dear Sir:

The Board has received a letter dated September 25, 1961, from Senator Douglas, Chairman of the Subcommittee on Production and Stabilization of the Senate Banking and Currency Committee, requesting that the Board have prepared for the use of his Subcommittee a compilation of State laws regarding extensions of consumer credit that contain provisions related to the seven items of information that would be required to be disclosed by section 4 of S. 1740, the pending "Truth in Lending" bill. A copy of Senator Douglas' letter is enclosed, together with a copy of S. 1740.

The Board will appreciate the assistance of the several Federal Reserve Banks in making such a compilation of State laws. Specifically, it would be most helpful if counsel for your Bank could prepare the relevant excerpts from statutes of States having their capital cities in your District and, if feasible, accompany such excerpts with a table or chart summarizing the statutes as they may have a bearing upon the items of information described in S. 1740. Counsel may, of course, wish to consult the Attorney Generals of the various States in connection with any questions of interpretation that may seem to be involved.

Having in mind the request that the compilation be submitted by the first of December, it is hoped that your counsel may find it possible to prepare and submit to the Board the relevant information as to the States in your District by November 1, in order that the Board's Legal Division may then have adequate time within which to collate the various excerpts and incorporate them in a single compilation.

The Board will be grateful for your cooperation and assistance in this matter.

Very truly yours,

Merritt Sherman,  
Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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

Item No. 10  
9/28/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

September 28, 1961

Mr. L. G. Pondrom, Vice President,  
Federal Reserve Bank of Dallas,  
Station K,  
Dallas 2, Texas.

Dear Mr. Pondrom:

In accordance with the request contained in your letter of September 22, 1961, the Board approves the appointment of James B. Watson as an assistant examiner for the Federal Reserve Bank of Dallas, effective today.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.

