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Minutes for February 14, 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

WM

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, February 14, 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. Shepardson
 Mr. King

Mr. Sherman, Secretary
 Mr. Kenyon, 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. Chase, Assistant General Counsel
 Mr. O'Connell, Assistant General Counsel
 Mr. Daniels, Assistant Director, Division of
 Bank Operations
 Mr. Goodman, Assistant Director, Division of
 Examinations
 Mr. Benner, Assistant Director, Division of
 Examinations
 Mrs. Semia, Technical Assistant, Office of the
 Secretary
 Mr. Young, Senior Attorney, Legal Division
 Mr. Fuerth, Attorney, Legal Division
 Mr. Troup, Supervisory Review Examiner, Division
 of Examinations
 Mr. Karsten, Review Examiner, Division of
 Examinations
 Mr. Lyon, Review Examiner, Division of Examinations

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:

Item No.

Letter to The Chase Manhattan Bank, New York,
 New York, granting permission for an increased
 investment in Chase Manhattan Overseas Corpo-
 ration and an investment by the latter in the
 stock of Banco Hipotecario Lar Brasileiro, S.A.,
 Rio de Janeiro, Brazil.

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	<u>Item No.</u>
Letter to Farmers Bank and Trust Company, Knox, Indiana, granting permission to include the sale of insurance, except life insurance, among its corporate powers.	2
Letter to the Bureau of the Budget reporting on a draft bill "To amend the Defense Production Act of 1950, as amended, and for other purposes."	3
Letter to the Federal Reserve Bank of Chicago asking that a new examination be made before it was determined whether or not a warning should be issued to the President of G. W. Jones Exchange Bank, Marcellus, Michigan, under section 30 of the Banking Act of 1933.	4

In connection with Item No. 4, Governor Robertson raised a question as to whether it might be desirable to issue a warning to the President of G. W. Jones Exchange Bank at the present time, then have another examination and, if necessary, issue another warning. Comments by the staff were to the general effect that the most recent examination made as of May 22, 1961, was considered too outdated to serve as an effective basis, practically and legally, for a warning under section 30, particularly in view of certain supervisory steps that had been taken since that date. It was stated that the Federal Reserve Bank of Chicago could be asked to expedite preparation of the report of a new examination, so that the case could be considered promptly after the results of such examination were reviewed.

Messrs. Solomon and Hackley noted for the record that they had not participated in the consideration of the Reserve Bank's recommendation that a section 30 warning be issued.

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Federal Reserve Bank insurance expenditures. On June 7, 1961, the Board sent a letter to the Federal Reserve Banks asking that various expenditures by the Banks for insurance be reviewed. The subject was considered at the September 11-12, 1961, meeting of the Conference of Presidents, and the Board at its meeting on October 18, 1961, discussed the replies made by the Reserve Banks to its June 7 letter, along with the comments on the matter contained in the minutes of the September meeting of the Presidents' Conference. After its discussion, the Board furnished the Presidents and Chairmen of the Federal Reserve Banks a factual memorandum on the purchase of insurance by the Reserve Banks and the subject was placed on the agenda of the Chairmen's Conference held November 30 and December 1, 1961.

Under date of February 9, 1962, a draft of letter to the Presidents of the Federal Reserve Banks was distributed. The draft reviewed the comments made on the subject by the Conference of Presidents, referred to the discussion of the matter by the Conference of Chairmen, and stated that the Board believed, with the majority of the Presidents, that expenditures by the Reserve Banks for insurance of property risks were difficult to justify. Accordingly, the Board felt that consideration should continue to be given to the possibility of discontinuing comprehensive coverage and collision insurance on automobiles, insurance covering fire and allied risks on buildings and contents, and various minor coverages. The draft also stated that the Board concurred in the opinion of the Presidents that purchased insurance

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was justifiable for general public liability, workmen's compensation, automobile public liability, and steam boiler and machinery risks, and perhaps for other minor areas. Continuation of bankers' blanket bond insurance was probably also justifiable.

The draft noted that the Presidents felt that it should be possible for two or more Reserve Banks that did not carry insurance against losses arising out of certain classes of risks to enter into an arrangement independent of the present Loss Sharing Agreement for sharing these losses. While there would seem to be little need for such an arrangement in view of the size of the earnings of the Reserve Banks, there would be no objection to it on the part of the Board.

Governor Mills expressed reservations about the tone of the letter, especially the passage to the effect that the Board believed, with the majority of the Presidents, that expenditures for insurance of property risks were difficult to justify. He looked upon that statement as a veiled instruction to the Federal Reserve Banks and, if such was the case, he considered it an unwarranted invasion of the discretionary authority of the boards of directors of the Reserve Banks to determine their own insurance programs. In his view, an important principle was involved.

Governor Robertson inquired whether the point of bringing up the insurance question had not been to give the Banks the benefit of the Board's advice. He asked if Governor Balderston, when he first became

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interested in the matter as the result of reviewing Reserve Bank expenditures for insurance, had not had in mind giving the Banks the benefit of the Board's judgment.

Governor Balderston indicated that his thought had been to obtain a review of the Reserve Banks' insurance programs and stimulate thinking with regard to such expenditures. This basic purpose had now been accomplished, for the Presidents and the directors had given attention to the problem.

During further discussion, question was raised as to whether it was necessary to send a letter on the subject, and the reply was made that at least one of the Reserve Banks was understood to be awaiting some word from the Board that would be indicative of a general policy.

Several suggestions then were made for revisions in the proposed letter, after which the staff was requested to prepare a new draft in the light of these comments.

Application of C. B. Investment Corporation. A memorandum from the Division of Examinations dated February 9, 1962, had been distributed in connection with an application by C. B. Investment Corporation, Houston, Texas, for prior approval of the acquisition of 932 shares of common stock of The First National Bank of Port Arthur, Port Arthur, Texas, through exercise of pre-emptive stock purchase rights.

During discussion, Governor Mills asked if there was concern in the Division of Examinations regarding the heavy indebtedness of C. B.

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Investment Corporation. Mr. Solomon replied that in an application of importance the soundness of the holding company's financial position would be thoroughly explored. However, the application here in question was a minor one and only a general appraisal of the holding company's financial structure had appeared necessary. He also noted that although at the time the Division memorandum was written the Comptroller of the Currency had not yet expressed his views with respect to the proposed acquisition of stock, the Comptroller had now stated that he would have no objection to the transaction.

After further discussion, the proposed acquisition of stock by C. B. Investment Corporation was approved unanimously and it was understood that the Legal Division would prepare for the Board's consideration an order and statement reflecting this decision.

Messrs. Chase, O'Connell, Daniels, Benner, Fuerth, Troup, Lyon, and Karsten then withdrew from the meeting.

Record of Board policy actions. A memorandum dated February 2, 1962, from the Office of the Secretary had been distributed submitting to the Board for consideration drafts of entries for the record of policy actions by the Board to be published in the Annual Report for 1961. Subsequently, a memorandum dated February 12 from the Office of the Secretary had been distributed transmitting a revised draft of entry concerning the Board's action on December 1, 1961, relating to the amendment of Regulation Q to provide higher maximum permissible rates

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of interest on time and savings deposits. The revised entry added a statement by Governor Mills to explain the basis on which he had voted for approval of the increase in rates and a revised dissenting statement by Governor King.

Governor Robertson stated that he also would like to insert a statement in explanation of his favorable vote on increasing the maximum permissible rates of interest. He then read the statement that he wished to have included in the policy record entry.

Governor King recalled that, in connection with the 1960 policy record of the Federal Open Market Committee, a decision had been made against permitting certain of the entries to include the qualified views of a member (Governor Robertson) who had voted with the majority but who desired to insert certain additional comments regarding his position. Governor King asked whether the inclusion of the statements of Governors Mills and Robertson in the 1961 policy record of the Board should be interpreted as a change in the position the Board had taken on the previous occasion.

In discussion of this point, Governor Balderston commented that the action the Board had taken in increasing the maximum permissible rates of interest under Regulation Q was of importance in the eyes of the banking community, and that the lines of thinking of individual members of the Board, as reflected in the comments of Governors Mills and Robertson, might be helpful to the readers of the Annual Report.

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Governor King then commented on the general desirability, as he saw it, of a majority opinion being reflected in a single statement, with separate statements limited to members who actually dissented. Up to this point, he had conformed to that practice, and he felt that the Board might be making an unwise move in departing from it. However, if it was the consensus to depart from that practice on this occasion, he felt that it should be understood that the option of expressing qualified views would be available generally. If so, he would be guided accordingly in the future.

The 1961 policy record entries of the Board, as distributed with the memoranda of February 2 and February 12, 1962, from the Office of the Secretary were then approved for publication in the Board's Annual Report, with the understanding that the statement submitted by Governor Robertson at this meeting would be inserted.

Annual Report question (Federal Open Market Committee). Mr. Molony referred to the galley proof of the text of the Annual Report, in which there was a rather extensive discussion of the December 19, 1961, action of the Federal Open Market Committee in terminating its three operating policy statements. In his view, the length of the proposed passage magnified the action unduly, and the policy record entries of the Committee, as drafted, contained information on the subject. He suggested, therefore, that the text of the Report contain only a brief reference to the pages of the policy record of the Open

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Market Committee where detailed information on Committee actions affecting operating procedures during 1961 would be found.

There was a general discussion of the Open Market Committee's decision at the December 1961 meeting, during which it was noted that the original idea of publishing an explanatory article in the Federal Reserve Bulletin had been dropped.

Comments were also made in the course of the discussion as to the effectiveness of the review of economic developments presented in the Annual Report each year, in comparison with somewhat similar economic reviews published by other organizations. There was a staff suggestion that the effectiveness of the Annual Report might be enhanced, in one respect, by combining the policy records of the Board and the Federal Open Market Committee with other material in the future in order to present a single chronological record.

At the end of the discussion, it was understood that Mr. Molony's suggestion regarding the coverage in the text of the Report concerning Open Market Committee operating procedures would be considered further at another meeting of the Board.

Staff reports. Governor Shepardson stated that the Board's Controller had raised a question as to whether certain reports that had been prepared for some time continued to be of value. The reports, which were submitted to Governor Shepardson as the Board member having responsibility for internal affairs and also were circulated to the other members of the Board, consisted of (1) a quarterly report on travel authorized by

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division heads; (2) a quarterly report on travel authorized by the Board member having responsibility for internal affairs; and (3) a quarterly report on fees paid to consultants. (Governor Shepardson also referred to a report on official luncheon guests that was rendered to him monthly.) Governor Shepardson observed that a number of hours of staff time went into the preparation of the reports, and that the expenditures were subject to budget and other administrative controls. Therefore, he had felt it advisable to bring the Controller's question to the attention of the Board.

After a discussion of the question, the view was expressed that even though questionable circumstances had not been brought to light in the reports, that fact might at least to some extent be attributed to the necessity of making the reports. Some interest was indicated by members of the Board in reviewing such reports as a matter of keeping informed. There was general agreement, however, that such procedures as might be considered by Governor Shepardson to afford adequate controls would be acceptable to the other members of the Board.

Secretary's Note: Governor Shepardson subsequently advised the Secretary that he had decided to continue the reports on the present basis.

Membership dues and contributions. Governor Balderston reported a conversation with President Clay of the Federal Reserve Bank of Kansas City in regard to the latter's decision that the Bank would not make a

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contribution this year to the Kansas City Downtown Committee. The Bank had contributed \$400 to the committee in each of the past two years, but President Clay stated that, in the light of the Board's outstanding letters to the Reserve Banks in regard to membership dues and contributions, the most recent of which was dated May 11, 1961, he had concluded that the Bank should not make a contribution to the committee this year. Governor Balderston stated that he had told President Clay that in his opinion that decision was appropriate. However, he (Governor Balderston) was reporting the matter to ascertain whether his view was in accord with the Board's thinking. It was understood from President Clay that a local banker prominently identified with the work of the Kansas City Downtown Committee had expressed himself rather strongly on the subject.

During a discussion of the nature of the Kansas City Downtown Committee and its work, the tenor of comments indicated that the Board did not disagree with the view of Governor Balderston, as expressed to President Clay.

Class C director. Mr. Fauver reported on the status of investigation to determine whether Dr. Clark Kerr, President of the University of California, would accept appointment as a Class C director of the Federal Reserve Bank of San Francisco. President Swan of the San Francisco Bank had not been able to reach Dr. Kerr for several days

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but now had talked with him, and Dr. Kerr was expected to give his answer shortly.

The meeting then adjourned.

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

Letter to the Federal Reserve Bank of New York (attached Item No. 5) approving the reappointment of Michael M. Mulligan as examiner.

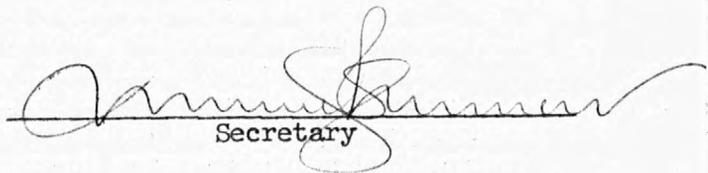
Memoranda from appropriate individuals concerned recommending the following actions relating to the Board's staff:

Transfer and salary increase

Carol Lee Jones, from the position of Stenographer in the Division of Examinations, to the position of Secretary in the Office of the Secretary, with an increase in basic annual salary from \$4,145 to \$4,345, effective February 18, 1962.

Salary increase, with a change in title

Jeanne Chambers, from \$4,250 to \$4,510 per annum, with a change in title from Clerk-Stenographer to Secretary, Division of Research and Statistics, effective February 18, 1962.


Secretary

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

Item No. 1
2/14/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 14, 1962

The Chase Manhattan Bank,
1 Chase Manhattan Plaza,
New York 15, New York.

Gentlemen:

In accordance with your request and on the basis of the information furnished in your letter of November 6, 1961, transmitted through the Federal Reserve Bank of New York, the Board of Governors grants permission to The Chase Manhattan Bank, New York, New York, pursuant to the provisions of Sections 9 and 25 of the Federal Reserve Act, to increase from \$2,350,000 to \$6,350,000 the amount it may invest in the stock of Chase Manhattan Overseas Corporation ("CMOC"), New York, New York.

The Board of Governors also grants permission for CMOC to invest directly, or indirectly through an intermediary corporation, to be formed under the laws of Brazil for the sole purpose of holding such shares, not more than \$4,000,000 in the purchase of ordinary voting shares of Banco Hipotecario Lar Brasileiro, S. A. ("Banco Lar"), Rio de Janeiro, Brazil, a banking corporation organized under the laws of Brazil, provided such investment is made within one year from the date of this letter.

The Board's consent to the proposed purchase and holding of stock by CMOC is granted subject to the following conditions:

- (1) That CMOC shall not hold any stock, directly or indirectly, in Banco Lar if Banco Lar at any time fails to restrict its activities to those permissible to a corporation in which CMOC, with the consent of the Board of Governors, may purchase and hold stock under its agreement entered into under Section 25 of the Federal Reserve Act or Regulation K, or if Banco Lar, except with the consent of the Board of Governors, establishes any branch or agency or takes any action or undertakes any operation in Brazil or elsewhere which at that time is not permissible to CMOC without such consent;
- (2) That, when required by the Board of Governors, CMOC will cause Banco Lar to permit examiners appointed by the Board of Governors to examine Banco Lar and to furnish the Board of Governors with such reports as it may require from time to time; and



The Chase Manhattan Bank

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- (3) That CMOC will be expected to dispose of its holdings of stock of Banco Lar, as promptly as practicable, in the event that Banco Lar should at any time conduct its operations in a manner which, in the judgment of the Board of Governors, causes the continued holding of its stock by CMOC, directly or indirectly, to be inappropriate under the provisions of the agreement of CMOC pursuant to Section 25 of the Federal Reserve Act or Regulation K.

Upon the completion of the proposed transaction, it is requested that the Board of Governors be furnished (1) a translation of the amended Articles of Association and By-Laws of Banco Lar; and (2) a list of officers and directors, with addresses and principal business affiliations. If CMOC acquires the stock of Banco Lar through an intermediary corporation, please furnish pertinent details regarding the corporation, including copies of the Articles of Association and By-Laws and a list of officers and directors.

Please advise the Board of Governors through the Federal Reserve Bank of New York when the acquisition of stock has been made.

Subject to continuing observation and review, the Board suspends until further notice the provisions of subparagraph (1) of the third paragraph of this letter, so far as they relate to restrictions on loans granted by Banco Lar in the Republic of Brazil in the currency of that country.

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
2/14/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 14, 1962

Board of Directors,
Farmers Bank and Trust Company,
Knox, Indiana.

Gentlemen:

This refers to your request for permission under applicable provisions of your condition of membership numbered 1 to sell insurance, except life insurance.

Following consideration of the information submitted, the Board of Governors of the Federal Reserve System grants permission to Farmers Bank and Trust Company, Knox, Indiana, to include the sale of insurance, except life insurance, among the corporate powers exercised by it and authorized by its charter and the laws of the State of Indiana.

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
2/14/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 14, 1962



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

Dear Mr. Hughes:

This is in response to your communication of February 6, 1962, requesting the Board's views with respect to a draft bill proposed by the Office of Emergency Planning "To amend the Defense Production Act of 1950, as amended, and for other purposes."

Section 6 of the draft bill would extend until June 30, 1964, the authorities contained in the Act. The only provisions of the Act which directly concern the responsibilities of the Board are contained in Title III relating to Government guaranteed loans for defense production under the Board's Regulation V, and since the Office of Emergency Planning considers that this authority is useful, particularly to the procuring agencies as means of assisting their contractors in securing working capital and additional equipment needed for the performance of defense contracts, the Board would have no objection to the extension of this program for an additional two years as provided by the bill.

The Board has no comments with respect to other provisions of the bill which are concerned with matters not directly related to the Board's primary responsibilities.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 4
2/14/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 14, 1962

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

Dear Mr. Helmer:

The Board of Governors has reviewed your recommendation on Form F.R. 212 accompanying the current report of examination of the G. W. Jones Exchange Bank, Marcellus, Michigan, that a warning under Section 30 of the Banking Act of 1933 be issued to Mrs. Donna V. Schurtz, President.

The Board has given careful consideration to your recommendation and believes that the issuance of such a warning should be postponed until a new examination can be made. It is the Board's view that the current examination made as of May 22, 1961, is too old to serve as a basis for a warning. Also the Board would suggest that if a warning is to be issued, it should follow as quickly as possible the completion of the examination report, the preparation of which should be expedited for this purpose.

The Board's Legal Division would be glad to assist in the preparation of page 2 of the examination report to aid in adapting it to the issuance of a Section 30 warning if it is subsequently decided to send such a warning.

In connection with the next examination, it would be desirable to urge this bank to have an audit made to put the bank's records and bookkeeping in order. As to the numerous criticized real estate loans, it would be helpful if arrangements could be made to have the underlying real estate security appraised by a qualified disinterested appraiser to determine the propriety of the carrying values of these loans.

The Board would appreciate being informed of the date selected for the next examination of the member bank when the decision has been made.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 5
2/14/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 15, 1962

CONFIDENTIAL (FR)

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 February 9, 1962, the Board approves the reappointment of Michael M. Mulligan as an examiner for the Federal Reserve Bank of New York, effective today.

It is noted that Mr. Mulligan is indebted in the amount of \$5,800 to The First National Bank of Wilkes-Barre, Wilkes-Barre, Pennsylvania, Federal Reserve District No. 3, but that he will not participate in any examination of that bank.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

