Minutes for February 19, 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 Monday, February 19, 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. Mitchell
Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
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. Johnson, Director, Division of Personnel Administration
Mr. O'Connell, Assistant General Counsel
Mr. Daniels, Assistant Director, Division of Bank Operations
Mr. Smith, Assistant Director, Division of Examinations
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Spencer, General Assistant, Office of the Secretary
Mr. Morgan, Editorial Specialist, Board Members' Offices
Mr. Lyon, Review Examiner, Division of Examinations
Mr. Karsten, Review Examiner, Division of Examinations
Mr. Hart, Personnel Assistant, Division of Personnel Administration

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:
Letter to First Bank of Colonia, Colonia, New Jersey, approving its application for membership in the Federal Reserve System.

Letter to the Comptroller of the Currency recommending favorably with respect to an application to organize a national bank at Washington, D.C.

Letter to the Comptroller of the Currency recommending favorably with respect to an application to organize a national bank at Orlando, Florida.

Letter to the Comptroller of the Currency recommending favorably with respect to an application to organize a national bank at Bothell, Washington.

Order and statement approving the application of C.B. Investment Corporation, Houston, Texas, to acquire additional shares of The First National Bank of Port Arthur, Port Arthur, Texas. (Prepared pursuant to the decision at the meeting on February 14, 1962.)

Letter to the Presidents of all Federal Reserve Banks concerning expenditures for insurance. (Revised draft prepared pursuant to the discussion at the meeting on February 14, 1962.)

Letter to the Federal Reserve Bank of Chicago approving a revision of the employees' salary structure.

In connection with Item No. 8, Governor Mitchell raised a number of questions regarding the basis for establishing salary ranges above grade 13, to which Mr. Johnson responded with explanatory comments on current practice. It was understood that the Division of Personnel Administration, as requested by Governor Mitchell, would prepare informational material on the subject and that such material would be made available to each member of the Board.
Messrs. Johnson, O'Connell, Daniels, Lyon, Karsten, and Hart then withdrew from the meeting and Mr. Molony, Assistant to the Board, entered the room.

**Directors' Day program.** There had been distributed a memorandum dated February 15, 1962, from Mr. Fauver, Assistant to the Board, regarding a proposed program for Directors' Day, to be held on March 14-15, 1962. A copy of the program was attached to the memorandum.

Following comments by Governors Shepardson and Mills, who had met with a staff group concerning the preparation of the program, there was a general discussion of the plans. It was agreed that the proposed program would be acceptable as a basis for making final arrangements.

Mr. Morgan then withdrew from the meeting.

**Question raised by President of National Association of Supervisors of State Banks.** At a luncheon meeting of representatives of the National Association of Supervisors of State Banks and the Board, on February 9, 1962, Mr. Myers, President of the Association, had raised a question as to whether the Board would have an objection to hearings being held by the House Banking and Currency Committee on bills introduced in Congress, at the request of the Association, regarding (a) the composition of the Board of Directors of the Federal Deposit Insurance Corporation, and (b) the placing of authority for approval of branches of State member banks. Mr. Myers had apparently been informed that the Board's reports
to the Banking and Currency Committees on those bills were noncommittal in the one instance and unfavorable in the other. Chairman Martin's reply to Mr. Myers had been that the Board would discuss the inquiry later.

Chairman Martin commented that in his opinion Mr. Myers' inquiry was of such a nature as not to require an answer, but that he had had the matter placed on the agenda to obtain the Board's views.

In discussion, Governor Robertson also expressed the opinion that no answer was necessary. If the Board should receive a further inquiry from Mr. Myers, it could at that time make such reply as seemed appropriate. It would be unwise, in his opinion, for any administrative agency to presume to indicate to a Congressional committee that it should or should not hold hearings in connection with pending bills.

Following further discussion, it was agreed that no reply was necessary.

Messrs. Noyes, Leavitt, and Spencer withdrew from the meeting at this point.

Report of examination of Federal Reserve Bank of Richmond. The report covering the examination of the Federal Reserve Bank of Richmond made as of October 5, 1961, had been circulated to the Board, along with the usual accompanying memoranda.
Mr. Smith commented on matters disclosed by the examination, and on the basis of his comments it was agreed that there were no matters appearing to require action on the part of the Board.

**Study of dormant bank accounts.** Supplementing his previous report on February 7, 1962, Governor Robertson stated that a further meeting with Mr. Saxon, Comptroller of the Currency, and Mr. Cocke, Chairman of the Federal Deposit Insurance Corporation, regarding the survey of dormant bank accounts requested by Congressman Patman was now planned for this Friday. He understood, however, that Mr. Saxon had not yet discussed the matter with the Congressman, as he had wanted to do; whether he could do so before Friday was uncertain. Meanwhile, Governor Robertson said, he had called Congressman Patman and explained why the Board was not yet in a position to reply to the Congressman's letter requesting the survey. 1/

**Allocation of cost of supervision.** Governor Robertson stated that the Comptroller of the Currency would like to discuss with the Board or a representative of the Board a plan for allocation of the cost of supervision of national banks. Mr. Saxon stated that he had discussed his proposal with the Board of the Federal Deposit Insurance Corporation. Governor Robertson said he had told Mr. Saxon that he would bring the request to the attention of the Board of Governors.

1/ Attached as Item No. 9 is a copy of a letter sent by Governor Robertson to Comptroller of the Currency Saxon on February 23, 1962, in regard to Representative Patman's request.
At Chairman Martin's suggestion, Governor Robertson was authorized to meet with the Comptroller as the designated representative of the Board, with the understanding that Governor Robertson would then bring the matter back to the Board for consideration.

**Time deposits.** Governor Mitchell commented that an officer of Chase Manhattan Bank, New York, had stated in conversation that the bank had experienced a substantial increase in foreign time deposits since the change in the maximum permissible rates of interest. However, no significant increase had as yet appeared in statistics available to the Board. Assuming the asserted increase was not peculiar to the one bank, this would seem to raise a question regarding the statistics.

Following discussion, it was understood that the matter would be looked into by the staff.

Chairman Martin stated that he understood that a group of bankers who met recently in New York City with the Secretary of the Treasury had expressed themselves as pleased with the recent action on the maximum permissible rates, but as hoping that some action might be taken to increase the maximum rates applicable to time deposits of shorter maturities.

The meeting then adjourned.
Secretary's Note: Pursuant to the recommendation contained in a memorandum from the Division of Research and Statistics, Governor Shepardson today approved on behalf of the Board acceptance of the resignation of Edward Kalachek, Economist in the Division, effective at the close of business February 24, 1962.
Organization Committee,
First Bank of Colonia,
Colonia, New Jersey.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the application made on behalf of First Bank of Colonia, Colonia, New Jersey, for stock in the Federal Reserve Bank of New York, effective if and when the bank opens for business under appropriate State authorization, subject to the numbered conditions hereinafter set forth.

1. Such bank shall at all times conduct its business and exercise its powers with due regard to the safety of its depositors, and, except with the permission of the Board of Governors of the Federal Reserve System, such bank shall not cause or permit any change to be made in the scope of the corporate powers exercised by it at the time of admission to membership.

2. The net capital and surplus funds of such bank shall be adequate in relation to the character and condition of its assets and to its deposit liabilities and other corporate responsibilities.

3. At the time of admission to membership, such bank shall have paid-in and unimpaired capital stock of not less than $300,000 and other capital funds of not less than $300,000.

In connection with the foregoing conditions of membership, particular attention is called to the provisions of the Board's Regulation H, regarding membership of State banking institutions in the Federal Reserve System, with especial reference to Section 208.7 thereof. A copy of the Regulation is enclosed.

If at any time a change in or amendment to the bank's charter is made, the bank should advise the Federal Reserve Bank, furnishing copies of any documents involved, in order that it may be determined whether or not such change affects the bank's status as a member of the Federal Reserve System.
Acceptance of the conditions of membership contained in this letter should be evidenced by a resolution adopted by the board of directors after the bank's charter has been issued, and a certified copy of such resolution, together with advice of compliance with the condition to be complied with prior to admission to membership, should be filed with the Federal Reserve Bank. Arrangements will thereupon be made to accept the payment for an appropriate amount of Federal Reserve Bank stock, to accept the deposit of the required reserve balance, and to issue the appropriate amount of Federal Reserve Bank stock to the bank.

The time within which admission to membership in the Federal Reserve System in the manner described may be accomplished is limited to six months from the date of this letter, unless the bank applies to the Board and obtains an extension of time. When the Board is advised that all of the requirements have been complied with and that the appropriate amount of Federal Reserve Bank stock has been issued to the bank, the Board will forward to the bank a formal certificate of membership in the Federal Reserve System.

The Board of Governors sincerely hopes that you will find membership in the System beneficial and relations with the Reserve Bank pleasant. The officers of the Federal Reserve Bank will be glad to assist you in establishing your relationships with the Federal Reserve System and to discuss at any time with representatives of your bank means for making the services of the System more useful to you.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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

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

February 19, 1962

Dear Mr. Comptroller:

Reference is made to a letter from your office dated June 14, 1961, enclosing copies of an application to organize a national bank at Washington, District of Columbia, and requesting a recommendation as to whether or not the application should be approved.

The Board, upon reviewing all available information, found all factors usually considered in applications of this nature to be favorable. Accordingly, although there does not appear to be a pressing need for the proposed new bank, the Board of Governors recommends favorable consideration of the proposal.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.
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 August 23, 1961, enclosing copies of an application to organize a national bank at Orlando, Florida, to be located either in or adjacent to the Colonial Plaza Shopping Center, and requesting a recommendation as to whether or not the application should be approved.

The Board, upon reviewing all available information, found all factors usually considered in applications of this nature to be favorable. Accordingly, although there does not appear to be a pressing need for the proposed new bank, the Board of Governors recommends favorable consideration of the proposal.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.
Comptroller of the Currency,  
Treasury Department,  
Washington 25, D. C.

Attention: Mr. C. C. Fleming,  
Deputy Comptroller of the Currency.

Dear Mr. Comptroller:

Reference is made to a letter from your office dated November 20, 1961, enclosing copies of an application to organize a national bank at Bothell, Washington, 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 San Francisco indicates favorable findings with respect to the proposed capital structure, earnings prospects, and need for the institution. The directors are a competent group of businessmen and management would appear satisfactory if a competent executive officer is employed. Accordingly, the Board of Governors recommends favorable consideration of this application provided arrangements are made for executive management which is satisfactory to your office.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.
UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

In the Matter of the Application of

C. B. INVESTMENT CORPORATION

For prior approval of acquisition of
additional shares of voting stock of
The First National Bank of Port Arthur, Texas

ORDER APPROVING APPLICATION UNDER
BANK HOLDING COMPANY ACT

WHEREAS, there has come before the Board of Governors, pursuant to section 3(a)(2) of the Bank Holding Company Act of 1956 (12 USC 1842) and section 4(a)(2) of Federal Reserve Regulation Y (12 CFR 222.4(a)(2)), an application on behalf of C. B. Investment Corporation, Houston, Texas, for the Board's prior approval of the acquisition of an additional 932 shares of the voting stock of The First National Bank of Port Arthur, Port Arthur, Texas; a Notice of Receipt of Application has been published in the Federal Register on February 2, 1962 (27 Federal Register 994), which provided an opportunity for submission of comments and views regarding the proposed acquisition; and the time for filing such comments and views has expired and no such comments or views have been filed;
IT IS HEREBY ORDERED, for the reasons set forth in the Board's Statement of this date, that said application be and hereby is approved.

Dated at Washington, D. C. this 19th day of February, 1962.

By order of the Board of Governors.

Voting for this action: Chairman Martin, and Governors Balderston, Mills, Robertson, Shepardson, and King.

Absent and not voting: Governor Mitchell.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.
C. B. Investment Corporation, Houston, Texas ("Applicant"), a bank holding company, has applied, pursuant to section 3(a)(2) of the Bank Holding Company Act of 1956 ("the Act"), for the Board's prior approval of the acquisition of 932 shares of the voting stock of The First National Bank of Port Arthur, Port Arthur, Texas ("Bank").

Views and recommendations of supervisory authority. - Pursuant to section 3(b) of the Act, the Comptroller of the Currency was asked for his views and recommendations. He offered no objections to approval of the application.

Statutory factors. - Section 3(c) of the Act requires the Board to take into consideration the following five factors: (1) the financial history and condition of the holding company and bank concerned; (2) their prospects; (3) the character of their management; (4) the convenience, needs, and welfare of the communities and the area concerned; and (5) whether or not the effect of the acquisition would be to expand the size or extent of the bank holding company system
involved beyond limits consistent with adequate and sound banking, the public interest, and the preservation of competition in the field of banking.

Discussion. - Applicant's request for prior approval of the acquisition of 932 shares of Bank's stock follows approval by Bank's stockholders of the issuance of an additional 10,000 shares of common stock and the issuance of rights to purchase 2/9ths of one new share for each share of Bank's stock held on January 10, 1962. On that date, Applicant owned a sufficient number of Bank's shares to entitle it to acquire more than the 932 shares involved in this application. Assuming the acquisition here proposed, Applicant's percentage of ownership of Bank's outstanding shares would be reduced from 15.53 per cent to 14.40 per cent.

Applicant, with its principal office in Houston, Texas, has four subsidiary banks* and, in addition, owns less than 25 per cent of the stock in 15 other banks including Bank. All of these banks are located in Texas. Bank is located in the City of Port Arthur. Its primary service area (the area from which about 75 per cent of its total deposits originate) encompasses a large part of that City and an estimated 60 per cent of its population.

The financial history and condition of Applicant and Bank are satisfactory and their prospects favorable. The management of both Applicant and Bank appears satisfactory.

* Under section 2(d) of the Act, ownership of 25 per cent of the voting stock of a bank makes it a "subsidiary".
The 1960 population of the City of Port Arthur was 66,700, an increase of nearly 10,000 over 1950. The population increase reflects an industrial expansion occurring in the area and indicates the area's need for expanded banking service. Bank and the Merchants National Bank are the only banks located within Bank's primary service area. Their respective total deposits at December 31, 1961, were $38.3 million and $32.9 million. The increase in Bank's capital that will result from the proposed new stock issue will better enable Bank to meet the greater banking needs of the area likely to arise with the continued expansion of the area's industry and population.

Inasmuch as Applicant's acquisition of only 932 additional shares of Bank - less than the number of shares it could acquire if its full pro rata subscription rights were exercised - will actually result in a slight reduction of its percentage of stock ownership in Bank, it does not appear that the proposed acquisition will have any measurable impact on banking competition or result in a significant expansion in the size or extent of Applicant's holding company system.

It is the judgment of the Board that the proposed acquisition would be consistent with the general purposes of the Act and the factors enumerated in section 3(c) and, accordingly, that the application should be approved.

February 19, 1962.
Dear Sir:

Reference is made to the Board's letter of June 7, 1961, and the replies thereto from the Reserve Banks, relative to the justification of expenditures for insurance. The purpose of this letter is to clear the record of an outstanding item.

At the September 11-12, 1961, meeting of the Conference of Presidents the purchase of insurance by the Reserve Banks was discussed. Subsequently, at the request of the Board, the subject was placed on the agenda for the Chairmen's Conference of November 30 and December 1, 1961, and the Board supplied the Chairmen and Presidents with a factual memorandum on the purchase of insurance by the Reserve Banks. Discussion at the Chairmen's Conference indicated that sentiment of the Chairmen was favorable toward the undertaking by the appropriate Federal Reserve body of any further study which it believes would be helpful with respect to loss sharing of risks not covered by the Loss Sharing Agreement.

The following excerpt is from the minutes of the September 11-12, 1961, meeting of the Conference of Presidents.

"... The Banks (1) generally justified purchasing insurance where the contracts furnished services which they could not satisfactorily provide for themselves; (2) substantially agreed that purchased insurance was justifiable for public liability, workmen's compensation, automobile insurance, steam boiler and machinery insurance, and perhaps other minor areas; (3) were split in their opinions concerning the bankers' blanket bond and fire and allied risks insurance.

The Presidents were of the view that if any Reserve Banks do not carry insurance against losses arising out of certain classes of risks, it should be possible for two or more Banks to enter into an arrangement, independent of the present Loss Sharing Agreement, for sharing losses in connection with such risks. The Presidents felt that the decision of a Bank not to carry insurance against certain risks should not be contingent upon the availability of a loss sharing agreement with respect to such risks."
The Board agrees generally with the views expressed by the Conference of Chairmen and the Conference of Presidents, and it recognizes that there may be some difference of opinion with regard to the necessity to carry certain types of insurance. The Board believes that the consideration given to these matters has been helpful and that the situation should be reviewed from time to time as changes in circumstances may warrant.

The minutes of the Presidents' Conference indicated that some Banks were inclined to discontinue insurance against losses arising out of certain classes of risks and felt that it should be possible for two or more Banks to enter into an agreement independent of the Loss Sharing Agreement for sharing losses in connection with such risks. The Board would have no objection to the discontinuance of such insurance coverage by any Bank, nor to any such arrangement for sharing losses in connection therewith.

Very truly yours,

Merritt Sherman,
Secretary

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS
February 19, 1962

Mr. Harold J. Newman, Vice President,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Newman:

As requested in your letter of February 1, 1962, the Board of Governors approves the following minimum and maximum salaries for the respective grades of the employees' salary structure at the Head Office of the Federal Reserve Bank of Chicago, effective March 1, 1962:

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<th>Grade</th>
<th>Minimum Salary</th>
<th>Maximum Salary</th>
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<tr>
<td>1</td>
<td>$2,540</td>
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<tr>
<td>2</td>
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</tr>
</tbody>
</table>

Salaries should be paid to employees other than officers within the limits specified for the grades in which the positions of the respective employees are classified. The Board understands that all employees whose salaries are below the minimum of their grades as a result of the structure increase will be brought within appropriate ranges during a period of six months following the effective date of the new structure.

The Board notes that no change is being made at this time in the separate employees' salary structure applicable to employees at the Detroit Branch.

Very truly yours,

(Signed) Merritt Sherman
Merritt Sherman,
Secretary.
February 23, 1962

Dear Jim:

A few weeks ago each of the federal supervisory agencies was requested by Congressman Patman to make a survey of dormant accounts in the banks under their supervision. Our meeting of two weeks ago, held with a view to reaching an understanding with respect to whether the request would be complied with and, if so, the nature of the survey, was unproductive. Since our proposed subsequent meeting was postponed until today and again postponed until some time next week, I have undertaken, with the aid of our staff, the task of preparing a proposed form of questionnaire to be sent to all banks under the supervision of each of our agencies. I am enclosing a copy of the form for your study and analysis prior to our next meeting, which I hope can be held soon.

It seems to me that in view of the fact that the Senate has already passed a bill to authorize the Comptroller of the Currency to fix maximum rates for charges against dormant accounts in national banks, which bill is now pending in the House of Representatives, the information requested by Mr. Patman is pertinent to consideration of that proposed legislation. I also believe that if it is to be obtained, the three bank supervisory agencies should undertake the task, rather than to have the banks subjected to questionnaires from other sources.

The time has arrived when we must decide either to make the survey and do it expeditiously, or decide upon the basis for refusing to do so, and so advise Mr. Patman promptly. If the information is to be of any value to him at all in connection with the pending
legislation, he should have it within the next month or six weeks. The time required for making the survey and compiling the information is substantial. Consequently, we should not delay unduly.

This same letter is being sent to Erle Cocke.

Sincerely,

(Signed) J. L. Robertson

Enclosure

Honorable James J. Saxon
Comptroller of the Currency
Room 3120 Treasury Building
Washington 25, D. C.
DORMANT ACCOUNT SURVEY

1. Does your bank impose maintenance or other charges against dormant accounts (i.e., those which because of inactivity or otherwise are deemed by your bank to be dormant for the purpose of such charges)?
   Yes  No

2. Upon what basis are such charges made (e.g., flat rate, percentage of balance, lump sum, etc.)? Please specify nature of charges and whether they are made monthly, quarterly, etc.

3. With respect to dormant accounts against which such charges were made--
   (a) How many accounts were affected by such charges during the year 1961?
       Number
   (b) What was the total balance in such accounts on December 31, 1961?
       Amount

4. What is the total amount by which balances in dormant accounts were reduced during the year 1961--
   (a) By maintenance or other charges initiated by your bank?
       Amount
   (b) Because of requirements of escheat laws?
       Amount