

Minutes for January 3, 1962

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

M

Gov. Mills

[Signature]

Gov. Robertson

R

Gov. Balderston

CCB

Gov. Shepardson

[Signature]

Gov. King

[Signature]

Gov. Mitchell

[Signature]

Minutes of the Board of Governors of the Federal Reserve System on
Wednesday, January 3, 1962. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Noyes, Director, Division of Research
and Statistics
Mr. Farrell, Director, Division of Bank
Operations
Mr. Solomon, Director, Division of
Examinations
Mr. Conkling, Assistant Director, Division
of Bank Operations
Mr. Smith, Assistant Director, Division of
Examinations
Mr. Leavitt, Assistant Director, Division of
Examinations
Mr. Thompson, Assistant Director, Division of
Examinations
Mr. Veenstra, Technical Assistant, Division of
Bank Operations

Call for condition reports. The Chairman of the Board of
Governors of the Federal Reserve System, the Comptroller of the
Currency, and the Chairman of the Federal Deposit Insurance Corpo-
ration having selected the close of business December 30, 1961, as the
date for the fourth call for reports of condition to be made by insured
banks within the calendar year 1961, a telegram was sent to the Presidents
of all Federal Reserve Banks on January 2, 1962, requesting that a call be

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issued on January 5, 1962, for reports of condition as of the aforementioned date from State member banks on forms transmitted with the Board's letter of December 12, 1961.

The sending of the telegram was ratified by unanimous vote.

Application to organize national bank at Coral Gables, Florida (Item No. 1). There had been circulated to the members of the Board a draft of letter to the Comptroller of the Currency recommending favorably with respect to an application to organize a national bank at Coral Gables, Florida. The Federal Reserve Bank of Atlanta had suggested an unfavorable recommendation.

After discussion, agreement was expressed with the proposed letter. Accordingly, it was understood that the letter would be sent to the Comptroller unless a check with the Reserve Bank disclosed reasons why it would seem desirable to bring the matter back to the Board for further consideration.

Secretary's Note: The Federal Reserve Bank having indicated that it did not wish to submit additional views or comments, the letter was sent later in the day. A copy is attached as Item No. 1.

Application to organize national bank at Madisonville, Tennessee (Item No. 2). There had been circulated to the members of the Board a draft of letter to the Comptroller of the Currency recommending unfavorably with respect to an application to organize a national bank at Madisonville, Tennessee. The Federal Reserve Bank of Atlanta had suggested an unfavorable recommendation.

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Following comments on the matter by Mr. Leavitt, the letter was approved unanimously. A copy is attached as Item No. 2.

Application of Marine Corporation (Item No. 3). Pursuant to the recommendation contained in a memorandum from the Division of Examinations that had been distributed to the Board, an application by The Marine Corporation, Milwaukee, Wisconsin, for a general permit to vote stock owned or controlled of Wisconsin State Bank, Milwaukee, and The National Manufacturers Bank of Neenah, Neenah, Wisconsin, was approved unanimously. A copy of the telegram sent to the Federal Reserve Agent at the Federal Reserve Bank of Chicago pursuant to this action is attached as Item No. 3.

Messrs. Leavitt and Thompson then withdrew from the meeting.

Report on banking structure developments (Item No. 4). At the meeting on November 15, 1961, consideration had been given to a draft of report prepared in response to a request from the Senate Select Committee on Small Business for a supplement to the report prepared by the Board's staff in 1952, for the same Committee, with regard to the concentration of banking in the United States. In view of suggestions made at that time by Governor Mitchell, it was understood that the staff would revise the report in certain respects. A revised draft of report had been distributed to the Board under date of December 26, 1961.

In discussion, Governor Mitchell expressed himself as satisfied with the revised draft. He did, however, suggest one minor change in

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wording at page 11 of the draft, and no objection to that change was indicated.

Governor Mills said he felt that both the earlier draft and the present draft had been excellently developed. As between them, however, his preference would be for the previous draft, which was strictly factual. In the present version, he felt there was a tendency to venture into opinions that were debatable and not supported by factual data. His first example related to a sentence on page 6 of the revised draft which stated that people moving to the suburbs sometimes prefer to do business with branches of city banks rather than with independent suburban banks. On page 6 also, he cited two sentences stating that banks sometimes open branches in suburban areas prior to the time when an independent bank would appear to be profitable enough to stimulate its promotion, and that aggressive drives for branch locations on the part of competing branch systems may lead to the establishment and operation of branches at temporarily unprofitable levels in areas of potential economic growth. On page 13 of the draft, he cited a sentence stating that the liberalization (or perhaps more liberal interpretation) of branch banking laws in some States had probably facilitated the merger and conversion movement in those States, although not the same degree as in the 1930's.

After discussion, it was agreed to eliminate the last clause of the aforementioned sentence on page 13, since it seemed unnecessary and

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might be difficult to sustain if challenged. As to the aforementioned sentences on page 6, the inclination of the majority was to make no change. Governor Mills then said that if the other members of the Board were satisfied, he would suggest letting the report go forward, with his exception noted in the minutes of this meeting. Accordingly, it being understood that Governor Mills' exception would be noted, the report was approved for transmittal in a form reflecting the changes that had been agreed upon at this meeting. A copy of the letter transmitting the report is attached as Item No. 4.

Mr. Noyes suggested that the report might be useful to the persons who were to participate in the seminar on competition in banking scheduled for January 22, 1962, and no objection was indicated to the furnishing of copies to them, with appropriate caution against release of the document to others until such time as it might be released by the Senate Select Committee on Small Business.

Messrs. Conkling and Veenstra then withdrew from the meeting.

Kansas City items (Item No. 5). Governor Balderston reported receipt of a letter dated December 29, 1961, from President Clay of the Federal Reserve Bank of Kansas City advising that the payment of membership dues in the Kansas City Club on behalf of nonresident directors of the Bank had been discontinued and that the directors henceforth had to carry their own memberships or resign from the Club. As to the contingent fund that the Board had questioned in connection with recent examinations

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of the Kansas City Bank, President Clay stated that he did not have the matter settled as yet, but expected to get something accomplished in the near future.

Governor Balderston said he proposed to reply in terms that the Board was pleased to know of the action taken with regard to the payment of membership dues in the Kansas City Club, that the difficulties involved in resolving the problem of the contingent fund were appreciated, and that the Board would be interested in having word about the matter when President Clay was ready.

It was indicated that there would be no objection to a reply along such lines. A copy of the reply sent by Governor Balderston is attached as Item No. 5.

Loan of services of Mrs. Teeters (Item No. 6). There had been distributed to the Board copies of a letter dated December 29, 1961, from the Chairman of the Council of Economic Advisers requesting that Mrs. Nancy H. Teeters, Economist in the Division of Research and Statistics, be loaned to the Council for a period of one year from January 15, 1962, to January 15, 1963. The services of Mrs. Teeters, whose basic annual salary was now \$8,340, would be required on a regular half-time basis (four hours per day). The Council would reimburse the Board for such services on a quarterly basis, and also would reimburse the Board for its contribution to the retirement system at the rate of 16.43 per cent.

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In commenting on the matter, Governor Shepardson said the letter formalized a request made some time earlier. The basis of reimbursement would cover the Board's expenses during the period in question, since Mrs. Teeters was employed by the Board on a half-time basis and was not covered under the insurance program. In response to a question, he said that the conditions with respect to loans of Board employees to other agencies or organizations had varied according to the circumstances involved, including among other things the duration of the loan.

The request of the Council was then approved unanimously, with the understanding that an appropriate reply to the incoming letter would be made. A copy of the letter sent pursuant to this action is attached as Item No. 6.

Mr. Noyes then withdrew from the meeting.

Examination of New York Reserve Bank. There had been circulated to the Board the report of examination of the Federal Reserve Bank of New York made by the Board's examining staff as of August 25, 1961, together with the usual accompanying memoranda.

At the Board's request, Mr. Smith commented on matters disclosed by the examination, and it was agreed that there was nothing appearing to require action on the part of the Board.

Mr. Smith also commented on a revised procedure proposed to be followed by the Board's examining staff in connection with the examination of earmarked gold held in custody by the Federal Reserve Bank of New York

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for foreign central banks. The procedure contemplated test checking rather than complete verification of the gold holdings, along with review of the operating and audit controls and records maintained by the Reserve Bank. Such a procedure would be generally in accord with the principles embodied in the revised techniques heretofore approved by the Board for examinations of the Federal Reserve Banks.

There followed discussion of the manner in which the proposed revised procedure would be described in the examination report. In addition, Messrs. Solomon and Smith commented, in response to questions, to the effect that the Division of Examinations was satisfied that the proposed examining procedure would provide adequate assurance of the accuracy of the custody accounts.

At the conclusion of the discussion, no objection to the revised procedure was indicated.

In reply to a question, Mr. Farrell verified that the Board was continuing to receive reports regularly from the Federal Reserve Bank of New York with regard to the operations of the Nassau County and Bergen County Check Clearing Bureaus. He indicated that the reports submitted to date had appeared satisfactory and that reports relative to the year 1961 should be received in the near future.

Question was raised regarding the plans of the New York Reserve Bank for senior management of the research function, and it was agreed

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that on some suitable occasion Governor Balderston would make inquiry of President Hayes in that regard.

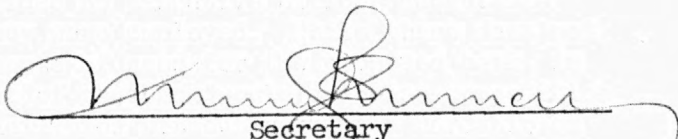
The meeting then adjourned.

Secretary's Notes: The requirements contemplated by the Board's action on October 27, 1961, having been completed, a letter was sent today to Western Bancorporation International Bank, New York, New York, transmitting a final permit to commence business.

Governor Shepardson today approved on behalf of the Board the following items:

Telegram to the Federal Reserve Bank of Atlanta (attached Item No. 7) approving the appointment of Darrell Merlin Bennett as assistant examiner.

Letter to the Federal Reserve Bank of Chicago (attached as Item No. 8) approving the appointment of David D. Groeninger as assistant examiner.


Secretary

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

Item No. 1
1/3/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 3, 1962



Comptroller of the Currency,
Treasury Department,
Washington 25, D. C.

Attention: Mr. W. M. Taylor,
Deputy Comptroller of the Currency.

Dear Mr. Comptroller:

Reference is made to a letter from your office dated March 29, 1961, enclosing copies of an application to organize a national bank at Coral Gables, Florida, and requesting a recommendation as to whether or not the application should be approved.

A report of investigation of the application made by an examiner for the Federal Reserve Bank of Atlanta indicated that the proposed capital structure would be adequate, earnings prospects fair, and management satisfactory provided an executive officer acceptable to the Comptroller of the Currency were employed. While there does not seem to be more than a modest degree of need for the proposed bank, in the Board's opinion establishment of the bank would increase competition and make available additional facilities without working a hardship on any bank. Accordingly, the Board of Governors recommends favorable consideration of the proposal.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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

Item No. 2
1/3/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 3, 1962

Comptroller of the Currency,
Treasury Department,
Washington 25, D. C.

Attention: Mr. W. M. Taylor,
Deputy Comptroller of the Currency.

Dear Mr. Comptroller:

Reference is made to a letter from your office dated February 15, 1961, enclosing copies of an application to organize a national bank at Madisonville, Tennessee, and requesting a recommendation as to whether or not the application should be approved.

A report of investigation of the application made by an examiner for the Federal Reserve Bank of Atlanta indicates that the proposed capital structure would be adequate and management satisfactory, provided a chief executive officer acceptable to the Comptroller of the Currency is employed. Future earnings prospects are no better than fair and there has been no demonstrated need for additional banking facilities in Madisonville. Accordingly, the Board of Governors does not feel justified in recommending favorable consideration of the application.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.



TELEGRAM
LEASED WIRE SERVICE

Item No. 3
1/3/62

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

January 3, 1962

BRIGGS - CHICAGO

KEBJE

- A. The Marine Corporation, Milwaukee, Wisconsin.
- B. Wisconsin State Bank, Milwaukee, Wisconsin.

The National Manufacturers Bank of Neenah, Neenah, Wisconsin.

- C. Under authorization contained herein, if necessary, separate permits may be issued for either bank, but no permit shall be issued until you have been notified by Marine Corporation that it has become a holding company affiliate of such bank. Meanwhile, you may assure Marine Corporation that voting permit or permits will be issued upon such notification.

(Signed) Kenneth A. Kenyon

Kenyon

Definition of KEBJE

The Board authorizes the issuance of a general voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to the holding company affiliate named below after the letter "A", entitling such organization to vote the stock which it owns or controls of the bank(s) named below after the letter "B" at all meetings of shareholders of such bank(s), subject to the condition(s) stated below after the letter "C". The period within which a permit may be issued pursuant to this authorization is limited to thirty days from the date of this telegram unless an extension of time is granted by the Board. Please proceed in accordance with the instructions contained in the Board's letter of March 10, 1947, (S-964).

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 4
1/3/62

OFFICE OF THE VICE CHAIRMAN

January 5, 1962



The Honorable John Sparkman,
Chairman, Select Committee on Small Business,
United States Senate,
Washington 25, D. C.

Dear Mr. Chairman:

As requested in your letter of July 25, 1961, to Chairman Martin, there is enclosed a special report prepared by the staff of the Division of Bank Operations of the Board of Governors for the Senate Select Committee on Small Business. The report, entitled "Recent Developments in the Structure of Banking--A Supplement to Concentration of Banking in the United States," brings up to date a similar report submitted to the Committee in August 1952, which was later issued as Committee Print No. 7.

Sincerely yours,

(Signed) C. Canby Balderston

C. Canby Balderston,
Vice Chairman.

Enclosure

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 5
1/3/62

OFFICE OF THE VICE CHAIRMAN

January 3, 1962



Mr. George H. Clay, President,
Federal Reserve Bank of Kansas City,
Kansas City 6, Missouri.

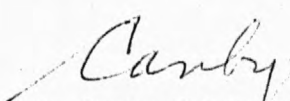
Dear George:

The Board of Governors is happy to know of the action that your Board has taken with respect to the payment of dues for memberships in the Kansas City Club for non-resident directors.

We appreciate some of the difficulties that you need to resolve in connection with the contingent fund and will be interested to get word about it when you are ready.

With very best wishes for a happy and satisfying
New Year,

Sincerely yours,


C. Canby Balderston,
Vice Chairman.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 6
1/3/62

OFFICE OF THE VICE CHAIRMAN

January 5, 1962.

Honorable Walter W. Heller,
Chairman,
Council of Economic Advisers,
Washington 25, D. C.

Dear Walter:

In response to your request of December 29, the Board of Governors has approved the loan of the services of Mrs. Nancy H. Teeters, Economist, to the Council of Economic Advisers on a reimbursable basis for the period January 15, 1962 to January 15, 1963 and according to the terms stipulated in your letter of December 29.

Sincerely yours,

(Signed) Canby

C. Canby Balderston,
Vice Chairman.



TELEGRAM
LEASED WIRE SERVICE

Item No. 7
1/3/62

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

January 3, 1961

CONFIDENTIAL (FR)

Denmark - Atlanta

Reurlet December 27, 1961, Board approves appointment of Darrell Merlin Bennett as assistant examiner for Federal Reserve Bank of Atlanta effective today.

Re indebtedness to Alma Exchange Bank, Alma, Georgia, of \$1,000, approval given with understanding he will not participate in any examination of that bank until indebtedness liquidated.

(Signed) Elizabeth L. Carmichael

Carmichael



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

Item No. 8
1/3/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 3, 1962

Mr. Hugh J. Helmer, Vice President,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Helmer:

In accordance with the request contained in
your letter of December 22, 1961, the Board approves the
appointment of David D. Groeninger as an assistant
examiner for the Federal Reserve Bank of Chicago. Please
advise the effective date of the appointment.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.