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Minutes for December 14, 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
Thursday, December 14, 1961. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Miss Carmichael, Assistant Secretary
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Kiley, Assistant Director, Division of Bank
Operations
Mr. Young, Senior Attorney
Mr. Veenstra, Technical Assistant, Call Report
Section, Division of Bank Operations

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 The Manistee County Savings Bank, Manistee, Michigan, approving the declaration of a dividend payable on December 15, 1961.	1
Letter to the Presidents of all Federal Reserve Banks regarding form FR 107 for use by State member banks in submitting Reports of Income and Dividends for the calendar year ended December 31, 1961, and form FR 107a, Instructions for the Preparation of Reports of Income and Dividends.	2

Equipment at New York Reserve Bank (Item No. 3). There had
been distributed a memorandum from Mr. Kiley dated December 11, 1961,

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regarding the proposed purchase by the Federal Reserve Bank of New York of additional equipment to supplement its high-speed check processing system. Provision for an expenditure of \$244,000 to purchase this equipment had been included in the Bank's 1962 budget.

According to the memorandum, the decision to purchase rather than rent the additional equipment stemmed from the original equipment agreement which provided that upon the successful completion of the pilot test the Bank would purchase the Stored Reference Computer or rent it for a total period of five years. Economically it was determined that the net purchase price at the conclusion of the pilot test period was the equivalent of approximately 32 months' rental as compared with an obligation to rent for an additional 54 months. Therefore, the decision was reached to purchase the original equipment and it was also deemed appropriate to purchase the additional equipment now under consideration.

The Reserve Bank had indicated that the new equipment would permit increased utilization of the check processing computer and eventually permit the processing of upwards of 500,000 checks daily.

Attached to the memorandum was a telegram to the Federal Reserve Bank of New York that would interpose no objection to purchasing the new equipment.

After Messrs. Kiley and Farrell commented on the Reserve Bank proposal, there ensued a general discussion relating to electronic

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equipment, including reference to the various kinds now available, the relative merits of renting as against purchasing, and accounting procedures followed in connection with such equipment.

In the course of the discussion Governor Mitchell reiterated the view that he had expressed at the Board meeting on November 16, 1961, to the effect that Reserve Banks should be permitted to make their own decisions as to the purchase or rental of computer equipment. At that time, however, a majority of the Board agreed that Federal Reserve Banks be asked to submit hereafter to the Board, separate and apart from their budgets, any plans contemplating large expenditures for furniture and equipment. Governor Mitchell noted that, in this case, the New York Reserve Bank proposed to buy the new equipment, whereas a staff proposal was now before the Board recommending rental of a computer for use at the Board on the ground that within a short period of time the equipment would become obsolescent. Governor Mitchell suggested that, if it was considered preferable to rent rather than purchase computer equipment at the Board, and if the Board was to review proposals by the Reserve Banks for obtaining such equipment, it would seem consistent for the staff to recommend that the Board follow the same procedure as to rental or purchase that it recommended for the Reserve Banks.

Various comments were then made regarding the points raised by Governor Mitchell. It was observed that, although the Reserve Banks have primary responsibility for decisions relating to their own electronic

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equipment, the November 16 action was designed as a means of keeping the Board informed of proposed large expenditures and affording an opportunity for the Board to offer any appropriate suggestions or objections. Also, it was noted that decisions as to the specific type of equipment needed and whether it should be purchased or rented would depend on the individual circumstances involved in each case.

At the conclusion of this discussion, the telegram to the Federal Reserve Bank of New York interposing no objection to the purchase of the equipment, as outlined in that Bank's letter of December 5, 1961, was approved unanimously. A copy of the telegram is attached as Item No. 3.

During the foregoing discussion Mr. Thomas, Adviser to the Board, entered the room.

Request from the Bureau of the Budget (Item No. 4). A memorandum from the Legal Division dated December 13, 1961, had been distributed with reference to a legislative referral memorandum from the Bureau of the Budget requesting a report on a Treasury Department recommendation for taxation of mutual savings banks and savings and loan associations. It appeared that the same request had been sent to the Federal Home Loan Bank Board, Council of Economic Advisers, Veterans Administration, and Housing and Home Finance Agency.

The Bureau of the Budget memorandum stated that there would be a meeting this afternoon to discuss the Treasury proposal and that it would be appreciated if the Board would have available a statement setting forth its views on the subject.

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The Legal Division memorandum pointed out that under existing law mutual thrift institutions were permitted to make tax deductible transfers of retained earnings to a bad debt reserve until the total of reserves, surplus, and undivided profits equaled 12 per cent of deposits or shares. The Treasury recommendation was to permit the taxing of these institutions in a manner generally comparable to other business corporations, and commercial banks in particular, after a two-year transitional period.

Except for the provision relating to the transitional period, the Treasury recommendation was substantially the same as was provided in two identical bills, H.R. 2899 and H.R. 2900, on which the Board reported by a letter dated March 30, 1961, to the House Ways and Means Committee. In that report the Board stated in part that there was a serious question as to whether the existing arrangements with respect to taxation were wholly equitable as among various financial institutions and that the size of tax-free bad debt allowance should be determined in the same way for other institutions as for commercial banks. The Board concluded that, once such an allowance was permitted, determination of the maximum amount would seem to be best decided administratively by the Secretary of the Treasury. In a letter dated August 3, 1961, the Board had replied along the same line in response to a request from the House Ways and Means Committee for comments on a report by the Treasury Department on the taxation of mutual savings banks and savings and loan associations.

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In view of the position taken by the Board in its earlier reports to the House Ways and Means Committee, the Legal Division memorandum of December 13 suggested that the Board might wish to send a representative to the Bureau of the Budget meeting this afternoon with instructions either to endorse or to offer no objection to the Treasury proposal.

Governor Mills stated that he thought the Board should be represented at the meeting. The proposal was controversial, and taxation experts in the previous and present administrations were united in the position that the savings institutions should be brought under an appropriate tax formula. As a key element in the Government supervisory field, he believed the Board should be informed on this subject. Accordingly, a member of the Board's staff should attend the meeting as an observer if for no other reason than to pick up the atmosphere of the discussion so that the Board could become better informed regarding the proposal.

Governor Robertson said he would prefer not to have a Board representative at the meeting. He would merely send a short letter to the Bureau of the Budget indicating that the proposal appeared to be similar to that contained in two bills introduced in the 87th Congress on which the Board had reported to the House Committee on Ways and Means under dates of March 30 and August 3, 1961, taking the position that taxation of various financial institutions should be as comparable and equitable if possible. He would enclose copies of the two earlier reports outlining the Board's views on H.R. 2899 and H.R. 2900.

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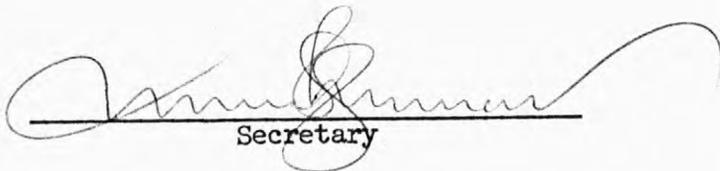
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In the discussion that followed it was brought out that as yet the Treasury Department had not drafted a bill covering its proposal and, accordingly, there was no occasion at this time for the Board to take a definite position.

At the conclusion of the discussion it was understood that a Board representative with a background in the area of taxation would be asked to attend the meeting this afternoon as an observer, and that he would deliver to the Bureau of the Budget a letter along the lines suggested by Governor Robertson. A copy of the letter is attached as Item No. 4.

Secretary's Note: Pursuant to this action Mr. Bangs, Senior Economist in the Government Finance Section of the Division of Research and Statistics, attended the meeting as the Board's representative. In a memorandum dated December 15, 1961, he reported to the Board regarding the meeting.

The meeting then adjourned.



Secretary

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

Item No. 1
12/14/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 14, 1961

Board of Directors,
The Manistee County Savings Bank,
Manistee, Michigan.

Gentlemen:

The Board has received a copy of a letter dated November 28, 1961, sent by Mr. P. W. Groth, President of The Manistee County Savings Bank, to Mr. Hugh J. Helmer, Vice President, Federal Reserve Bank of Chicago, requesting that you be permitted to declare a semiannual dividend of \$20,000 payable on December 15, 1961. The Board's permission is necessary under the provisions of Section 9 of the Federal Reserve Act and Section 5199(b), United States Revised Statutes.

After consideration of the facts, the Board approves the declaration of this dividend, but this approval is limited to the declaration of the above-mentioned dividend to be paid December 15, 1961, and does not authorize any other declaration of dividends during 1961 or later.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.



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

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Item No. 2
12/14/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 15, 1961

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Dear Sir:

Under separate cover, copies of form FR 107 are being sent to your Bank for use by State member banks in submitting their Reports of Income and Dividends for the Calendar year ended December 31, 1961, together with copies of Instructions for the Preparation of Reports of Income and Dividends (form FR 107a). *

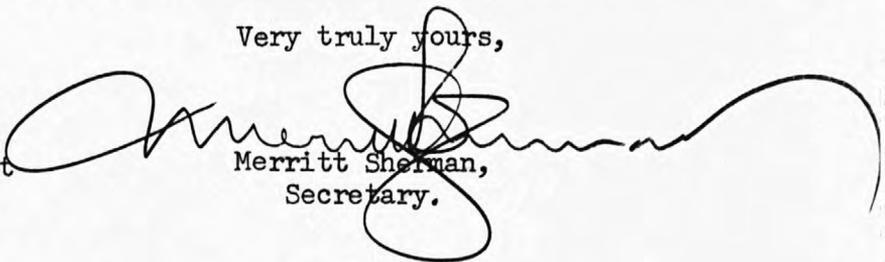
Some revisions in the form used at midyear 1961 have been made on the basis of experience with the midyear reports and the comments and suggestions received from the Reserve Banks and member banks; these revisions are:

(1) The item of bank premises occupancy expense (2g) and the related schedule (Section E), which was used for the first time in the June report, has been changed to exclude all expenses related to furniture, equipment, and machinery; a new item (2h) reflects these expenses. The elimination of these amounts from occupancy expense is expected to provide a more realistic measure of "landlord" costs; and the new separate item will include expenses related to the installation and use of automated electronic processing systems which are more in the nature of labor saving than occupancy costs.

(2) The combined schedule for the reconciliation of changes in capital accounts has been replaced by separate sections, one showing changes in capital accounts and the other showing the capital account items at the beginning and end of the report period. This is merely a change in format to the style used prior to June 1961. The items first used in the midyear report to reflect changes in capital accounts incident to mergers and consolidations have been retained.

The new instructions pamphlet, in addition to covering the revised portions of the report, includes certain clarifications of previous instructions, incorporating many of the comments and suggestions that were received.

Very truly yours,


Merritt Sherman,
Secretary.

* Will be forwarded on receipt from printer.

TELEGRAM
LEASED WIRE SERVICEItem No. 3
12/14/61BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

December 14, 1961.

Treiber - New York

The Board interposes no objection to purchase of equipment set forth in your letter December 5, 1961.

(Signed) Merritt Sherman
SHERMAN

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

Item No. 4
12/14/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 14, 1961



Mr. Philip S. Hughes, Assistant Director
for Legislative Reference,
Bureau of the Budget,
Washington 25, D. C.

Dear Mr. Hughes:

This refers to your legislative referral memorandum dated December 12, 1961, with respect to a recommendation of the Treasury Department for taxation of mutual savings banks and savings and loan associations, and to the request for the views of the Board by Thursday afternoon, December 14, 1961.

The proposal of the Treasury Department, as the Board understands it, is similar to the proposal contained in two bills, H. R. 2899 and H. R. 2900, introduced in the 87th Congress, which would amend the Internal Revenue Code of 1954 with respect to taxation of savings and loan associations and mutual savings banks. The Board submitted reports on those bills to the Chairman of the House Committee on Ways and Means under dates of March 30, 1961 and August 3, 1961, in which it took the general position that taxation of various financial institutions should be as comparable and as equitable as possible. Copies of those reports are enclosed. Remedies for existing inequities involve technical questions that in the Board's judgment can best be determined by Treasury and other experts in this field.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Merritt Sherman".

Merritt Sherman,
Secretary.

Enclosures