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Minutes for March 9, 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.

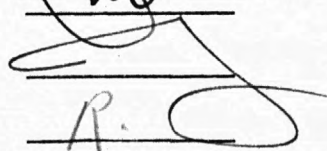
It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

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.

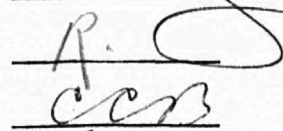
Chm. Martin



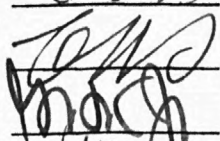
Gov. Mills



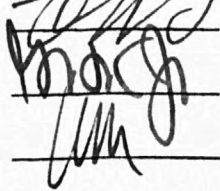
Gov. Robertson



Gov. Balderston

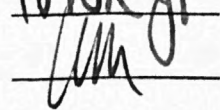


Gov. Shepardson



Gov. King

Gov. Mitchell



Minutes of the Board of Governors of the Federal Reserve System
on Friday, March 9, 1962. The Board met in the Board Room at 10:00 a.m.

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

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. Holland, Adviser, Division of Research
and Statistics
Mr. Landry, Assistant to the Secretary
Mr. Yager, Chief, Government Finance Section,
Division of Research and Statistics

Money market review. Mr. Yager reported on recent developments in the money market, including in his remarks reference to probable Treasury financings during the period March-July 1962, as summarized in a table distributed before the meeting. Mr. Thomas then commented on the situation with respect to bank reserves, the money supply, and related matters.

Following these reports Mr. Yager withdrew from the meeting and the following entered the room:

Mr. Hackley, General Counsel
Mr. Solomon, Director, Division of Examinations
Mr. Johnson, Director, Division of Personnel
Administration
Mr. Connell, Controller
Mr. O'Connell, Assistant General Counsel
Mr. Shay, Assistant General Counsel
Mr. Goodman, Assistant Director, Division of
Examinations
Mr. Leavitt, Assistant Director, Division of
Examinations

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Mr. Potter, Senior Attorney
 Mr. Young, Senior Attorney
 Mr. Wood, Senior Economist, Division of
 Research and Statistics

Discount rates. The establishment without change by the Federal Reserve Banks of Cleveland, Richmond, St. Louis, Minneapolis, Kansas City, and Dallas on March 8, 1962, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

Items distributed to the Board. The following items, which had been distributed to the Board and copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:

	<u>Item No.</u>
Letter to The Chase Manhattan Bank, New York, New York, authorizing the establishment of a branch in Santo Domingo, Dominican Republic.	1
Letter to First National City Bank, New York, New York, authorizing the establishment of a branch in Santo Domingo, Dominican Republic.	2

With respect to the foregoing items, Governor Mills commented on the apparent recent trend of American banks to enter foreign areas that might be termed "trouble spots" with the possible objective of speculative gains rather than that of restricting themselves to providing the normal commercial banking services.

In a brief discussion, reference was made to the current review of Regulation K, Corporations Doing Foreign Banking or Other

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Foreign Financing Under the Federal Reserve Act, and the view was expressed that the point brought out by Governor Mills was pertinent to the study of the Regulation.

Report on competitive factors (Philadelphia-Bridgeport, Pennsylvania). Under date of March 5, 1962, copies had been distributed, with a memorandum from the Division of Examinations, of a draft report to the Federal Deposit Insurance Corporation on the competitive factors involved in the proposed merger of Liberty Real Estate Bank and Trust Company, Philadelphia, Pennsylvania, and The Bridgeport National Bank, Bridgeport, Pennsylvania.

In a discussion of the report, Governor Mitchell inquired as to the extent to which residents of Bridgeport commuted to Philadelphia, noting that this raised a question as to possible competition between Bridgeport National Bank and Liberty Real Estate Bank and Trust Company. In reply, it was indicated that although there might be some small degree of competition between the two banks concerned, Bridgeport was part of the Norristown economic and trade area. In consequence, the bulk of the competition for the banking business of the residents of Bridgeport was understood to involve Norristown rather than Philadelphia banks.

The report, containing the following conclusion, was then approved for transmittal:

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Investigation discloses there is virtually no competition between Liberty Real Estate Bank and Trust Company, Philadelphia, Pennsylvania, and The Bridgeport National Bank, Bridgeport, Montgomery County, Pennsylvania. The merger of these two institutions would have virtually no effect on competition in Philadelphia, but could stimulate competition with the banks serving the Bridgeport-Norristown area.

Regulation T question (Item No. 3). Copies had been distributed of a memorandum from the Legal Division dated March 7, 1962, transmitting a draft of letter to the Federal Reserve Bank of Chicago regarding a request from the Chicago law firm of Hough, Young & Coale for a Board opinion as to whether certain transactions between a Chicago brokerage house and a customer had been in compliance with the Board's Regulation T, Credit by Brokers, Dealers, and Members of National Securities Exchanges. Under date of February 26, 1962, the Board had received a letter from the law firm in question stating that the firm "is involved in certain litigation," apparently involving the aforesaid transactions. The memorandum stated the view of the Legal Division that it would be inappropriate for the Board to render an opinion purporting to judge specific issues now before a court, and the draft letter would request the Reserve Bank to advise the law firm accordingly.

Following comment by Mr. Potter on the draft letter, it was approved unanimously. A copy of the letter is attached as Item No. 3.

Mr. Potter then withdrew from the meeting.

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Proposed amendments to Home Owners' Loan Act and Federal Home Loan Bank Act. There had been distributed under date of March 7, 1962, copies of a proposed letter to the Bureau of the Budget reporting on a draft bill, submitted by the Federal Home Loan Bank Board, that would amend the Home Owners' Loan Act and the Federal Home Loan Bank Act. The letter would take a position, for reasons stated therein, against passage of such legislation. There would be enclosed a staff memorandum discussing some of the questions raised by the proposal.

In discussion, Governor Mitchell noted that the adverse position taken in the proposed report was based largely on the view that extensive acquisition of investments authorized under the draft legislation would impair the liquidity of savings and loan associations. He suggested modification of the report to base an adverse position more on the danger that such an association, by concentrating an unduly large proportion of its resources in one or a few investments of the type that would be authorized, could jeopardize its own soundness. For this purpose, he suggested certain changes in the letter.

After consideration of the matter in the light of the approach suggested by Governor Mitchell, it was understood that the letter would be redrafted, after which the matter would be considered further by the Board.

Messrs. Thomas, Wood, and Young then withdrew from the meeting.

Processing of holding company and merger applications. At the request of Governor Mills, there had been placed on the agenda the

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question of appointing a special committee of the Board to investigate reasons for delay in submitting to the Board and in docketing for its action applications under the bank holding company and bank merger legislation.

Speaking to this subject, Governor Mills expressed his concern with the delays experienced in bringing before the Board for decision the Morgan New York State Corporation and Whitney Holding Corporation applications under the Bank Holding Company Act and the Chemical Bank New York Trust Company-Long Island Trust Company and the Chase Manhattan Bank-Hempstead Bank merger applications. After referring to the history of the Morgan New York State application at the State and Federal levels, he said that since the oral presentation held by the Board on December 7, 1961, had not, in his opinion, added substantially to the information already before the Board, he found it difficult to understand why memoranda had not yet been forthcoming from the Division of Examinations and the Legal Division in this case. He also noted the necessity for a further waiting period following Board action to permit preparation of an order and a statement, thereby adding to the total time from receipt of the application to publication of the Board's decision. With minor variations, the same sort of problem attached to the other cases mentioned.

Governor Mills went on to say that in his judgment such delays brought discredit upon the Board and that steps should be taken to expedite the processing of such matters in the future. Accordingly,

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he would propose that a Board committee be established to consult with the interested divisions for the purpose of (1) analyzing staff procedures to insure that no charge could be made that the Board was negligent in handling its responsibilities in this area, and (2) enabling the Board to ascertain to its satisfaction that the staff was sufficiently proficient and numerous to expedite the processing of merger and holding company applications. With respect to the first point, he believed it desirable that any analysis of procedures should include the nature of the assignments to individual staff members to determine whether there was unnecessary or excessive consultation among the staff to obtain a degree of refinement in the preparation of cases that was greater than warranted.

In further comments, Governor Mills noted that delays of the type that had occurred could expose the Board to the possibility that parties to the cases might inject themselves into them by submitting additional information to the Board or seeking some kind of special privilege. Also, extended procedures could lead to the inference that the delay involved was undertaken to permit consultation with outside parties, although he did not believe that this had been the case.

Summarizing, Governor Mills said that the best way to avoid problems such as he had mentioned was to process holding company and merger applications with dispatch. At present, he was inclined to believe that there was a greater amount of time and effort expended

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in staff consultation for purposes of refinement of presentation than possibly was necessary. He felt that the Board, through committee review with the interested divisions, should satisfy itself that the processing of such applications left nothing to be desired and that, when the Board was satisfied, an appropriate entry to such effect should be placed in the Board's records. To the extent that room was found for improvement, the areas of concern should be explored and methods of achieving improvement should be proposed.

Governor Balderston stated that he shared the concern expressed by Governor Mills as to the time that had elapsed prior to the announcement of decisions in merger and holding company applications. As to the four applications specifically mentioned, he noted that the Secretary of the Board, upon checking with Messrs. Hackley and Solomon, had been informed of dates on which these cases might be expected to be presented to the Board.

Mr. Sherman said that according to the information he had received, a memorandum from the Division of Examinations on the Morgan New York State application would be distributed on March 12; its joint memorandum on Chemical-Long Island and Chase-Hempstead on the day following; and its memorandum on the Whitney Holding Corporation application by March 15. Also, according to information received from Mr. Hackley, the legal memoranda on these cases would be distributed ten working days, respectively, from the dates of receipt by the Legal Division of the

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memoranda from the Division of Examinations. With this time schedule there should be opportunity for the Board to study the memoranda in question prior to docketing the cases in sequence during the week of April 2, when a full Board was expected to be available.

Governor Robertson suggested that it might be possible to have preliminary discussion of these cases during the week of March 26, even though a full Board was not present, with a view to publishing a decision on one of the applications the week of April 9, a second decision the week of April 16, and a third decision during the week of April 23. Although he realized that such a schedule might impose difficulties on the staff in writing the respective statements, nevertheless he thought that in view of the extent of the staff's present knowledge of each case it might be feasible.

In response, Mr. Hackley said that it seemed impractical to begin the drafting of orders and statements before the reasons for the Board's decisions were known, and Governor Robertson observed that his thought merely had been to proceed in such a manner that the cases would not be bunched together. He agreed with a comment by Mr. Hackley that it would be unwise to follow a procedure of announcing the Board's decision on a case subject to later issuance of a statement of reasons.

With respect to Governor Mills' proposal for a study of procedures, Governor Robertson suggested that such a survey be deferred until after disposition of the four cases under discussion so that there would be no interference with a concentrated effort to dispose of those cases.

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Governor Mills indicated that he would concur in the suggestion that a survey of staff procedures be deferred until after disposition of the four cases in question.

Governor Mitchell suggested that it would seem desirable to have documentation from the Legal Division and the Division of Examinations on their current procedures. It might develop following Board study of these documents, Governor Mitchell said, that a better appraisal could be made of the need for a committee review such as suggested by Governor Mills.

Governor Balderston then requested that Messrs. Sherman, Hackley, and Solomon prepare a report of current procedures, along with any suggestions they might have.

Governor Shepardson stated that he felt each member of the Board shared Governor Mills' concern about the delay in the processing of holding company and merger applications. For one thing, he said, he was disturbed by the interval that elapsed between the holding of hearings and the date of Board consideration of the cases, which caused some of the value of the hearings to be lost. Governor Shepardson also noted that in line with his responsibilities pertaining to the Board's internal affairs, he had attempted to keep current on the status of outstanding merger and holding company applications. In discussing them with the staff, he had been impressed that there was a real personnel problem in both the Legal Division and the Division of Examinations, and he had encouraged both divisions to recruit additional competent personnel vigorously. Also,

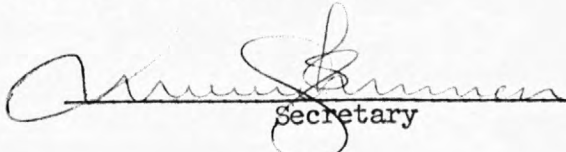
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he had urged each division to give a good deal of attention to the distribution of responsibilities among its staff in an effort to have individuals do complete jobs, even at the risk of some occasional slips, in the interest of longer-run staff development. He felt that some progress was being made in getting a better distribution of the workload and in development of less experienced staff members, as well as some reduction of the extent of staff review at different echelons. He had not checked the staff procedures closely enough to be able to ascertain precisely the reasons for the time involved in preparing cases for the Board's consideration, and Governor Mills' suggestion for having these procedures studied by a Board committee might be a good one. However, he concurred with the views that had been expressed that the question of initiating such a study be deferred pending disposition of the four cases specifically mentioned at this meeting.

After further discussion, it was understood that the Secretary would provide the Board with a prospective schedule for completing action on each of the four cases referred to specifically during this morning's discussion.

The meeting then adjourned.

Secretary's Note: The steps contemplated by the Board's action of February 9, 1962, in issuing preliminary permits to Manufacturers Hanover International Banking Corporation, New York, New York, and Manufacturers Hanover International Finance Corporation, New York, New York, having been completed, final permits to commence business were issued today to those corporations.



 Secretary

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

Item No. 1
3/9/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



March 9, 1962

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

Gentlemen:

The Board of Governors of the Federal Reserve System authorizes The Chase Manhattan Bank, New York, New York, pursuant to the provisions of Sections 9 and 25 of the Federal Reserve Act, to establish a branch in Santo Domingo, Dominican Republic, at Isabel la Catolica #65, corner of Mercedes Street, Santo Domingo; and to operate and maintain such branch subject to the provisions of such Sections.

Unless the branch is actually established and opened for business on or before March 1, 1963, all rights granted hereby shall be deemed to have been abandoned and the authority hereby granted will automatically terminate on that date.

Please advise the Board of Governors in writing, through the Federal Reserve Bank of New York, when the branch is opened for business.

Very truly yours,
(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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

Item No. 2
3/9/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 9, 1962

First National City Bank,
399 Park Avenue,
New York 22, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System authorizes First National City Bank, New York, New York, pursuant to the provisions of Section 25 of the Federal Reserve Act, to establish a branch in Santo Domingo, Dominican Republic, at the corner of Calle Hostos and Calle El Conde, Santo Domingo; and to operate and maintain such branch subject to the provisions of such Section.

Unless the branch is actually established and opened for business on or before March 1, 1963, all rights granted hereby shall be deemed to have been abandoned and the authority hereby granted will automatically terminate on that date.

Please advise the Board of Governors, in writing, through the Federal Reserve Bank of New York, when the branch is opened for business.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.



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

Item No. 3
3/9/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 9, 1962



Mr. Paul C. Hodge, Vice President
and General Counsel,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Hodge:

The Board has received from the Chicago law firm of Hough, Young & Coale a letter dated February 26, 1962 (copy enclosed), requesting the Board's opinion as to whether certain transactions between a Chicago brokerage house and a customer have been in compliance with the Board's Regulation T.

The letter opens by saying that the firm "is involved in certain litigation concerning the application and interpretation of Regulation T", presumably relating to the transactions described. To the extent that the inquiry involves issues that are now before a court, the Board considers it inappropriate to render the requested opinion. You are requested so to advise Hough, Young & Coale and also to advise the Board as to the nature and status of the litigation and the details of the factual situation so far as possible violations of Regulation T may be involved, since the letter of inquiry is not sufficiently detailed in these respects.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosure