

09
9/61

Minutes for November 3, 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

WM

Gov. Mills

[Signature]

Gov. Robertson

[Signature]

Gov. Balderston

[Signature]

Gov. Shepardson

[Signature]

Gov. King

[Signature]

Gov. Mitchell

[Signature]

Minutes of the Board of Governors of the Federal Reserve System on Friday, November 3, 1961. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Mills
Mr. Robertson
Mr. Shepardson
Mr. King
Mr. Mitchell

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Holland, Adviser, Division of Research
and Statistics
Mr. Landry, Assistant to the Secretary
Mr. Yager, Economist, Division of Research
and Statistics

Money market review. Mr. Yager reported on money market developments, including reference to the terms of the Treasury's mid-November refinancing, following which Mr. Holland reviewed the situation with respect to bank credit and the money supply.

Messrs. Holland and Yager then withdrew and the following entered the room:

Mr. Hackley, General Counsel
Mr. Chase, Assistant General Counsel
Mr. Hooff, Assistant General Counsel
Mr. Smith, Assistant Director, Division of
Examinations
Mr. Thompson, Supervisory Review Examiner,
Division of Examinations
Mr. Fuerth, Legal Assistant

Discount rates. The establishment without change by the Federal Reserve Banks of New York, Philadelphia, and San Francisco on November 2, 1961, of the rates on discounts and advances in their existing schedules

11/3/61

-2-

was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

Items circulated or distributed to the Board. The following items, which had been circulated or distributed 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 the Federal Reserve Bank of Boston regarding the applicability of section 32 of the Banking Act of 1933 to the service of member bank directors as officers and directors of corporations connected with open end investment companies.	1
Letter to the Secretary of the Federal Advisory Council suggesting topics for inclusion on the agenda for the meeting to be held on November 20-21, 1961. (Based on revised draft distributed pursuant to the understanding at the meeting on November 2, 1961.)	2

Messrs. Chase and Fuerth then withdrew and Mr. Farrell, Director, Division of Bank Operations, entered the room.

Gibraltar Financial Corporation (Item No. 3). Copies had been distributed under date of November 1, 1961, of a memorandum from the Division of Examinations regarding a request by Gibraltar Financial Corporation of California, Beverly Hills, California, for a determination exempting it from all holding company affiliate requirements except those contained in section 23A of the Federal Reserve Act. The recommendations of the Division of Examinations and the Federal Reserve Bank of San Francisco

11/3/61

-3-

were favorable; it was indicated in the memorandum that the Division's recommendation was made on the basis of the Board's policy of making a favorable determination as a normal matter in all one-bank cases, with the understanding that such a determination would be declined in any extraordinary case in which such action should seem necessary. Attached to the memorandum was a draft of letter stating that from the information submitted the Board understood that Gibraltar Finance was engaged in the business of acting as insurance agent and providing fire and extended coverage on real property as well as mortgage life insurance, but that the greater part of its business consisted of holding the guarantee stock of Gibraltar Savings and Loan Association of Beverly Hills and stock of two affiliated companies, Pioneer Escrow Company and Security Allied Services; that such corporation was a holding company affiliate by reason of the fact that it owned 6,890 of the 7,500 outstanding shares of stock of The Beverly Hills National Bank and Trust Company, Beverly Hills, California; and that such corporation did not directly or indirectly own or control any stock of, or manage or control, any other banking institution. The draft reply would state further that in view of these facts the Board had determined that Gibraltar Finance was not engaged directly or indirectly as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies within the meaning of section 2(c) of the Banking Act of 1933, as amended;

11/3/61

-4-

and accordingly the corporation was not deemed to be a holding company affiliate except for the purposes of section 23A of the Federal Reserve Act and did not need a voting permit from the Board in order to vote the bank stock that it owned.

In discussion of the matter, Governor Robertson said he continued to believe that the Board's policy on one-bank cases was mistaken. Furthermore, he thought that the present case went beyond the scope of that policy, since a commercial bank and a savings and loan association of substantial size were tied together in one holding company group. If the Board extended its interpretation of the one-bank rule to cover a situation of this kind, he felt that it would be getting into dangerous ground. Consequently, he would not favor granting the determination requested by Gibraltar Financial Corporation.

Governor Mills said that he was sympathetic to Governor Robertson's criticisms as they applied to the activities of Gibraltar Financial Corporation. However, he felt that the recommendation of the Division of Examinations was consistent with the one-bank rule followed generally by the Board, which was based on the presumption that supervision of the national bank concerned by the Comptroller of the Currency would provide adequate examination of the bank and prevent dissipation of its assets or other maltreatment of the bank as far as the public was concerned. He noted, furthermore, that the applicant was put on notice in the draft

11/3/61

-5-

letter that the favorable determination might be rescinded should a change in the factual situation so warrant. Governor Mills went on to say that, as he viewed the basic problem, the preferable course would be to press for a change in the Bank Holding Company Act to encompass one-bank situations within the holding company definition.

Governor Shepardson said that he had always found it difficult to accept the logic of the one-bank rule. The present case seemed to come close to a situation where an exception to the rule might be made, but on balance his inclination was to accept the recommendation of the Division of Examinations.

In the ensuing discussion, Mr. Hackley pointed out that under the law the Board is only required to make a factual determination as to whether an applicant for a so-called section 301 determination is actually engaged as a business in holding the stock of, or managing or controlling, banks, savings banks, banking associations, or trust companies within the meaning of section 2(c) of the Banking Act of 1933, as amended. Further, there would seem to be some question whether denial of the requested determination in a case like this would serve a real purpose, since the Board presumably would grant a limited voting permit that would allow the corporation to vote the stock it held in the national bank. If the determination should be granted, there would still be the safeguard against abuse of the national bank's resources provided in section 23A of the Federal Reserve Act. The Board, Mr. Hackley noted, had recommended to the Congress the repeal of

11/3/61

-6-

the "holding company affiliate" provisions of the law, which had not proved effective in restraining the activities of holding companies.

At the instance of Governors King and Mitchell, there followed comments on whether the Board would necessarily be informed if there should be a change in the facts prevailing at the time a section 301 determination was granted. These comments indicated that while a company granted such a determination supposedly would be expected to keep the Board informed, there was no specific reporting requirement. In connection with Board discussion of the subject of one-bank cases several years ago, a check had been made from which it developed that there were no outstanding determinations that appeared to call for revocation. However, no recent check had been made.

Additional discussion was devoted principally to further exploration of the terms of the existing statute, the responsibilities appearing to devolve upon the Board under it, and the practical effect of granting or denying a requested section 301 determination. During this discussion, several members of the Board expressed agreement with the earlier comment of Governor Mills that the solution to the problem of one-bank holding company cases lay in the direction of remedial legislation.

The proposed letter to Gibraltar Financial Corporation of California was then approved, Governor Robertson dissenting for the reasons he had stated and Governor Mitchell abstaining because he preferred not to take

11/3/61

-7-

a position on a case of this kind without having gone into the subject more thoroughly. A copy of the letter is attached as Item No. 3.

Messrs. Hooff, Landry, and Thompson then withdrew.

Report of examination--Federal Reserve Bank of San Francisco. Mr. Smith commented on the examination of the Federal Reserve Bank of San Francisco made as of June 6, 1961, the report on which had completed circulation to the members of the Board. On the basis of his comments, it was agreed that there were no matters disclosed by the examination that required action on the part of the Board.

With reference to the scope of the reports of examination of Federal Reserve Banks, Governor Mitchell stated reasons why he felt that consideration should be given to expanding the data included therein on member bank borrowing to include additional information on heavy or extended borrowings by individual banks. After some discussion, during which varying views were presented concerning the desirability of the inclusion of such information, it was understood that the suggestion would be taken under consideration by the Division of Examinations.

All of the members of the staff then withdrew and the Board went into executive session.

The Secretary was subsequently informed by Governor Shepardson that during the executive session the following actions had been taken:

Outside business and teaching activities. The Board approved the recommendation contained in a memorandum from the Division of Personnel Administration dated October 19, 1961, that the Board give permission to the members of the

11/3/61

-8-

staff who reported outside business or teaching activities, as listed in the October 19 memorandum, to continue or enter into the activity reported, with the understanding that any individual reporting a writing activity would be advised of the Board's policy regarding honoraria and royalties.

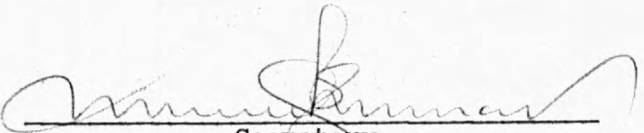
Organization of Division of International Finance. The Board approved in principle proposals made in a memorandum from Ralph A. Young, Director, Division of International Finance, dated September 29, 1961, for changes in the organization of the work of that Division, effective January 1, 1962, such changes to include provision for an additional position at the Associate Adviser level, as well as other organizational and procedural changes recommended in the memorandum from Mr. Young.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board the following items:

Memorandum from the Division of Examinations recommending the appointment of Frederick Marshall Karsten as Review Examiner in that Division, with basic annual salary at the rate of \$8,600, effective the date of entrance upon duty.

Letter to the Federal Reserve Bank of New York (attached Item No. 4) approving the reappointment of James W. Butler as assistant examiner.



Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM Item No. 1
WASHINGTON 25, D. C. 11/3/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 3, 1961

Mr. O. A. Schlaikjer, Vice President,
Federal Reserve Bank of Boston,
Boston 6, Massachusetts.

Dear Mr. Schlaikjer:

Reference is made to your letter of July 27, 1961 with reference to the question presented by the Deputy Comptroller of the Currency regarding the applicability of section 32 of the Banking Act of 1933 to the simultaneous service of Mr. Paul T. Babson and Mr. Frederick W. Whittemore as member bank directors and as officers and directors of corporations connected with open end investment companies.

In your letter of October 10, 1961, you advised that Mr. Babson is no longer serving in any capacity in any of the companies in the group, and that therefore, there is no longer any reason to regard section 32 as applicable to his services.

With respect to Mr. Whittemore, it appears that he is vice president and director of United Investment Counsel, Inc., which has a wholly owned subsidiary, United Investment Management Corporation, of which Mr. Whittemore is president and director. It further appears that United Investment Counsel, Inc. "offers individual investment advisory service to its subscribers" and that United Investment Management Corporation "was formed to provide investment counsel and advisory service to UBS Fund of Canada, Ltd." (Letter of August 25, 1961 from Mr. William W. White, president of Wellesley National Bank to Mr. Ernest G. Flint, National Bank Examiner, First Federal Reserve district.)

UBS Fund of Canada, Ltd. is an open end investment company. As you know, the Board regards an open end investment company as being "primarily engaged" in the business described under section 32. It would appear from Mr. White's letter that United Investment Management Corporation is furnishing advice exclusively to UBS Fund of Canada, Ltd. and was formed for that purpose only. It would thus appear that its existence depends upon the continued existence of the Fund, and that in this respect, it differs from the State Street Research and Management Company, which was the subject of the Board's letter to the Federal Reserve Bank of Boston dated February 19, 1943.

Mr. O.A. Schlaikjer

-2-

In the circumstances, the Board is inclined to regard the Fund and the Management company as being so closely identified that they should be regarded as one for the purposes of section 32. It will be appreciated if your bank will so advise Mr. Whittemore. Of course, if there are other facts or circumstances which he believes should be brought to the attention of the Board in this connection, the Board will give them careful consideration.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 2
11/3/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 3, 1961



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

Dear Mr. Prochnow:

The Board suggests the following topics for inclusion on the agenda for the meeting of the Federal Advisory Council to be held on November 20, 1961, and for discussion at the joint meeting of the Council and the Board on November 21:

1. What are the observations of the Council regarding the current business situation, the sentiment of businessmen, and prospects for the remainder of this year and the first half of 1962? In its analysis of prospects, what are regarded by the Council as the strategic factors?
2. Have Council members observed signs of recent change in consumer buying of durable goods and homes, or in willingness to use credit freely for such purchases?
3. What evidences are seen of current or prospective improvement in the unemployment situation?
4. Is business loan demand showing more strength than appeared to the Council to be developing at the time of its most recent meeting with the Board? What industries are most active in the demand for loans? Are credit supplies likely to be adequate to meet the probable demands at current interest rates?
5. Are there indications of inflationary pressures in commodity markets? In markets for capital assets, such as urban and rural real estate?

Mr. Herbert V. Prochnow

-2-

6. What are the views of the Council regarding current monetary and credit policy? What relative weights would the Council assign to domestic and to balance-of-payments problems?

The Board notes from your letter of October 27 that the Council has placed on the agenda the topic of maximum permissible rates on time and/or time savings deposits, with particular reference to time certificates of deposit and time deposits of foreign (central or private) banks and of foreign government agencies.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 3
11/3/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 3, 1961



Mr. Herbert J. Young, President,
Gibraltar Financial Corporation of California,
9111 Wilshire Boulevard,
Beverly Hills, California.

Dear Mr. Young:

This refers to the request contained in your letter of August 17, 1961, submitted through the Federal Reserve Bank of San Francisco, for a determination by the Board of Governors of the Federal Reserve System, as to the status of Gibraltar Financial Corporation of California as a holding company affiliate.

From the information submitted, the Board understands that the Gibraltar Financial Corporation of California is engaged in the business of acting as insurance agent in providing fire and extended coverage on real property as well as mortgage life insurance, but that the greater part of its business consists of holding the guarantee stock of Gibraltar Savings and Loan Association of Beverly Hills, and stock of the affiliated companies, Pioneer Escrow Company and Security Allied Services; that such Corporation is a holding company affiliate by reason of the fact that it owns 6,890 of the 7,500 outstanding shares of stock of The Beverly Hills National Bank and Trust Company, Beverly Hills, California; and that such Corporation does not, directly or indirectly, own or control any stock of, or manage or control, any other banking institution.

In view of these facts, the Board has determined that Gibraltar Financial Corporation of California is not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies within the meaning of section 2(c) of the Banking Act of 1933, as amended; and accordingly, the Corporation is not deemed to be a holding company affiliate except for the purposes of Section 23A of the Federal Reserve Act, and does not need a voting permit from the Board of Governors in order to vote the bank stock which it owns.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Mr. Herbert J. Young

-2-

If, however, the facts should at any time indicate that Gibraltar Financial Corporation of California might be deemed to be so engaged, this matter should again be submitted to the Board. Particularly, should future acquisitions by, or activities of, the Corporation or its subsidiaries result in the Corporation's attaining a position whereby the Board may deem desirable a determination that the Corporation is engaged as a business in the holding of bank stock, or the managing or controlling of banks, the determination herein granted may be rescinded. The Board reserves the right to rescind this determination and make further determination of this matter at any time on the basis of the then existing facts.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 4
11/3/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 6, 1961



Mr. John F. Pierce, Chief Examiner,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Pierce:

In accordance with the request contained in your letter of October 30, the Board approves the reappointment of James W. Butler as an assistant examiner for the Federal Reserve Bank of New York, effective November 6, 1961.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.