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Minutes for February 27, 1962

To: Members of the Board

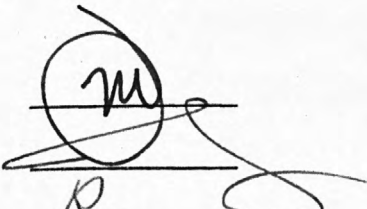
From: Office of the Secretary

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.

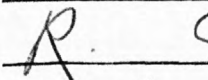
Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, please initial below. If you were present at the meeting, your initials will indicate approval of the minutes. If you were not present, your initials will indicate only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

Chm. Martin

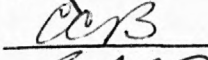


Gov. Mills

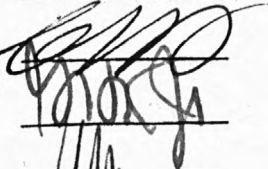
Gov. Robertson



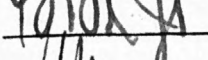
Gov. Balderston



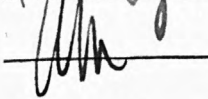
Gov. Shepardson



Gov. King



Gov. Mitchell



Minutes of the Board of Governors of the Federal Reserve System on
Tuesday, February 27, 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. 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. 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. Hexter, Assistant General Counsel
Mr. O'Connell, Assistant General Counsel
Mr. Furth, Adviser, Division of International
Finance
Mr. Conkling, Assistant Director, Division of
Bank Operations
Mr. Leavitt, Assistant Director, Division of
Examinations
Mr. Thompson, Assistant Director, Division of
Examinations
Mr. Young, Senior Attorney, Legal Division
Mr. Veret, Attorney, Legal Division
Mr. Veenstra, Technical Assistant, Division of
Bank Operations
Mr. Grobel, Special Assistant, Division of
Examinations
Mr. Guth, Review Examiner, Division of Examinations
Mr. Lyon, Review Examiner, Division of Examinations

Report on competitive factors (Red Bank-Freehold, New Jersey).

There had been distributed to the Board a draft of report to the Comptroller of the Currency on the competitive factors involved in the

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proposed consolidation of The First National Bank of Freehold, Freehold, New Jersey, and The Monmouth County National Bank, Red Bank, Red Bank, New Jersey.

It was agreed, at the suggestion of Governor Robertson, to make a change in the body of the report to avoid the impression that the approval of another pending bank merger in the area was assured. Also, in the light of suggestions by Governors Mills and Robertson, the conclusion of the report was changed to read as follows:

While The First National Bank of Freehold, Freehold, New Jersey, and The Monmouth County National Bank, Red Bank, Red Bank, New Jersey, are not strong competitors, there does exist a degree of competition which would be eliminated by the proposed consolidation. The continuing bank's service area would be enlarged. The proposal could have some effect on the smaller banks in the county which have been exposed to the influence of a continuing trend of bank mergers.

The report was then approved unanimously for transmittal to the Comptroller.

Survey of branch record keeping procedures. There had been distributed a memorandum from the Division of Bank Operations dated February 21, 1962, summarizing the results of a survey by the Federal Reserve Banks concerning branch record keeping procedures by banks. The survey, which included reports from 201 banks operating a total of 5,196 branches, had been made by the Reserve Banks in response to the Board's letter of December 18, 1961, which was prepared after a Board discussion that began with consideration of the desirability and feasibility of a branch publication requirement and extended into questions

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concerning the reliability of available deposit data by counties and the possibility of collecting more comprehensive deposit data for branches. The survey indicated that the out-of-county deposit figures now being collected were probably quite reliable for most purposes, that out-of-city branch data were generally available from bank records, and that arbitrary shifting of deposit accounts was not an important factor affecting the reliability of these data. The problem appeared to be one of balancing the need for such data against the reporting burden that would be imposed on the banking system. It was pointed out that if the Board should desire to expand the existing out-of-county deposit reporting program at the midyear call date, steps should be taken promptly to begin negotiations with the other bank supervisory agencies and the Bureau of the Budget.

Mr. Farrell noted that the survey grew out of a suggestion by Vice President Crosse of the New York Reserve Bank that branches be required to publish condition reports. Then the Board discussed whether such data, if published, would be meaningful, and whether the data now available were reliable. In view of the latter questions, rather than the original suggestion regarding publication, it was decided to make the survey.

There followed a discussion of the survey, its coverage, the fact that the questionnaire had been limited to data on deposits, and the apparent indication that reasonably accurate deposit figures for

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branches outside the head office city would be generally available. It was noted that the availability of deposit figures for in-town branches had not been proven by the survey, but that coding systems, where maintained, probably would apply to all branches and that almost all of the reporting banks had indicated that such coding systems were maintained.

As to the need for data of this kind, Mr. Noyes brought out that if the Board was contemplating going forward with further study of matters such as the economic and competitive impact of bank mergers and the development of branch banking systems, data on branch deposits presumably would be quite helpful.

Governor Mills commented that he saw the survey as a springboard to getting branch deposit data that would be helpful periodically in connection with holding company and merger applications. Also, as explained by Mr. Noyes, such data might be useful in a broader sense in analyzing the banking structure. It appeared from the survey that there probably would be no insurmountable difficulty in getting branch deposit figures for either in-city or out-of-city branches.

Governor Robertson agreed and went on to express the view that steps should be taken looking toward the collection of such data in a manner that would be least burdensome to reporting banks.

Governor Mitchell indicated that he agreed with Governor Robertson.

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After it had been pointed out that negotiations with the other supervisory agencies would have to be started promptly if any such data were to be collected at the midyear call date, Governor Mills referred to Mr. Crosse's original suggestion that the publication of branch banking figures be required. Personally, he saw no reason why such figures should not be disclosed. However, there had been a strong feeling within some parts of the banking fraternity that banks should not be required to disclose branch figures. If the Board should engage in the collection of branch deposit data, there would have to be a determination as to how the data were to be used. Presumably, they should be used in a way that would not be contrary to the wishes of the banks that had supplied the figures.

In a discussion of this point, Mr. Veenstra suggested that the question might be resolved by use of a proviso, as in the case of the out-of-county figures, that the data for individual banks would not be published, but would be available to the Board for use in connection with the discharge of its responsibilities, such as the processing of bank merger and bank holding company applications.

Reference was made again to the fact that any program for the collection of data would require consultation with the other bank supervisory agencies, upon whom a considerable burden would be placed. In this connection, Governor Robertson noted that the fact that such a program was suggested would not mean necessarily that the program could

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be conducted. Obstacles might be encountered. However, he felt that negotiations should be started.

Chairman Martin then inquired whether it was the wish of the Board that the staff move ahead in order to see what kind of program could be worked out, and it was indicated that this was the desire of the Board. It was understood that the next step would be the preparation of a staff recommendation that might be explored with the other bank supervisory agencies and the Bureau of the Budget.

Messrs. Conkling and Veenstra then withdrew.

Question under Regulation O (Item No. 1). At its meetings on January 29 and January 31, 1962, the Board discussed a question raised by the Federal Reserve Bank of Dallas as to whether the Vice Chairman of the Board of Directors of the Austin National Bank, Austin, Texas, should be regarded as an executive officer of the bank for purposes of the Board's Regulation O, Loans to Executive Officers of Member Banks. The Board had at first deferred action on the question pending inspection of the latest report of examination of the Austin National Bank, which disclosed that the Vice Chairman was indebted to the bank in the amount of approximately \$20,000. It was then suggested that the Board might wish to see the exact form of resolution that had been adopted by the national bank with respect to the executive officer status of the Chairman of its Board of Directors.

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A memorandum from the Legal Division dated February 21, 1962, which had been distributed, indicated that the resolution adopted by the Austin National Bank regarding the Chairman's nonparticipation in the operating management of the bank was dated December 9, 1947. The resolution, which was quoted in the memorandum, was in standard form. The memorandum stated that the Legal Division continued to concur in the view of the Dallas Reserve Bank 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. However, it was also the view of the Reserve Bank's Counsel, concurred in by the Legal Division, that both the Chairman and Vice Chairman of the Austin National Bank should be considered executive officers, notwithstanding the resolution, because of their authority to execute all documents and instruments on behalf of the bank. This view was based on a 1940 unpublished interpretation of the Board which held that an inactive vice president, who also served as a director, should be considered an executive officer because his authority to sign deeds, checks, drafts, and other documents in the absence of the president involved participation in the operating management of the bank.

After comments by Mr. Hackley, Governor Mills said that he had converted completely to the position of the Legal Division. He suggested that the letter originally proposed by the Legal Division be issued in the form of an S-letter so that all Federal Reserve Banks would be

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acquainted with it. He recalled that at a recent discussion in the Board's offices, officers of NABAC, the Association for Bank Audit and Control, had indicated that inspection of the records concerning borrowings of executive officers was regarded as an important audit function.

No views being expressed to the contrary, it was agreed unanimously that the Vice Chairman of the Austin National Bank should be regarded as an executive officer for the purposes of Regulation O. Accordingly, it was understood that the letter originally proposed by the Legal Division would be sent to the Federal Reserve Bank of Dallas. A copy of the letter, as sent, is attached as Item No. 1.

Question was raised whether the opinion, in addition to being made the subject of an S-letter, should be published in the Federal Reserve Bulletin, and it was the view of the Board that this would be desirable.

Mr. Young (Senior Attorney) then withdrew from the meeting.

Applications of General Bancshares Corporation. There had been distributed to the Board a memorandum from the Division of Examinations dated February 9, 1962, recommending approval of applications by General Bancshares Corporation, St. Louis, Missouri, to acquire up to 100 per cent of the voting shares of the Commercial Bank of St. Louis County, Olivette, Missouri, and the Lindbergh Bank, Hazelwood, Missouri. Approval also had been recommended by the Commissioner of Finance for the State of

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Missouri and by the Federal Reserve Bank of St. Louis. A memorandum from the Legal Division dated February 20, 1962, expressed the opinion that approval by the Board would constitute a reasonable discretionary action under the Bank Holding Company Act and would be sustained in the event of judicial review. In the opinion of the Legal Division, denial of either application would be less likely to be sustained.

In commenting on the applications, Mr. Solomon noted that the applicant bank holding company controlled one fairly good-sized bank in downtown St. Louis, along with three other banks within the city limits. It also owned three banks in Illinois and one in Tennessee. It now proposed to acquire two banks in outlying parts of the St. Louis metropolitan area, the stated purpose being to participate in the growth of such outlying areas. The two banks concerned were relatively new banks, one having opened for business in 1959 and the other in 1961. Each of those banks was established by officers and directors of the holding company. They would be acquired from those officers and directors at a substantial premium, but the terms had been made known to the stockholders of the holding company and had been approved by them. There appeared to be virtually no competition between the two banks sought to be acquired, or between them and any of the banks now in the holding company group. A formal objection had been filed by a national bank in Clayton, Missouri, concerning the proposed acquisition of the Commercial Bank of St. Louis County, but in the opinion of the Division of Examinations the objections did not seem sufficiently valid to carry much weight.

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In summary, Mr. Solomon said, the applications did not offer strong reasons for approval. On the other hand, there did not seem to be strong reasons for disapproval. If the acquisitions were consummated, the holding company group would still have only a modest representation in the banking structure of the City of St. Louis and St. Louis County.

Governor Mitchell noted that the same individual (Mr. Preston Estep) was Chairman of the Board of the holding company and of each of the two banks proposed to be acquired. Therefore, the proposed acquisitions did not appear to be arms-length transactions. Further, he had gained the impression from the available information that the management of the holding company was not strong or particularly competent. The holding company had been obtaining heavy dividends from its subsidiary banks, and those banks had a substantial depreciation in their bond portfolios. Additionally, the holding company was short of capital. In summary, he had a feeling that perhaps this was not the type of management that ought to be in the banking business.

Mr. Solomon said, in reply, that the holding company seemed to feel that the growth of its present subsidiary banks was limited, that those banks were not likely to need significant additional amounts of capital, and that in the circumstances there was justification for their paying out a relatively high percentage of their earnings in the form of dividends. He and Mr. O'Connell pointed out that the applicant and the Federal Reserve Bank appeared to feel that the acquisition of the two suburban banks would improve the prospects of the holding company.

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Mr. Solomon also said that originally he had had somewhat the same reaction as Governor Mitchell on the question of arms-length dealing. However, the persons who were principally interested and who might be damaged were the stockholders of the holding company, and complete disclosure had been made to them.

Governor Robertson commented that Mr. Estep had organized both of the banks proposed to be acquired. Now it was proposed to sell them to the holding company at a substantial premium. While the terms had been disclosed to the stockholders of the holding company, the stock of the holding company apparently was rather widely scattered, which might mean that Mr. Estep, although his holdings were relatively small, could exert an effective control. The circumstances were such that they raised in his mind, Governor Robertson said, a question as to the integrity of the management of the holding company. As to the proposed expansion of the holding company per se, he would have no question. Also, there having been disclosure to the shareholders of the holding company--and assuming that the shareholders did not go along just out of habit--perhaps there was not too much to be said on that point. In summary, he was skeptical about the whole situation, but he had difficulty in finding a sufficient basis for disapproval of the applications.

Governor Mills said he shared all of the reservations expressed by Governor Mitchell. He considered this a marginal situation. In his opinion, the dominant factors suggesting disapproval were the banking

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factors. This was a holding company with limited capital in comparison to the scope of its operations, and with a heavy debt that had been reduced only minimally in the two years since the debt was incurred. Further, the holding company was going to have to press heavily on the earnings of its other subsidiary banks if the two additional banks were acquired. Thus, he felt that the banking factors carried more weight in this case than the competitive factors. From the available data, it was his impression that the present subsidiary banks might be weakened as a result of the proposed acquisitions.

Governor Shepardson commented that he did not have any question regarding the competitive aspects of the proposed transactions. However, he was not certain whether the further expansion of the holding company could be justified in view of the quantity of material in the Division memorandum that seemed to raise questions about the financial capacity of the holding company, including its ability to service its present substantial indebtedness.

Mr. Solomon replied that he supposed the answer of the holding company would be that the proposed acquisitions represented an effort to improve its situation in the longer run. It was hoped that the growth of the outlying banks would strengthen the prospects of the holding company group as a whole. Presumably the lack of growth prospects of the present subsidiary banks might mean that they could contribute to the capital of the two suburban banks if those institutions were to grow.

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Governor King indicated that he saw no question, from the standpoint of the competitive factor, in terms of the size or expansion of the holding company. It was difficult for him to see that the holding company group would be operated, if the two banks were acquired, in a manner any less favorable to the public interest than at present. In his view the critical question was the possibility of weakening the financial structure of the holding company by acquiring these two banks at a substantial premium. However, if the persons who were primarily concerned, namely, the shareholders of the holding company, had been properly advised, he doubted whether there would be a substantial basis for disapproval in spite of such reservations as might be held.

Mr. Hackley commented that the motivation underlying the proposal of the holding company apparently was to improve its prospects. The competitive factors did not seem too important in this case. If the Board were to disapprove, it seemed to him that perhaps it could do so only on the ground that the acquisition of the two banks would not improve the over-all prospects of the holding company group, and in fact might worsen the position of the holding company's present subsidiary banks, particularly those outside Missouri. If the Board should disapprove solely on that ground, conceivably an announcement of the decision could adversely affect the holding company and the price of its stock. He was not sure, however, whether that was a relevant consideration.

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After further discussion, Mr. Solomon said that as he understood the comments made at this meeting, there seemed to be no particular question about the competitive aspects of the case. However, the Board did have some questions about the financial or banking aspects. If the Board so desired, the Division of Examinations would make a further review of those facets of the matter and submit a more detailed analysis.

Chairman Martin said that he thought this would be desirable. As he read the available material, this case had some doubtful aspects but there was a question whether they afforded a sufficient basis for disapproval.

Governor Mitchell suggested that any further staff documentation include an analysis of the record and management of the holding company. He indicated that those aspects of the case were of particular concern to him.

Accordingly, it was agreed to defer action on the applications pending preparation of a further memorandum from the Division of Examinations along the lines that had been suggested.

Messrs. Thomas, O'Connell, Leavitt, Thompson, Grobel, Guth, and Lyon then withdrew.

Report on S. 2885 (Item No. 2). The Senate Banking and Currency Committee had requested a report on S. 2885, which would repeal existing silver purchase legislation, authorize the Federal Reserve Banks to issue Federal Reserve notes of \$1 denomination, and terminate the special

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tax on transfers of interests in silver bullion. On February 5, 1962, the Board had expressed its views to the Bureau of the Budget on a draft bill identical to S. 2885.

There had been distributed to the Board a memorandum from the Legal Division dated February 26, 1962, submitting a draft of letter to the Senate Banking and Currency Committee similar to the Board's earlier letter to the Budget Bureau. The proposed letter would continue the suggestion made to the Budget Bureau that the Federal Reserve Banks be authorized to issue \$2 Federal Reserve notes as well as notes of \$1 denomination.

In discussion, Governor Mills said that he would not repeat at this point the reservations he had expressed earlier concerning the proposed silver legislation. The proposed letter, he noted, was in conformance with the position that the majority of the Board had already taken on this subject.

Accordingly, the proposed letter was approved. A copy is attached as Item No. 2.

Report on H.R. 8874. The Board had approved yesterday a letter to the House Banking and Currency Committee reporting on H.R. 8874, a bill having to do with bank investments in bank service corporations. Question was raised by Mr. Hackley with regard to the possibility of furnishing copies of the Board's letter to the American Bankers Association and the Association of Registered Bank Holding Companies, both of which

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had a direct interest in the bill and with both of which the Board's staff had discussed the matter to some extent. It was the view of the Board there would be no objection to furnishing copies of the letter to those organizations provided a check with the House Banking and Currency Committee revealed there would be no objection on the part of the Committee.

Mr. Veret then withdrew from the meeting.

Statement on H.R. 10162. There had been distributed to the Board a draft of statement to be presented tomorrow by Chairman Martin in connection with hearings by the House Banking and Currency Committee on H.R. 10162, a 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.

In discussion of the draft testimony, question was raised as to the advisability of devoting a substantial part of the statement to the recently initiated System program of foreign currency operations.

In response, Chairman Martin advised that it was his understanding that he had been called upon to testify in connection with the hearings on H.R. 10162 primarily because of the interest of the Committee in the System program, including the relationship between that program and the arrangements envisaged by the bill under consideration. There was the choice of describing the nature and objectives of the System program in a prepared statement or of dealing with the subject informally in response to questions that seemed certain to be raised.

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There appeared to be general agreement with the view that it would be advisable, in the circumstances, to make appropriate reference to the System program in the prepared statement. However, there were comments by several Board members to the effect that it might be possible to condense the pertinent portions of the statement while retaining essential material.

Further comments on the draft statement reflected a view on the part of several members of the Board that the tone was such as to create undue apprehension regarding the current and prospective position of the dollar. Accordingly, a number of suggestions were made as to ways in which the tone of the statement might be modified. There were also suggestions with respect to the manner of presentation in relating the System program of operations in foreign currencies to the proposed enlargement of the resources of the International Monetary Fund.

At the conclusion of the discussion, it was understood that the comments made at this meeting would be taken into consideration in the preparation of a revised draft of statement and that the statement would be presented in a final form satisfactory to Chairman Martin.

Messrs. Young and Furth then withdrew from the meeting.

Proposal to pay part of cost of national bank examinations

(Item No. 3). On February 19, 1962, Governor Robertson was requested to discuss with the Comptroller of the Currency, as the designated representative of the Board, the Comptroller's proposal under which the

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Federal Reserve and the Federal Deposit Insurance Corporation would pay part of the cost of examinations of national banks. In a memorandum dated February 23, which had been distributed to the Board, Governor Robertson reported a meeting with the Comptroller on February 20, at which staff members of the Board and the Comptroller's Office also were present. At that time the Comptroller had furnished copies of a memorandum dated February 8 concerning his proposal, and copies thereof were attached to the distributed memorandum. The Comptroller's proposal, in brief, was that the Board and the Federal Deposit Insurance Corporation each assume a share of total national bank examination costs equivalent to 2¢ per \$1,000 of the total resources of all national banks, or currently approximately \$2,840,000 annually for each agency. An alternative might be for the other two supervisory agencies to pay for copies of national bank examination reports on the basis of a sliding scale ranging from a minimum of \$25 per copy for reports of banks with assets of less than \$1 million to a maximum of \$10,000 per copy for reports of banks with assets of over \$2 billion. Such rates would result in total annual payments of approximately \$1.5 million by each agency. However, this method was regarded as less satisfactory since it would involve extensive analysis of banks by size groups at each assessment period, as well as possibly a laborious detail of billing for the costs of examination reports.

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In his memorandum, Governor Robertson pointed out that over a number of years there had been occasional discussions about the fact that national banks pay the entire cost of the Comptroller's examinations whereas State member and nonmember insured banks are examined by Federal supervisory authorities either without cost or at a cost less than the actual cost of the examinations and related supervisory functions. Over five years ago, question had been raised whether the Federal Reserve and the Federal Deposit Insurance Corporation should make some contribution or payment to the Comptroller's Office in order to diminish this "inequity"; possible legislation was drafted, but was not introduced. Attached to the memorandum was a copy of a reply that Governor Robertson had made under date of May 23, 1956, expressing his views on this subject to former Deputy Comptroller Jennings. Subsequently, the Board opposed such a proposal in a letter to the Budget Bureau dated October 19, 1956.

The memorandum raised the question whether the present proposals were contemplated or permitted by Federal law. From the viewpoint of Federal Reserve expenditures, it might be that payments to the Comptroller to help defray the costs of national bank examinations would be legally and practically justifiable since all national banks are also member banks. Whether such expenditures by the Federal Deposit Insurance Corporation would be legally appropriate would be a matter for determination by the Corporation, in the first instance. However, there was considerable evidence that the Congress intended, in the case of national banks, that

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examination costs and related costs be paid by the national banks themselves. Section 21 of the Federal Reserve Act provides that the expense of the examinations of national banks shall be assessed by the Comptroller of the Currency upon national banks in proportion to their assets or resources. The statute usually had been interpreted in this way for almost a century, although at times the Reserve Banks had paid as much as \$50 for their copies of examination reports of national banks.

At the meeting on February 20, the Comptroller had indicated that the fees charged the Federal Reserve and the Federal Deposit Insurance Corporation for copies of national bank examination reports did not cover even out-of-pockets costs, and Governor Robertson had expressed the personal view that the Comptroller's Office would be justified in charging the full cost of making and transmitting the extra copies, calculated on any reasonable cost accounting basis. However, Governor Robertson expressed the view in his memorandum that a charge covering not only the cost of preparation of the copies but also a substantial part of the cost of making the examination would be inappropriate, for that would be simply an alternative way of making contributions to the cost of national bank examinations. In this connection, he had emphasized to Mr. Saxon that payments in excess of the actual cost of such copies would be tantamount to shifting a part of the cost of national bank examinations from the banks to the Federal Treasury.

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In concluding his memorandum, Governor Robertson expressed the opinion that partial payment of the cost of national bank examinations by the Federal Reserve System (or by the Federal Deposit Insurance Corporation) would be inappropriate and probably contrary to law, unless section 21 of the Federal Reserve Act was amended to prescribe such allocation of examination costs.

After discussing various aspects of the proposal, as outlined in his memorandum, Governor Robertson said his recommendation would be to advise the Comptroller that the Board had considered the proposal in the light of the statutes and had concluded it would not be feasible for the Federal Reserve to make a contribution to the expense of examining national banks; that, however, the Board felt that the cost of making and transmitting extra copies of examination reports made available to the Federal Reserve, as calculated on any justifiable cost accounting basis, should properly be paid by the Federal Reserve.

Mr. Hackley commented that the question whether the Comptroller could, under the statutes, meet the cost of operations of his Office and the cost of examinations in any manner other than by assessments upon national banks could be regarded as a legal question for the Comptroller's legal staff to decide. On the other hand, he felt it was seriously questionable whether the Board had legal authority to contribute to the cost of operations of the Comptroller's Office except to the extent that the contribution might represent an expense of the Board's

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own functions. Payment of the actual cost of copies of examination reports would be appropriate; but if the payment was so large as to be a means of contributing to the expenses of the Comptroller's Office, there might be a serious legal question.

Mr. Hexter commented that there might be a serious question as to the propriety of the Federal Reserve making a contribution that in its own judgment would be contrary to Congressional intent as expressed in the National Bank Act.

Governor Mills said he agreed with Governor Robertson and, further, that he would urge caution in determining the amount that the Federal Reserve would be willing to pay for copies of examination reports. If there was no Federal Reserve System or Federal Deposit Insurance Corporation and all banks were national banks, under existing law the Comptroller would have to recover the costs of examinations from the national banks themselves. It was just a circumstance in the structure of supervisory agencies that the Federal Reserve was a party to the matter at all. A principal function of the Comptroller was to examine the banks that came under his supervision; he would have to do that in any event. The Federal Reserve's interest in copies of examination reports was not a primary interest because it relied on the Comptroller to exercise primary supervision over national banks, just as the Federal Deposit Insurance Corporation relied on the Federal Reserve with respect to State member banks. He did not see why the Federal Reserve should be asked to make a

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contribution to the costs incurred by the Comptroller in exercising his statutory functions. However, he would be agreeable to paying the out-of-pocket cost incurred in preparing copies of examination reports that were furnished to the Federal Reserve.

In reply to a question, Governor Robertson and Mr. Solomon indicated that the Comptroller's Office was unable to furnish recent data on the cost of State bank examinations. It was understood that the Comptroller felt, in any event, that such information was not particularly relevant to the present question, because the Board presumably would be unwilling to accept examinations conducted by the State authorities in the same manner that it accepted examinations made by the Comptroller.

Question was raised as to the need of the Federal Reserve for copies of national bank examination reports, and some of the uses made of them were outlined by Governor Robertson.

After further discussion, it was indicated that all of the members of the Board agreed with the position that had been recommended by Governor Robertson. Accordingly, Governor Robertson was authorized to advise the Comptroller to such effect. It was understood that if the Comptroller should express a desire to meet with the Board as a whole on this matter, Governor Robertson would indicate that the Board would be agreeable to such a meeting.

Secretary's Note: A copy of the letter subsequently sent to the Comptroller of the Currency by Governor Robertson, in confirmation of a telephone conversation, is attached as Item No. 3.

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The meeting then adjourned.

Secretary's Note: Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson today approved on behalf of the Board the following actions relating to the Board's staff:

Salary increases

Daviette H. Stansbury, Research Assistant (Data Processing), Division of Research and Statistics, from \$2,843 to \$3,218 per annum (half-time basis), effective March 4, 1962.

Kay J. Auerbach, from \$5,685 to \$6,435 per annum, with a change in title from Research Assistant to Economist, Division of International Finance, effective March 4, 1962.

Acceptance of resignations

Gail J. Lennon, Draftsman, Division of Research and Statistics, effective at the close of business March 13, 1962.


Frederick R. Dahl, Economist, Division of International Finance, effective at the close of business March 3, 1962.

Establishment of new position

New position of Economist in the Special Studies and Operations Section of the Division of International Finance, in connection with the System's activities in the field of foreign exchange operations.

Additional sensitive position

Position of Statistical Assistant in the Division of International Finance determined to be a sensitive position, with the understanding that the incumbent (Pearl G. Farrington) would be cleared by means of a full field investigation.


Secretary

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

Item No. 1
2/27/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



February 28, 1962

Mr. L. G. Pondrom,
Vice President,
Federal Reserve Bank of Dallas,
Dallas 2, Texas.

Dear Mr. Pondrom:

This is in response to your letter of December 19, 1961, with enclosures, in which you have requested the views of the Board as to whether the Vice Chairman of the Board of Directors of the Austin National Bank, Austin, Texas, is an "executive officer" within the meaning of that term as defined in the Board's Regulation O.

It is understood that the Vice Chairman of the Board of the Austin bank, in the absence of the Chairman, serves as a member of the Loan and Discount Committee and also, in the absence of the Chairman, is authorized to execute any and all documents or instruments on behalf of the bank. It is further understood that the Austin bank has adopted a resolution to the effect that the Chairman of the Board is not authorized to participate in the operating management of the bank and does not actually so participate otherwise than in his capacity as director.

Under section 215.1(b) of Regulation O the chairman of the board of directors of a member bank is assumed to be an executive officer unless it is provided by resolution of the board of directors or the bank's by-laws that he is not authorized to participate in the operating management of the bank and he does not actually participate therein. In view of this provision, although a bank may have adopted such a resolution with respect to the chairman, he must be considered an executive officer if in fact his duties involve participation in the operating management of the bank. Likewise, the vice chairman would be an executive officer if, in the absence of the chairman, he has authority to perform such duties.

It appears from the information supplied that the Loan and Discount Committee, which consists only of members of the Board of Directors, does not actually make loans but rather reviews loans

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Mr. L. G. Pondrom

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made by loan officers of the bank and acts in a supervisory and advisory capacity. The Board is of the view that these duties are such as are normally performed by directors, as contrasted with the duties of management, and accordingly would not make either the Chairman or the Vice Chairman an executive officer for the purpose of Regulation O.

However, it is also the view of the Board that the Chairman and Vice Chairman of the Austin bank do participate in the operating management of the bank because of their authority to execute any and all documents or instruments on behalf of the bank. The Board is in agreement with the views expressed by your Counsel in this regard that the broad authority to execute such documents brings both the Chairman and the Vice Chairman within the Board's 1940 unpublished interpretation (F.R.L.S. #6587) to the effect that an inactive vice president of a member bank who was authorized to sign deeds, checks, drafts, and other documents in the absence of the president, but who was expressly denied authority to make loans or to perform any of the other duties of an executive officer, should be considered an executive officer.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 2
2/27/62

OFFICE OF THE CHAIRMAN

February 27, 1962.

The Honorable A. Willis Robertson,
Chairman,
Committee on Banking and Currency,
United States Senate,
Washington 25, D. C.

Dear Mr. Chairman:

This is in response to your letter of February 23, 1962, requesting a report by the Board of Governors on S. 2885, a bill "To repeal certain legislation relating to the purchase of silver, and for other purposes." The bill would (1) repeal provisions of the Acts of June 29, 1934, July 6, 1939, and July 31, 1946, relating to the purchase of silver; (2) authorize the Federal Reserve Banks to issue Federal Reserve notes of one dollar denomination; and (3) terminate the special tax on the transfer of interests in silver bullion.

1. The Board believes that it is unnecessary to utilize silver as part of the United States monetary system other than as a material for coinage. Therefore, there is no need for retention of the existing silver purchase provisions.

2. The Board favors the proposed amendment of the law that would authorize the issuance of Federal Reserve notes in one dollar denomination in addition to those denominations already authorized. However, the Board believes that any replacement or supplementation of the supply of silver certificates with such Federal Reserve notes should take place gradually enough to moderate any effect on the statutory minimum gold certificate reserve.

It is noted that the result of the bill would be to authorize the Federal Reserve System to issue notes in all present denominations of currency with the exception of the two dollar denomination. In the interest of flexibility, it may be considered

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

The Honorable A. Willis Robertson -2-

appropriate to authorize issuance of two dollar as well as one dollar Federal Reserve notes.

3. The Board would not object to the repeal of the special tax on transfers of interests in silver bullion.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 3
2/27/62

JAMES LOUIS ROBERTSON
MEMBER OF THE BOARD

February 27, 1962

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

Dear Jim:

Pursuant to the understanding reached at our luncheon meeting a week ago concerning your proposal that the Federal Reserve and the Federal Deposit Insurance Corporation each pay part of the costs of national bank examinations, the memorandum dated February 8th which you left with me was submitted to the Board for its consideration. It was concluded that the Board could not accede to your request. As you know, section 5240 of the Revised Statutes (12 U.S.C. 482) provides that "The expense of the examinations of national banks... shall be assessed by the Comptroller of the Currency upon national banks in proportion to their assets or resources." Consequently, for the Federal Reserve System to make a contribution to your office in partial payment of the cost of examinations of national banks would be inappropriate and probably contrary to law.

In addition to the legal factor, there also exist questions of equities, such as the dollar amount of examination costs borne by national banks and by state banks of comparable size. These problems were fairly well covered, I think, in my letter to your office dated May 23, 1956, when a somewhat similar proposal was made. I am sure you have a copy of the letter and therefore will not repeat the points therein made.

However, as I think was brought out in our meeting, it is my opinion (which is shared by the Board) that the Federal Reserve would be justified in reimbursing your office for the full cost of making and transmitting to us the extra copies of reports, calculated on any reasonable cost accounting basis. Of course, the cost must relate to the copying and transmitting of the reports rather than the cost of making the examinations.

Honorable James J. Saxon:--#2

If you would like to discuss this matter further, I would be glad to arrange a meeting to suit your convenience.

With best regards, I am

Sincerely,

(Signed) J.L.Robertson

J. L. Robertson