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Minutes for March 8, 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

W

Gov. Mills

[Signature]

Gov. Robertson

R

Gov. Balderston

CB

Gov. Shepardson

[Signature]

Gov. King

[Signature]

Gov. Mitchell

[Signature]

Minutes of the Board of Governors of the Federal Reserve System  
on Thursday, March 8, 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. Thomas, Adviser to the Board  
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. Johnson, Director, Division of Personnel  
Administration  
Mr. Hexter, Assistant General Counsel  
Mr. Koch, Adviser, Division of Research and  
Statistics  
Mr. Conkling, Assistant Director, Division of  
Bank Operations  
Mr. Goodman, Assistant Director, Division of  
Examinations  
Mr. Leavitt, Assistant Director, Division of  
Examinations  
Mrs. Semia, Technical Assistant, Office of the  
Secretary  
Mr. Partee, Chief, Capital Markets Section,  
Division of Research and Statistics  
Mrs. Ulrey, Economist, Division of Research and  
Statistics  
Mr. Langham, Chief, Call Report Section, Division  
of Bank Operations

Extension of basic hospitalization plan (Item No. 1). A memo-  
randum dated February 21, 1962, from the Division of Personnel Administration  
had been circulated in connection with a request from the Federal Reserve  
Bank of Atlanta in a letter dated October 9, 1961, for approval of an  
extension of its basic hospitalization plan. The extension contemplated

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the inclusion of a "student definition" clause that would provide protection for unmarried children 19 but less than 23 years of age who were dependent upon a Bank employee for support and who were attending an accredited college or university. The Atlanta Bank estimated the cost of such coverage at \$780 a year and requested approval of the assumption of two-thirds of the additional cost by the Bank.

The proposed extension appeared to be a matter of System interest because none of the other Reserve Banks had a "student definition" clause in its current basic hospitalization plan, and therefore the Board had requested the views of the Conference of Presidents. The Conference referred the matter to its Subcommittee on Personnel, which recommended that the clause not be incorporated in the basic plan either System-wide or by any individual Bank. However, at its meeting on December 4, 1961, the Conference of Presidents rejected the recommendation of the Subcommittee and unanimously approved a recommendation of its Personnel Committee that uniformity of practice among the Reserve Banks not be required with respect to inclusion of the student definition clause in their basic hospitalization plans. At that time President Bryan asked that the Board delay acting on the Atlanta Bank's request until he had had an opportunity to comment in detail on the report of the Subcommittee on Personnel, since the student definition clause question had been raised initially by the Atlanta Reserve Bank. Recently, however, he had indicated that he had decided not to submit such comments, and

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asked that the Board proceed with its consideration of the Atlanta Bank's request.

The memorandum reviewed the benefits already available to student dependents under the System major medical program, and listed arguments for and against student definition coverage in the basic contracts. After balancing those arguments, the Division of Personnel Administration favored permitting the extension of coverage to include a student definition clause and recommended that the Board approve the Atlanta Bank's request for inclusion of such a clause in its basic coverage and the assumption by the Bank of two-thirds of the additional cost involved. The Division further suggested that, if the Board approved this recommendation, the other Reserve Banks be so informed. Attached to the memorandum was a draft of letter to President Bryan reflecting the Division recommendation.

Governor Mills noted that one of the arguments adverse to the inclusion of the student definition clause was that the benefits of the coverage would be enjoyed principally by higher income groups. He had a certain amount of sympathy with that argument, which involved the equity of a Federal Reserve Bank according a privilege to a select group when other groups would not be in a position to avail themselves of the same privilege.

Governor Robertson stated that he had the same feeling, which he believed also coincided with the attitude of most of the Federal Reserve Bank Presidents. However, in his view the matter was not of sufficient importance to warrant interposing an objection.

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Governor Shepardson commented that his preference would have been not to include the student definition clause. However, the Presidents' Conference had taken a position that the decision should be left to the individual Reserve Banks, and he would not be inclined to oppose that position.

The letter to President Bryan was thereupon approved unanimously, with the understanding that the other Reserve Banks would be informed of the Board's action. A copy of the letter to President Bryan is attached as Item No. 1.

Mr. Johnson then withdrew from the meeting.

Reports from unregulated lenders. A memorandum dated March 6, 1962, from Mr. Noyes, had been distributed, accompanied by a draft of letter to the President of the New York Stock Exchange requesting assistance in developing a comprehensive list of unregulated lenders, as defined in Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Registered Stocks. The draft letter recalled that since 1959 Regulation U had included a reporting requirement for persons other than brokers or banks who extended stock market credit. An initial report was solicited from such lenders early in 1960, and firms that had since begun extending stock market credit were expected to file reports within ninety days of their first loan. The Board was now preparing to supplement the initial responses with more detailed periodic reporting from lenders for whom the extension of stock market credit constituted an important part of their business.

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Continuing, the draft letter stated that as measured by responses to the initial reporting requirement the amount of credit extended by unregulated lenders appeared quite small compared with the aggregate figures on stock market credit. However, there had been indications that such credit flows greatly exceeded the amount reported; if so, there must be cases of noncompliance with the reporting requirement.

Governor Balderston commented that it had seemed to him inappropriate that the list of unregulated lenders that the System had collected be disclosed to the New York Stock Exchange. However, he felt that it might be in order for a Federal agency to ask cooperation from the Exchange in supplying names that had come to the attention of the Exchange.

Governor Mills raised a question about the timing of the inquiry to the Stock Exchange in view of comments in the annual report of the Exchange that had seemed to criticize the Board's policing of unregulated lenders. It was his feeling that, in the circumstances, the receipt of a Board letter at this time might be misinterpreted by the Exchange.

Staff comments noted that the criticism in the annual report of the Exchange had been directed basically at certain alleged inadequacies of the Securities Exchange Act, which could be construed as criticism of the Congress as well as of the Board.

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The ensuing discussion centered upon possible sources of information in regard to unregulated lenders, and the suggestion was made that the Securities and Exchange Commission might be able to offer some names of such lenders. The Commission had been asked by Congress to undertake a study of the adequacy, for the protection of investors, of the rules of national securities exchanges. In the course of that study, and pursuant to permission recently granted by the Board, representatives of the Commission were reviewing the reports made to the Board on Form FR-728, "Confidential Report of Securities Credit Extended by Lender Other Than a Bank or Broker." Comment was made that it would seem entirely appropriate to ask the assistance of another Government agency (the Securities and Exchange Commission), whereas there might be some question about asking the New York Stock Exchange to supply names.

Governor King then suggested that, instead of handling the matter by letter, Chairman Martin might confer informally with the President of the New York Stock Exchange. Governor Robertson suggested, in that connection, that instead of asking the Exchange for names of unregulated lenders, the Chairman might discuss the matter in terms of inquiring whether the Exchange had any suggestions as to how the Board might obtain the names of such lenders.

At the conclusion of the discussion it was agreed that Chairman Martin would discuss the subject informally with the President

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of the New York Stock Exchange, and that the Board's staff would seek the assistance of the Securities and Exchange Commission in supplying the names of any unregulated lenders of whom it might be aware, other than those who had already submitted reports to the Board.

Mr. Partee and Mrs. Ulrey then withdrew from the meeting.

Bank of America branches (Item No. 2). In a letter and memorandum dated December 26, 1961, and in conferences with Chairman Martin and Governor Balderston, Bank of America National Trust and Savings Association, San Francisco, California, had presented a question in regard to its overseas branches and those of its wholly-owned subsidiary, Bank of America, New York. In essence, the national bank suggested that, in order to reduce expenses and at the same time increase the efficiency of its overseas branch operations, three alternatives were available: first, to consolidate all overseas branches under Bank of America, New York; second, to consolidate all overseas branches in Bank of America National Trust and Savings Association; and third, to continue to operate branches under both organizations but to centralize supervisory and administrative control in San Francisco.

There had been distributed a draft of letter to Bank of America National Trust and Savings Association stating that the Board believed that determinations as to the most effective ways for a member bank to conduct its overseas operations, under the provisions of section 25 or section 25(a) of the Federal Reserve Act, or both,



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were matters to be decided primarily by the member bank itself. Since in this case the management of the bank had concluded that the most desirable of the three alternatives presented would be to consolidate all branches under Bank of America National Trust and Savings Association, the Board would interpose no objection to eventual conversion of the present branches of Bank of America, New York, to branches of the parent bank. However, it should be understood that actual conversion of individual branches would require formal application to, and approval by, the Board of Governors.

The draft letter would conclude by stating that in agreeing to the bank's proposal, the Board would expect the bank to bear in mind the views the Board had indicated in the past in regard to the importance of maintaining the bank's capital in appropriate relationship to the character and condition of its assets and deposit liabilities and other corporate responsibilities.

Governor Mills raised a question as to whether the proposed letter should include an inquiry regarding the nature of operations envisaged for Bank of America, New York, if its foreign branches were converted to branches of the parent bank.

In reply, Mr. Goodman suggested that although such an inquiry could be made, the answer seemed fairly apparent. A substantial proportion of the total assets of Bank of America was identified with

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banking operations conducted by the New York Office, and he assumed that there would be a desire to continue those operations. He added that there had been indications from time to time that the parent bank might also want to organize an Edge Act financing corporation.

Governor Mills then commented that in his view Bank of America, New York, was becoming more and more of a financial anachronism. It appeared to be operating within the law, but its range of operations was difficult to follow and, for him at least, to reconcile in all respects with the general purposes of the Edge Act.

Mr. Goodman alluded to the rather complex nature of one of Bank of America's overseas investments, and Governor Mills indicated that this illustrated what he had had in mind. To a lesser degree, this kind of involvement was also of concern to him in connection with the operations of other Edge Act corporations. He gathered that, in connection with the current review of Regulation K, some Edge Act corporations were going to request further regulatory liberalization, whereas in his view a lesser degree of liberality and closer supervisory control might be in the public interest.

With reference to the last paragraph of the proposed letter, relating to adequacy of capital, it was noted that Bank of America National Trust and Savings Association had only recently increased its capital structure. In light of that fact, it was agreed that the paragraph should be deleted, subject to the understanding that such an

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expression might be reinstated in future letters to the national bank if that should be deemed appropriate at the time. With that deletion, the letter was approved unanimously. A copy is attached as Item No. 2.

Recommendations on national bank applications (Item No. 3).

Reference was made to a letter dated March 2, 1962, from the Deputy Comptroller of the Currency to the effect that recommendations of the Board of Governors as to the merits of applications to organize national banks were no longer being requested. However, the letter indicated that where investigations had already been made on such applications, the recommendations might be forwarded.

Under date of March 7, 1962, a draft of letter to the Presidents of the Federal Reserve Banks had been distributed. The draft stated that no further investigations of applications for national bank charters should be undertaken, but that the reports of any investigations already conducted should be sent to the Board.

Governor Robertson suggested that there would seem to be no need for spending more time on the preparation or processing of reports, even in those cases where investigations had been completed, since he understood that the Comptroller of the Currency would intend simply to file them. Therefore, he suggested that the letter to the Federal Reserve Banks be reduced to a cancellation of the outstanding instructions to the Reserve Banks and a statement that no further reports would be necessary.

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After discussion, the letter to the Federal Reserve Banks, revised as suggested by Governor Robertson, was approved unanimously. A copy of the letter so approved is attached as Item No. 3.

Requests for permission to carry reduced reserves. Governor King referred to a file now in circulation to the Board with reference to requests of Central National Bank and Exchange National Bank, both of Chicago, Illinois, for permission to carry reduced reserves. The memorandum from the Division of Bank Operations indicated that, although two years ago the directors of the Chicago Reserve Bank had recommended that the request of Central National Bank be granted and that of Exchange National Bank denied, President Scanlon believed that, in the light of interim developments, the Chicago directors would now recommend denial of the Central National request also. Governor King stated that, if this matter should be considered at a meeting when he was not present, he would like the record to show that in his opinion it was not appropriate to assume what position the Chicago directors would take. Instead, he felt that the matter should be resubmitted to the Reserve Bank for a recommendation in the light of current circumstances.

All of the members of the staff then withdrew and the Board went into executive session.

Luncheon for insurance company officers. The Secretary was informed later than during the executive session the Board authorized

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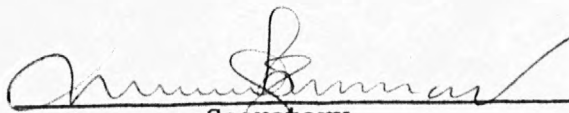
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extending an invitation to a group of about 22 investment officers of insurance companies in the New York-Hartford area to have lunch at the Federal Reserve Building on April 19, 1962, in connection with a visit by that group to Washington.

Open Market Committee minutes. The Secretary also was informed that during the executive session the Board discussed the possible desirability of arranging for publication of the minutes of the Federal Open Market Committee for the period from approximately 1950 to some fairly current date, and it was understood that Chairman Martin would take the matter up with the Open Market Committee, the members of the Board having expressed the view that it would be desirable if the minutes could be published on a verbatim basis. In this connection, there was also some discussion of the possibility of preparing a commentary on the published minutes, and the view was expressed that the preparation of any such commentary should not be under Federal Reserve auspices.

The meeting then adjourned.

Secretary's Note: The Annual Report of the Board of Governors for 1961 was submitted to the Speaker of the House of Representatives, pursuant to the requirements of section 10 of the Federal Reserve Act, on March 8, 1962. A copy of the Report was also furnished to the President of the Senate for the information of the Senate.

  
Secretary

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

Item No. 1  
3/8/62

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

March 8, 1962

Mr. Malcolm Bryan, President,  
Federal Reserve Bank of Atlanta,  
Atlanta 3, Georgia.

Dear Mr. Bryan:

Reference is made to Mr. Patterson's letter of October 9, 1961, advising of the proposed addition of a "student definition" clause to the basic hospitalization plan underwritten by the Aetna Life Insurance Company covering officers and employees of the Federal Reserve Bank of Atlanta.

The Board of Governors approves the program of increased benefits under the revised contract, and the absorption by the Bank of two-thirds of the premium costs in connection therewith.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.



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

Item No. 2  
3/8/62

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

March 8, 1962

Mr. Roland Pierotti,  
Assistant to the President,  
Bank of America National Trust  
and Savings Association,  
San Francisco, California.

Dear Mr. Pierotti:

Reference is made to your letter of December 26, 1961, transmitting a memorandum of the same date, on the subject "Overseas branches of Bank of America NT&SA and Bank of America, New York." The letter and memorandum relate to one of the matters discussed by you on the occasion of your visit with Chairman Martin and Governor Balderston at the Board's offices on December 12, at which time you were accompanied by Mr. Tom B. Coughran of Bank of America, New York.

In your discussion, as supplemented by your memorandum, you stated that, in order to reduce expenses and at the same time increase the efficiency of your overseas branch operations, three alternatives are available: first, consolidate all overseas branches under Bank of America, New York; second, consolidate all overseas branches in Bank of America NT&SA; and third, continue to operate branches under both organizations but centralize supervisory and administrative control in San Francisco.

The Board believes that determinations as to the most effective ways for a member bank to conduct its overseas operations--under the provisions of Section 25 or Section 25(a) of the Federal Reserve Act, or both--are matters to be decided primarily by the member bank itself. Since you indicate that the management of your Bank feels that it would be desirable to consolidate all branches under Bank of America NT&SA, the Board will interpose no objection to an eventual conversion of the present branches of Bank of America, New York, to branches of individual America NT&SA. It is understood that the actual conversion of individual branches would be made after specific approval has been granted, following consideration of formal application to the Board.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

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

S-1827  
Item No. 3  
3/8/62

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

March 8, 1962.



Dear Sir:

The Office of the Comptroller of the Currency has advised the Board of Governors that the Board's views relative to the merits of applications to organize national banks will no longer be requested. Hence, no further reports will be necessary either for cases already investigated or for those pending.

This letter cancels the Board's letters of October 28, 1952 (S-1478)(F.R.L.S.#3016), and April 22, 1954 (S-1531)(F.R.L.S.#3016), pertaining to recommendations as to organization of national banks.

Very truly yours,

Merritt Sherman,  
Secretary.

TO THE PRESIDENTS AT ALL FEDERAL RESERVE BANKS