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Minutes for January 29, 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

RM

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 Monday, January 29, 1962. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Solomon, Director, Division of Examinations
Mr. Sammons, Adviser, Division of International Finance
Mr. Leavitt, Assistant Director, Division of Examinations
Mrs. Semia, Technical Assistant, Office of the Secretary
Mr. Young, Senior Attorney

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>
Telegram to the Federal Reserve Bank of New York authorizing the opening and maintenance of an account in the name of Banco de Espana (Bank of Spain).	1
Letter to The Colonial Bank and Trust Company, Waterbury, Connecticut, approving the establishment of a branch in the Colonial Plaza Shopping Center, and an investment in bank premises.	2
Letter to Marine Midland Trust Company of Central New York, Syracuse, New York, approving the establishment of a branch in the Hiawatha Plaza Shopping Center, Town of Clay, Onondaga County.	3

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Item No.

Letter to Hagerstown Trust Company, Hagerstown, Maryland, approving the establishment of a branch on South Potomac Street.

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Export-Import Bank study (Item No. 5). A letter dated January 22, 1962, had been received from the Bureau of the Budget stating that during the review of the 1963 budget of the Export-Import Bank of Washington the Director had asked the Bureau to join other interested agencies to examine the implications of steps being taken by the Bank to encourage private capital participation in its operations, particularly through repurchase agreements. The letter suggested that it might be appropriate to begin consideration of the problem with a staff study by representatives of the agencies concerned, including the Treasury, Export-Import Bank, Federal Reserve, Council of Economic Advisers, and the Bureau of the Budget. The Board of Governors was asked to designate a staff representative to participate in an initial planning meeting for such a study. Attached to the letter was a Budget Bureau staff memorandum outlining the nature of the repurchase agreements.

In discussion there was general agreement that it would be appropriate for the Federal Reserve to cooperate in the proposed study. Accordingly, Messrs. Young (Adviser to the Board and Director, Division of International Finance) and Noyes (Director, Division of Research and Statistics) were authorized to select a staff member for that purpose.

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During the discussion Governor Robertson suggested that at some point it might be advisable for the Board's legal staff, as well as its research staff, to participate in the study. He had had a telephone call recently from an officer of the Export-Import Bank asking if it might be possible to get the banks of the country to cooperate more fully with the Bank if the limit on bankers' acceptances they could hold was increased so far as acceptances fully guaranteed by the Export-Import Bank were concerned. Governor Robertson had asked that the inquiry be sent to him in letter form, but he had not yet received such a letter. However, such a proposal would appear to tie in with the study now suggested by the Budget Bureau; if so, a legal question apparently would be involved.

After further discussion it was agreed that the staff would keep Governor Robertson informed of developments with a view to assuring appropriate Board representation in connection with the study proposed by the Budget Bureau.

Secretary's Note: The Budget Bureau was informed subsequently of the designation of J. Charles Partee, Chief, Capital Markets Section, Division of Research and Statistics, as the Board's representative to participate in the study, with Robert F. Gemmill, Economist, Division of International Finance, as alternate. A copy of the letter sent in this connection is attached as Item No. 5.

Mr. Sammons then withdrew from the meeting.

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Question under Regulation O. A memorandum from the Legal Division dated January 24, 1962, had been distributed in connection with a request by the Federal Reserve Bank of Dallas for the views of the Board with respect to a question, raised initially by a national bank examiner, in regard to the application of the definition of "executive officer" in Regulation O, Loans to Executive Officers of Member Banks, to the Vice Chairman of the Austin National Bank, Austin, Texas. The memorandum quoted the definition of "executive officer" in Regulation O, including the provision that "It will be assumed that the chairman of the board, the president, every vice president, the cashier, secretary, treasurer and trust officer of a member bank are executive officers, unless it is provided by resolution of the board of directors or the bank's by-laws that any such officer is not authorized to participate in the operating management of the bank and he does not actually participate therein."

It was understood that the Vice Chairman of the Board of the Austin bank, in the absence of the Chairman, served as a member of the Loan and Discount Committee, which reviewed loans made by officers of the bank and acted in a supervisory and advisory capacity. The Vice Chairman, in the absence of the Chairman, also was authorized to execute any and all documents and instruments on behalf of the bank. The Austin bank had adopted a resolution to the effect that the Chairman of the Board was not authorized to participate in the operating management of the bank and did not actually participate therein otherwise than in the

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capacity of a director. The bank was of the view that the resolution would be applicable also to the Vice Chairman, since his only function, other than serving on the Executive Committee, was to act in the Chairman's stead in the latter's absence or inability to function.

It was the Dallas Reserve Bank's view that service by the Vice Chairman on the Loan and Discount Committee would not make him an executive officer for the purpose of Regulation O. In reaching that conclusion, the Reserve Bank considered the 1941 interpretation by the Board that had been cited by the national bank examiner as a basis for considering the Vice Chairman an executive officer. In that interpretation the Board concluded that an officer of a member bank who was also serving as a director and a member of the discount committee, and with respect to whom a resolution such as described above had been adopted, should nevertheless be considered an executive officer except in a case where the by-laws of the bank or a resolution of the bank's board required the service in rotation of every director as a member of the discount committee, and where the directors did in fact serve as members of the committee in accordance with such a by-law or resolution. However, the Reserve Bank distinguished the situation underlying the 1941 interpretation from the present case in that, while there was no provision for rotation, the Loan and Discount Committee of the Austin bank did not pass on loan applications but acted strictly in a review, supervisory, and advisory capacity.

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The Legal Division agreed with the Reserve Bank's view that service by the Vice Chairman on the Loan and Discount Committee involved duties normally performed by directors as contrasted with duties of management, and accordingly took the position that the Vice Chairman's service on the Loan and Discount Committee did not make him an executive officer for the purpose of Regulation O.

A further question was presented by the authority of the Vice Chairman, in the absence of the Chairman, to execute any or all documents or instruments on behalf of the bank, particularly when viewed in the light of a 1940 unpublished interpretation by the Board. In that case the officer of the member bank in question had been an inactive vice president for many years and had received no compensation except as a director and member of the finance committee of the board of directors. The board of directors had proposed to adopt a resolution giving the vice president in question authority to sign deeds, checks, drafts, and other documents in the absence of the president, but expressly denying him authority to make loans or to perform any of the other duties of an executive officer. The Board concluded that the duties to be performed would require a participation in the operating management of the bank and that, therefore, the vice president would be an executive officer.

Counsel for the Dallas Reserve Bank considered that in the present case the authority of the Vice Chairman to execute documents

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in the absence of the Chairman brought him within the Board's 1940 interpretation, but other officers of the Reserve Bank apparently felt that that view was somewhat strict and technical.

Since the delegation of authority to the Chairman of the Austin bank (and presumably the Vice Chairman when acting in his stead) was unlimited and extended to the execution on behalf of the bank of any and all documents or instruments, the Legal Division concurred in the view of the Dallas Reserve Bank's Counsel that the 1940 ruling of the Board with respect to the signing of documents applied to both the Chairman and the Vice Chairman of the Austin National Bank. The Division recognized that the application of the 1940 ruling in every situation in which there was an authorization to execute documents, regardless of their nature, possibly could lead to absurd results. However, in the present case the Division was of the opinion that confirmation of the 1940 ruling was preferable to reversal. Accordingly, there was attached to the memorandum a draft of letter that would inform the Federal Reserve Bank of Dallas that, because of the broad delegation of authority to sign documents, both the Chairman and the Vice Chairman of the Austin National Bank must be considered executive officers under Regulation O.

Governor Mills began discussion of the matter by recalling the decision made by the Board on January 16, 1962, in regard to certain employees of Crocker-Anglo National Bank, San Francisco, California, who had authority to make certain types of loans. A majority of the Board had been of the opinion that the employees in question were not executive

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officers within the meaning of Regulation O--a view from which Governor Mills had dissented and which he regarded as too lenient. In the situation now under consideration, however, he considered the recommendation of the Legal Division as overly severe. Where a chairman or a vice chairman of a commercial bank receives no compensation, other than as a director, and has no continuing executive duties, but is asked to supply his signature on contractual documents in fulfillment of the bank's functions, it seemed to Governor Mills unnecessarily strict to regard such a person as an executive officer for purposes of Regulation O. The documents executed presumably would reflect actions previously taken by officers of the bank, and those actions presumably would be ratified by the board of directors. The authority to sign documents seemed to be mostly a matter of convenience.

Mr. Hackley said the Legal Division recognized that the question under consideration was a close one. However, it was not entirely clear that the Vice Chairman (or the Chairman) of the Austin bank would be performing only a ministerial act in executing documents; the duty might involve considerable responsibility in some cases. The position taken in the draft letter largely followed the 1940 decision by the Board, but, as indicated in the memorandum, the present Board might wish to reverse that interpretation.

Governor Mills remarked that he saw no reason for the Board, as presently constituted, to shrink from reversing interpretations that had been made by the Board in the past if it saw good reason for doing so.

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Mr. Solomon stated that his thinking was somewhat along the lines expressed by Governor Mills. In his view the decision in the Crocker-Anglo case had been rather on the liberal side, while in the present case the mere authority to sign documents, all other activities being limited, raised a question in his mind whether the Vice Chairman of the Austin bank should be regarded as an executive officer. The title might, of course, create a presumption such as to suggest that a strong case be made for determining that the Vice Chairman was not in the executive officer category.

At Governor Robertson's request, there followed a discussion of the purpose of the statute under which Regulation O was issued. Comments also were made to the effect that the law itself did not specifically exempt directors from classification as executive officers, leaving the Board to make the definition. However, the legislative history provided the basis for the distinctions made in the Board's Regulation. With regard to the basis on which the chairman of a bank was brought within the definition of executive officer in Regulation O, as opposed to other directors, it was suggested that the chairman might be expected to have greater responsibilities. This led to comments regarding changing trends in recent years in the organizational structures of commercial banks, and there was some suggestion that a review of the Regulation in the light of the statute and present-day banking practices might be desirable.

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Governor Robertson then asked certain questions regarding the purpose for which the resolution declaring that the Chairman of the Austin National Bank did not participate in the operating management appeared to have been adopted. In this connection, he also inquired whether the staff had information regarding borrowings of the Chairman or Vice Chairman, or by companies with which they were associated. He further inquired whether there seemed reason to believe that the Board of Directors of the bank had turned over to management full responsibility with respect to the granting of loans.

After some further discussion, Governor Robertson indicated that he would like an opportunity to study the report of examination of the Austin National Bank to determine whether it would shed additional light on questions such as those that he had raised. Accordingly, no objection being indicated, it was agreed to defer action on the question that had been presented to the Board.

Messrs. Fauver and Young then withdrew from the meeting.

Processing of branch applications (Item No. 6). At its meeting on January 26, 1962, the Board discussed the premature filing of branch applications by State member banks, considered the advantage that might be gained by larger banks in pre-empting desirable locations, and decided to inform the Reserve Banks of the Board's opinion that branch applications should be processed promptly and submitted to the Board. Accordingly, a letter along such lines had been drafted and distributed to the Board.

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The draft contained a final sentence indicating that no change was contemplated in the Board's practice of not acting on applications until they had been approved by the appropriate State banking authorities.

In discussion, attention was drawn to the final sentence of the draft letter and question was raised whether, if the Board continued its present practice, a request to the Reserve Banks to submit branch applications to the Board promptly would not be ineffective. It was noted, however, that a recent tabulation of applications filed with the California State Banking Department and/or the Federal Reserve Bank of San Francisco by the three largest State member banks in that State revealed a few instances where applications approved by the State had not been submitted to the Board promptly. It was suggested, also, that knowledge on the part of State banking departments that branch applications filed with Federal Reserve Banks were going to be processed and submitted to the Board without delay might have a salutary effect. The remaining discussion related to whether, as suggested by Governor Mitchell, the Board should give consideration to acting on all branch applications as submitted, regardless of whether they had received State approval. Several reasons were advanced by members of the Board for feeling that the present practice was sound.

Chairman Martin then suggested that the final sentence of the proposed letter be stricken, thus reserving for decision by the Board after further consideration the practice that it wished to follow.

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There being agreement with this suggestion, unanimous approval was given to a letter to the Presidents of all Federal Reserve Banks in the form attached as Item No. 6.

Application to organize national bank at Sealy, Texas (Item No. 7).

At its meeting on January 26, 1962, the Board decided tentatively to make a favorable recommendation to the Comptroller of the Currency in regard to an application to organize a national bank in Sealy, Texas, subject to a check with the Federal Reserve Bank of Dallas, which had proposed an unfavorable recommendation.

At this meeting Mr. Solomon reported on his conversation with Vice President Pondrom of the Dallas Reserve Bank, who indicated that he did not consider cases of this kind as being of the greatest importance. Subject to that broad qualification, however, Mr. Pondrom felt rather strongly about this particular application, which he characterized as extremely weak and much more marginal than certain other recent cases. Mr. Pondrom felt that the area concerned had little prospect for further growth and that the prospects of a second bank in Sealy were very modest. He also felt rather strongly about the management, expressing the view that the proposed executive officer had not acquired sufficient experience to be adequate in that capacity. Mr. Pondrom agreed with the view, previously expressed to the Board by Governor Shepardson, that the nearby community of Bellville was more of a commercial center than Sealy. He did not believe that a new bank in Sealy would be able to

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attract much business that was not already in the community, which meant that the business of a new bank would have to develop almost entirely at the expense of the existing bank.

Mr. Solomon then stated that upon reconsideration of the matter in the light of the conversation with Mr. Pondrom, the Division of Examinations would be inclined to change its original recommendation and to suggest a somewhat different type of letter to the Comptroller of the Currency. He then read the letter that was now proposed by the Division.

In further discussion the members of the Board, except Governor Robertson, indicated that in view of the comments of Mr. Pondrom, as reported by Mr. Solomon, and the comments made by Governor Shepardson at the meeting of the Board on January 26, they would be prepared to accept the revised draft of letter suggested by Mr. Solomon.

Governor Robertson commented that the question of management was essentially a matter for determination by the Comptroller. It seemed to him that the organizers of the new bank were in a position to have the best judgment on whether banking business now going to Bellville could be induced to return to Sealy. There was no evidence of self-serving motives on the part of the organizers, and they were the ones who would be risking their funds. He regarded this as a borderline case. However, with only one bank in the community and no competing bank closer than 14 miles, he felt that doubts should be resolved on the side of the organizers in making a recommendation,

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leaving the question of management for the Comptroller to decide. Accordingly, he would favor the letter that had been proposed in the first instance by the Division of Examinations.

Thereupon, the revised draft of letter to the Comptroller of the Currency that had been proposed at this meeting by Mr. Solomon was approved, Governor Robertson dissenting. A copy of the letter, as sent, is attached as Item No. 7.

Governor Mills referred briefly to a discussion that he and Governor Mitchell had had with representatives of the Florida Bankers Association when the latter visited the Board's offices recently. The Florida bankers foresaw further growth in Florida and some future need for additional banking facilities. However, they were concerned about the number of charters being applied for, particularly the number of those charters being requested by persons inexperienced in banking who apparently were flattered by the idea of being identified with banks and were not familiar with the risks involved.

The meeting then adjourned.

A handwritten signature in cursive script, appearing to read "Vincent S. ...", is written over a horizontal line. Below the line, the word "Secretary" is printed in a serif font.

Secretary

TELEGRAM
LEASED WIRE SERVICEItem No. 1
1/29/62**BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM**
WASHINGTON

January 29, 1962.

SANFORD - NEW YORK

Your wire January 25. Board approves opening and maintenance by your Bank of an account in the name of the Banco de Espana, subject to the usual terms and conditions. It is understood that participation in account will be offered to other Federal Reserve Banks.

(Signed) Merritt Sherman

SHERMAN

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

Item No. 2
1/29/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 29, 1962

Board of Directors,
The Colonial Bank and Trust Company,
Waterbury, Connecticut.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by The Colonial Bank and Trust Company, Waterbury, Connecticut, of a branch in the Colonial Plaza Shopping Center located at the intersection of Thomaston Avenue and West Main Street, Waterbury, Connecticut, provided the branch is established within six months from the date of this letter.

The Board also approves an expenditure of \$30,000 for leasehold improvements at the proposed branch. This amount is in addition to the \$70,000 which the Board approved on March 20, 1961, in connection with the relocation of the bank's Freight Street Branch to the Colonial Plaza Shopping Center.

Attention is called to the fact that it will be necessary to obtain prior approval of the Board of Governors for any additional expenditures as long as the aggregate investment in bank premises exceeds the bank's capital stock.

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
1/29/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 29, 1962

Board of Directors,
Marine Midland Trust Company
of Central New York,
Syracuse, New York.

Gentlemen:

The Board of Governors approves the establishment of a branch in the Hiawatha Plaza Shopping Center at the intersection of Long Branch Road and New York State Highway 57 in the Town of Clay, Onondaga County, New York, 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. 4
1/29/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 29, 1962

Board of Directors,
Hagerstown Trust Company,
Hagerstown, Maryland.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Hagerstown Trust Company, Hagerstown, Maryland, of a branch on the east side of the 900 block South Potomac Street, Hagerstown, Maryland, 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

Item No. 5
1/29/62

OFFICE OF THE CHAIRMAN

February 1, 1962

Mr. Robert C. Turner,
Assistant Director,
Bureau of the Budget,
Executive Office of the President,
Washington 25, D. C.

Dear Bob:

This is in reply to your letter of January 22, inviting the Board to participate in a staff study of the possibilities of increasing private capital market participation in the operations of the Export-Import Bank, particularly through the use of repurchase agreements.

The Board will be glad to have its staff participate in this study, and would like to designate Mr. J. Charles Partee, Chief of the Capital Markets Section in the Division of Research and Statistics, as its representative; and Mr. Robert F. Gemmill, Economist in the Division of International Finance, as his alternate.

Sincerely yours,

(Signed) Bill M.

Wm. McC. Martin, Jr.

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

Item No. 6
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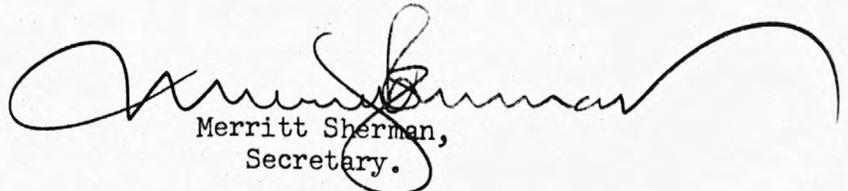
ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 29, 1962.

Dear Sir:

It has come to the Board's attention that in some cases applications of State member banks for permission to establish branches are held at Federal Reserve Banks for rather extended periods of time prior to their being processed and submitted to the Board. Since this practice may enhance the possibility of pre-emption of branch sites by applicant banks, the Board is of the opinion that it would be desirable for all branch applications received at Federal Reserve Banks to be processed and submitted to the Board promptly.

Very truly yours,



Merritt Sherman,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS



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

Item No. 7
1/29/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 29, 1962

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

Attention: Mr. G. W. Garwood,
Deputy Comptroller of the Currency.

Dear Mr. Comptroller:

Reference is made to a letter from your office dated January 18, 1961, enclosing copies of an application to organize a national bank at Sealy, Texas, and requesting a recommendation as to whether or not the application should be approved.

The Board, upon reviewing all of the available information, found the proposed capital structure to be adequate. However, future earnings prospects appear to be only fair and there appears to be little need for the proposed bank. Moreover, it is doubtful whether the proposed executive officer of the bank is entirely satisfactory. In the circumstances, the Board of Governors does not feel justified in recommending favorable action on the proposal.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

