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Minutes for January 25, 1962

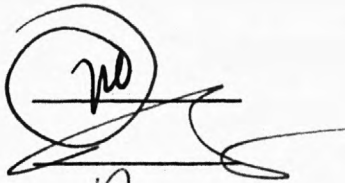
To: Members of the Board  
From: Office of the Secretary

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.

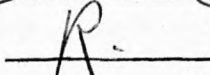
Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, please initial below. If you were present at the meeting, your initials will indicate approval of the minutes. If you were not present, your initials will indicate only that you have seen the minutes.

Chm. Martin

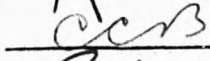


Gov. Mills

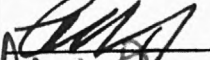
Gov. Robertson



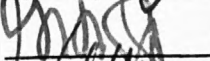
Gov. Balderston



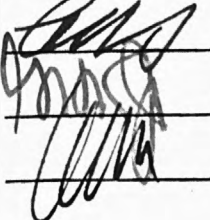
Gov. Shepardson



Gov. King



Gov. Mitchell



Minutes of the Board of Governors of the Federal Reserve System on  
Thursday, January 25, 1962. The Board met in the Board Room at 9:30 a.m.

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

Mr. Sherman, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Thomas, Adviser to the Board  
Mr. Young, Adviser to the Board and Director,  
Division of International Finance  
Mr. Molony, Assistant to the Board  
Mr. Fauver, Assistant to the Board  
Mr. Hexter, Assistant General Counsel  
Mr. Furth, Adviser, Division of International  
Finance

Draft bill re International Monetary Fund (Item No. 1). Pursuant to the understanding at the meeting on January 24, there had been distributed to the Board alternative drafts of a letter to the Bureau of the Budget regarding a draft bill "to amend the Bretton Woods Agreements Act to authorize the United States to participate in loans to the International Monetary Fund to strengthen the international monetary system." There had also been furnished to the members of the Board copies of a special report of the National Advisory Council on International Monetary and Financial Problems dated January 1962. In addition, Governor Mills had distributed a draft of suggested letter to the members of the Board.

Chairman Martin expressed the view that the draft circulated by Governor Mills was appropriate and would cover the needs of the situation. As to the option indicated in that draft between stating that the Board

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favored the proposed legislation or that it would not object, the Chairman said that in this case he would consider it preferable to say that the Board favored the proposed legislation. In his view, this would be a clean-cut way of proceeding. Any member or members who did not wish to go along with such a statement could, of course, record a dissent.

The discussion that ensued indicated that none of the members of the Board would be adverse to sending a letter in the form of the draft circulated by Governor Mills and including in it a statement that the Board would favor the proposed legislation. In connection with a question that was raised regarding the portion of the proposed letter that referred to the possibility of a need arising for a large U. S. drawing on the Fund, it was noted that the letter was being sent to the Budget Bureau, for use in connection with the usual clearing function performed by that agency, and that this might justify the use of language that would be less appropriate in a letter written for other purposes.

Accordingly, unanimous approval was given to a letter in the form attached as Item No. 1.

At this point Mr. Noyes, Director, Division of Research and Statistics, entered the room.

Interest payable on savings deposits in New York State. Governor Balderston reported that in accordance with the understanding at yesterday's meeting of the Board, he had talked by telephone with the

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Superintendent of Banks for New York State, who accepted an invitation to have lunch with members of the Board next Tuesday, January 30, for the purpose of further discussion of questions presented in the Superintendent's letter of January 2, 1962, with regard to maximum interest rates permitted to be paid on savings deposits by national banks, State commercial banks, and mutual savings banks located in New York State. It was indicated that Counsel for the New York State Banking Department would accompany the Superintendent.

Governor Balderston stated that he then called First Vice President Treiber of the Federal Reserve Bank of New York and advised him of the arrangement that had been made for the luncheon meeting. During this conversation Mr. Treiber confirmed that an officer of Chase Manhattan Bank had raised informally a question regarding the consistency of treatment as between national and State banks located in New York State. However, Mr. Treiber appeared more concerned about the competitive status of national banks vis-a-vis mutual savings banks. He suggested that if the Board should decide, after the luncheon meeting, to send a letter to the Superintendent of Banks, it should bear in mind that the Superintendent might feel impelled to publicize the letter, in view of the pressures being brought to bear upon him. Mr. Treiber seemed to favor construing the law so as to provide that national banks located in a particular State should not be allowed to pay a higher rate of interest than State-chartered commercial banks located in the same

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State. Governor Balderston said he pointed out to Mr. Treiber that theoretically, at least, this could result in an undue advantage accruing to mutual savings banks. In general, however, Mr. Treiber seemed sympathetic to the problem of the mutual savings banks, more so, Governor Balderston said, than he did.

Question was raised whether the Board had not already adopted a firm position on the problem presented by the New York State Superintendent, and Governor Mills commented that it was his understanding that the Board was trying to hold an open mind. In his opinion, there was a possibility of compromise that the Board should consider. This was that, if legally permissible, mutual savings banks be considered outside the intent of section 24 of the Federal Reserve Act, which provides that national banks may pay the rates of interest permitted to be paid by State banks and trust companies. Such an interpretation would permit the maintenance of a differential between the rates permitted to be paid by national banks and by mutual savings banks. At the same time, Governor Mills said, he felt that the Board should maintain the position of permitting member banks to pay as high as 4 per cent on savings deposits maintained for a period not less than 12 months, beginning from the date that the deposit was established. He did not feel that this presented too serious a problem, particularly since a party could obtain a 12-month time certificate of deposit paying interest at the rate of 4 per cent.

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Following further discussion, Governor Robertson said it was his view that although the Board may have adopted a position, the possibility of a change should be left open, depending on consideration of such arguments as might be advanced by the New York State Superintendent at the luncheon meeting next week. There appeared to be general agreement with the view expressed by Governor Robertson.

Proposed mergers and holding company acquisitions in New York.

Governor Balderston stated that during the telephone conversation to which he had referred previously, the New York State Superintendent of Banks noted receipt of a letter from the Comptroller of the Currency containing the Comptroller's views on certain pending mergers and holding company applications involving banks in the New York City area. (The Comptroller had written a similar letter to the Board of Governors under date of January 22, 1962.) The Superintendent said it was his view that the State banking authorities should act on such matters in the light of State statutes, and that the Federal authorities should act in the light of Federal statutes. If a case was carried to the courts, it became, of course, a matter for judicial determination. The Superintendent indicated that he was disposed to feel that a reply to the Comptroller's letter was not necessary. He went on to say if in any case the Board had need of facts or views that the New York State authorities could supply, it should feel free to request them. He hoped that the lack of reply on his part to the Comptroller's letter would not be misinterpreted.

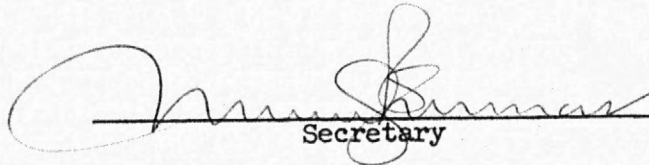
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The meeting then adjourned.

Secretary's Notes: At 10:00 a.m. the Board heard a private oral presentation concerning the application of United California Bank, Los Angeles, California, for permission to merge with The Southwest Bank, Inglewood, California. A stenographic report of the proceeding was made, with the understanding that a copy of the transcript would be placed in the Board's files.

Pursuant to the recommendation contained in a memorandum from the Division of Research and Statistics, Governor Shepardson today approved on behalf of the Board an increase in the basic annual salary of Charlotte L. Hanovega, Statistical Assistant in that Division, from \$4,995 to \$5,005 per annum, effective February 4, 1962, incident to a transfer to a different position within the Division.



Secretary

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

Item No. 1  
1/25/62

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

January 25, 1962.

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

Dear Mr. Hughes:

This is in reply to your letter of January 22, 1962,  
requesting the views of the Board of Governors on a draft bill  
"To amend the Bretton Woods Agreements Act to authorize the  
United States to participate in loans to the International  
Monetary Fund to strengthen the international monetary System."

The proposed bill would enable the International  
Monetary Fund to replenish its resources in the case of large  
drawings by a member country needed to forestall or cope with  
disequilibrium in the international monetary system. It would  
be particularly important for the Fund to have supplementary  
resources available in the form of convertible currencies of  
leading industrial countries if the need should arise for a  
large United States drawing.

For this reason, the Board of Governors favors the  
proposed legislation.

Sincerely yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

