

609
9/61

Minutes for October 10, 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

MD

Gov. Mills

[Signature]

Gov. Robertson

[Signature]

Gov. Balderston

CB

Gov. Shepardson

[Signature]

Gov. King

[Signature]

Gov. Mitchell

[Signature]

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

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

Mr. Sherman, Secretary
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Goodman, Assistant Director, Division of
Examinations
Mr. Leavitt, Assistant Director, Division of
Examinations
Mr. Landry, Assistant to the Secretary
Mr. Young, Assistant Counsel
Mr. McClintock, Review Examiner, Division of
Examinations

Items circulated to the Board. The following items, which had
been circulated to the Board and copies of which are attached to these
minutes under the respective item numbers indicated, were approved
unanimously:

	<u>Item No.</u>
Letter to Bank of America National Trust and Savings Association, San Francisco, California, approving a change in location of its branch in Naha, Okinawa, Ryukyu Islands.	1
Letter to Central State Bank, Muscatine, Iowa, approving the establishment of an in-town branch and an additional investment in bank premises.	2

Merger application of Liberty Bank and Trust Company (Item
No. 3). Under date of September 26, 1961, there had been distributed
copies of a memorandum from the Division of Examinations recommending
favorably on an application of Liberty Bank and Trust Company, Buffalo,

10/10/61

-2-

New York, for permission to merge with Exchange Bank, Oakfield, New York, under the charter and title of the former and to operate a branch at the present location of Exchange Bank. The recommendation of the Federal Reserve Bank of New York was also favorable. The competitive reports submitted by the Comptroller of the Currency and the Federal Deposit Insurance Corporation were not unfavorable but that submitted by the Justice Department was adverse.

At the request of Governor Balderston, Mr. Leavitt commented on the memorandum of the Division of Examinations, noting that management of Liberty Bank was now considered to be satisfactory following a long period during which it was rated as only "fair". He said that under its new management the bank, which was the third largest in the Ninth Banking District of the State, was attempting to compete more effectively with Marine Trust Company of Western New York and Manufacturers and Traders Trust Company, the first and second ranking banks in the district, respectively. He indicated that consummation of the proposed merger would combine Liberty Bank and Trust Company with a small independent bank located about 43 miles from Buffalo with which it was not in direct competition and that the merger would provide Liberty Bank with an office in an area in which it is not now represented but in which the two larger Buffalo banks had long been established.

After discussion the application of Liberty Bank and Trust Company, Buffalo, New York, was approved unanimously. A copy of the letter sent to the bank pursuant to this action is attached as Item No. 3.

10/10/61

-3-

Mr. McClintock withdrew from the meeting at this point.

Eligibility for service as Class A director. The question was presented in a memorandum dated October 6, 1961, from the Legal Division, copies of which had been distributed, as to the eligibility of Mr. G. A. Espey, a trustee of the sinking fund of the city of Cincinnati, Ohio, to serve as a Class A director of the Federal Reserve Bank of Cleveland in view of the Board's 1915 resolution regarding the holding of political or public office. As noted in the memorandum, the question for determination by the Board was one of policy in the absence of any provision of law relating to the subject. The Ohio Code (Title 7, section 739.02 et. seq.) provides that the mayor of each municipal corporation shall appoint a board of four citizens designated as the "trustees of the sinking fund" which shall have the management and control of the city's sinking fund and also serve as the Board of Tax Commissioners. The trustees serve for terms of four years without compensation and no more than two may belong to the same political party. Meetings of the trustees are open to the public and all questions relating to the purchase or sale of securities, payment of bonds, interest or judgments, or involving the payment or appropriation of money must be decided by majority vote. The Federal Reserve Bank of Cleveland, taking a conservative position on questions of this kind, had indicated that it probably would consider Mr. Espey to be ineligible to serve as a Class A director should it be determined that the provisions of the Ohio Code were applicable.

10/10/61

-4-

Governor Robertson requested that the 1915 resolution of the Board to which reference was made in the memorandum of the Legal Division be read aloud. In response, Mr. Hackley read the resolution as follows:

Whereas. It is the opinion of the Federal Reserve Board that persons holding political or public office in the service of the United States, or of any State, Territory, county, district, political subdivision, or municipality thereof, or acting as members of political party committees, cannot consistently with the spirit and underlying principles of the Federal Reserve Act, serve as directors or officers of Federal Reserve Banks.

Resolved. That the Federal Reserve Board hereby expresses to the member banks its opinion that no such persons should henceforward be elected or act as directors or officers of Federal Reserve Banks; and prescribes as a condition of eligibility that candidates for election shall comply with the terms of this resolution.

Resolved further. That copies of this resolution be sent to every member bank and Federal Reserve Bank and to all directors of Federal Reserve Banks.

Following the reading of the resolution as above quoted, Mr. Hackley observed that in matters of this kind in the past each case had been considered on its own merits and that over the years the Board had made numerous exceptions where service in the public office concerned did not appear to be inconsistent with the duties of a director of a Reserve Bank. He noted that the Board in the past, in addition to the criterion just referred to, had also taken into account whether the individual concerned was elected in a political capacity and whether substantial compensation was involved. In the latter connection he drew attention to the fact that Mr. Espey's position as a trustee of the sinking fund of the city of Cincinnati carried no compensation.

10/10/61

-5-

Mr. Young added the comment that the Board of Tax Commissioners of the city of Cincinnati, which was composed of the four citizens designated as the trustees of the sinking fund, in effect held control of the tax levies passed by the municipal law-making body. This was because the Board possessed the power to veto either in whole or in part such tax levies within a ten-day period following their passage, and the law-making body was required to repass by a three-fourths vote of all its members a measure in order to override a veto by the Tax Commissioners.

Governor Robertson said that there was no question in his mind that the office involved was public in nature, but that there was nothing in the memorandum from the Legal Division to indicate whether or not it was a political office. In his view, there was an obligation for every individual to perform some community and public service. Consequently, he thought it a disservice to the System to preclude it from the benefits to be derived from association with public-spirited individuals. So far as he was concerned, Governor Robertson said, the question hinged on whether the office involved was political. If it were ascertained that this was not the case, he was prepared to resolve any doubts toward permitting the individual to retain the office if elected as a Reserve Bank director. If, however, the office were political, he would take the opposite position.

Governor Shepardson said that he was sympathetic to the approach to the question just outlined by Governor Robertson. It was not clear

10/10/61

-6-

to what degree the office of trustee of the sinking fund was political in nature, but from the information at hand Mr. Espey's office appeared to be more in the nature of nonpolitical public service than political. If this were the case, he said, he would not object to Mr. Espey's service as a Class A director of the Cleveland Reserve Bank while retaining the office in question.

Governor King said that he doubted it was possible to make as clear-cut a distinction between public and political office as was implied in the views just expressed by Governors Robertson and Shepardson. Noting that his views on this question were influenced by the apparent feeling of the Reserve Bank in the matter, Governor King said that, although Mr. Espey's position as a trustee of the sinking fund constituted a public office, the fact that the trustees of the sinking fund also served as the Board of Tax Commissioners threw the question into a different light in his estimation. This raised the question as to how far up the line of public office one could go without reaching a political level. In view of these considerations, he said, his inclination would be to vote in favor of having Mr. Espey's name withdrawn from the list of nominees for Class A director.

Governor Balderston said that his thinking on the problem ran in the direction of not viewing Mr. Espey's service as a trustee of the sinking fund and member of the Board of Tax Commissioners as a political office, since these positions were not elective and carried no compensation.

10/10/61

-7-

Therefore, his inclination was to approve Mr. Espey's service as a Class A director if elected to the post.

Governor Robertson said that the facts available did not permit him to reach a clear determination as to whether the office now held by Mr. Espey was of a political nature inconsistent with the spirit of the Board's 1915 resolution. He suggested therefore that the Cleveland Bank be advised that the Board was unable to make a determination as to Mr. Espey's eligibility to serve as a director but that, on the assumption that the Bank was satisfied that his present position was not political in nature, the Board would not object to his becoming a candidate or serving as a director if elected without giving up his present office.

Governor King said that he would like the record to show his dissent should the Board so advise the Cleveland Bank. He doubted whether the Board could abdicate responsibility for interpreting the applicability of its own resolution, and his view was that the Board should give the Bank a definite answer. His inclination was to say that the present office seemed to be so much in the political area that it would not be consistent for Mr. Espey to serve as a director while retaining it.

In further discussion, the suggestion was made that, since the Vice President in charge of the Cincinnati Branch of the Federal Reserve Bank of Cleveland had indicated he was unable to judge whether Mr. Espey's position was political to a degree inconsistent with the Board's 1915 resolution, contact be made with someone in Cincinnati known to the System

10/10/61

-8-

but not in the field of banking to gain an estimate as to the political nature of Mr. Espey's service as trustee of the sinking fund of Cincinnati and member of the Board of Tax Commissioners. The name of Mr. Joseph B. Hall of the Kroger Company of Cincinnati, a former director of the Federal Reserve Bank of Cleveland, was suggested in this connection and agreed upon.

Accordingly, it was understood that because there was an element of time involved, unless indication should be received that Mr. Hall believed Mr. Espey's position to be political in nature, the Federal Reserve Bank of Cleveland would be informed that the Board did not consider Mr. Espey's service as a trustee of the sinking fund of the city of Cincinnati and member of the Board of Tax Commissioners of that city of such a nature as to preclude his service as a Class A director of the Bank if elected. In taking this action it was further understood that should it be ascertained that Mr. Hall regarded Mr. Espey's position as being political, the matter would be brought back to the Board.

The meeting then adjourned.

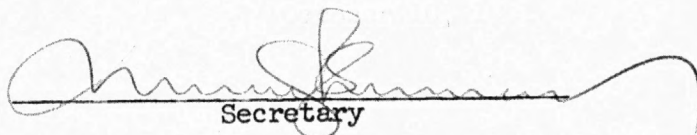
Secretary's Note: Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson today approved on behalf of the Board increases in the basic annual salaries of the following persons on the Board's staff, effective October 15, 1961:

Robert I. Stewart, Messenger, Board Members' Offices, from \$3,920 to \$4,025.

10/10/61

-9-

Joan R. Winter, Statistical Assistant, Division of Research and Statistics, from \$4,840 to \$5,005.



Secretary

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

Item No. 1
10/10/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 10, 1961

Bank of America National Trust
and Savings Association,
300 Montgomery Street,
San Francisco 20, California.

Gentlemen:

In accordance with the request contained in your letter of September 21, 1961, transmitted through the Federal Reserve Bank of San Francisco, the Board of Governors approves a change in location of your branch in the city of Naha, Okinawa, Ryukyu Islands, from 44-Banchi, 2-Chome, Higashi-Machi to the southwest corner of Highway 1 and Highway 44, Naha. In event of any further change in location of the branch within the city of Naha, please notify the Board promptly of the new address.

Please advise the Board of Governors in writing, through the Federal Reserve Bank of San Francisco, when the branch is removed to the new location and opened for business, furnishing information as to the street address of the branch.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.



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

3452

Item No. 2
10/10/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 10, 1961

Board of Directors,
Central State Bank,
Muscatine, Iowa.

Gentlemen:

Pursuant to your requests submitted through the Federal Reserve Bank of Chicago, the Board of Governors of the Federal Reserve System approves (1) the establishment of a branch on East Third Street between Iowa Avenue and Sycamore Street, Muscatine, Iowa, and (2) an additional investment, under the provisions of Section 24A of the Federal Reserve Act, of \$350,000 in bank premises by Central State Bank. The additional investment in bank premises is for construction of new branch quarters, remodeling the bank's main office, and purchasing and improving an additional lot for customers' parking.

Approval for permission to establish the branch is given provided the branch is established within six months from the date of this letter.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.



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

Item No. 3
10/10/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 10, 1961.



Board of Directors,
Liberty Bank and Trust Company,
Buffalo, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System has given consideration to the proposed merger of Exchange Bank, Oakfield, New York, into Liberty Bank and Trust Company, Buffalo, New York, under the charter and title of the latter, and, incident thereto, the operation of a branch at the present location of the office of Exchange Bank. All factors set forth in section 18(c) of the Federal Deposit Insurance Act were carefully considered, and as this merger appears to be in the public interest, the Board hereby grants its consent.

This approval is given provided (1) the proposed merger is effected within six months from the date of this letter and substantially in accordance with the Plan of Merger, dated April 19, 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.