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Minutes for March 16, 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 16, 1962. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, 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. Noyes, Director, Division of Research  
and Statistics  
Mr. Holland, Adviser, Division of Research  
and Statistics  
Mr. Koch, Adviser, Division of Research  
and Statistics  
Mr. Yager, Chief, Government Finance Section,  
Division of Research and Statistics  
Mr. Spencer, General Assistant, Office of the  
Secretary

Money market review. Mr. Yager commented on recent developments in the Government securities market, after which Mr. Thomas presented a report on bank credit, the money supply, and related matters.

Following these reports, Messrs. Koch and Yager withdrew from the meeting and the following entered the room:

Mr. Hackley, General Counsel  
Mr. Farrell, Director, Division of Bank Operations  
Mr. Johnson, Director, Division of Personnel  
Administration  
Mr. Connell, Controller  
Mr. O'Connell, Assistant General Counsel  
Mr. Hooff, Assistant General Counsel

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Mr. Daniels, Assistant Director, Division of  
Bank Operations  
Mr. Kiley, 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. Hunter, Supervisory Review Examiner, Division of  
Examinations  
Mr. Lyon, Review Examiner, Division of Examinations

Discount rates. The establishment without change by the Federal Reserve Banks of New York, Philadelphia, Chicago, and San Francisco on March 15, 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.

Circulated or distributed items. The following items, which had been circulated or distributed to the members of 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 Federal Reserve Bank of Richmond regarding the quarterly compounding of interest on a savings deposit at the rate of 4 per cent per annum.	1
Letter to the Center for Latin American Monetary Studies, Mexico City, Mexico, regarding representation at the Seventh Operational Meeting of the Center, to be held September 3-14, 1962.	2
Telegram to the Chairman of the Conference of Presidents approving actions taken by the Conference on March 5, 1962, with respect to certain changes in the Accounting Manual.	3

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	<u>Item No.</u>
Letter to First American State Bank, Wausau, Wisconsin, approving its application for membership in the Federal Reserve System.	4
Telegram to the Federal Reserve Agent at Chicago authorizing the issuance of a general voting permit to Central Wisconsin Bankshares, Inc., Wausau, Wisconsin, covering stock in First American State Bank, Wausau, Wisconsin.	5
Telegram to the Federal Reserve Bank of New York noting without objection the proposed rental, under purchase option, of a second Ferranti-Packard computer to supplement the Bank's high-speed check processing equipment.	6
Telegram to the Federal Reserve Bank of San Francisco interposing no objection to the proposed rental, under purchase option, of Burroughs B-270 electronic check processing equipment for the Los Angeles branch.	7
Letter to the Federal Reserve Bank of Cleveland approving the appointment of Clifford G. Miller as Assistant Federal Reserve Agent.	8
Letter to the Bureau of the Budget regarding a draft bill that would amend the Home Owners' Loan Act and the Federal Home Loan Bank Act. (Revised draft prepared pursuant to the understanding at the meeting on March 9, 1962.)	9

With respect to Item No. 1, Governor Shepardson noted that the Board's position, as expressed in its letter, would appear to make for a complicated situation so far as bank computation of interest was concerned. However, he had discussed the matter with the staff of the Legal Division, and they had discussed the subject with the Federal Deposit Insurance Corporation. Apparently this was the

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appropriate reply to be made unless the Board changed its outstanding interpretation so as to permit the payment of interest at 4 per cent only for the period beginning one year from the date that savings funds were first placed on deposit.

Messrs. Hooff, Daniels, and Kiley then withdrew from the meeting.

First Oklahoma Bancorporation. There had been distributed a memorandum dated March 14, 1962, from the Legal Division regarding the question of procedural alternatives that might be followed by the Board in the matter of the application by First Oklahoma Bancorporation, Oklahoma City, Oklahoma, for prior approval of the formation of a bank holding company.

The memorandum discussed various facts relating to the application and pointed out that three alternatives appeared available to the Board in connection with its consideration of the case; namely, (1) consideration solely on the basis of memoranda by the Division of Examinations and the Legal Division (normal staff presentation); (2) an oral presentation of views before the Board; or (3) a public formal hearing conducted by a hearing examiner.

The conclusion reached in the Legal Division's memorandum was that from the point of view of the Board's having available an adequate basis for reaching a sound and reasoned judgment on this application, neither an oral presentation nor a formal public hearing would appear necessary. However, the number of letters

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received from Oklahoma bankers in opposition to the application might be considered sufficient justification to conduct some form of public proceeding wherein all interested persons would be enabled to state their positions. If the Board should favor such a public proceeding, it was believed that a formal hearing before a hearing examiner would be more productive than an oral presentation before the Board.

In discussion, Governor Mills commented that, since there appeared to be adequate information available to the Board to reach a decision, he felt that the public relations factor should be waived in this instance. According to his understanding, the objections that had been received were based largely on the ground that the establishment of a bank holding company in the State of Oklahoma would circumvent the State law prohibiting branch banking. It did not appear to him that this kind of objection was relevant. Pursuant to the Bank Holding Company Act, the Board was required to consider certain specified factors, and it seemed that sufficient data to form a judgment on the basis of consideration of those factors were at the Board's disposal.

Chairman Martin raised the question, however, whether it would not be advisable to have a public hearing when so much interest in the application evidently had been stirred up in the area concerned. If this situation should seem to be ignored, he felt that the public reaction might be adverse. It would be possible, of course, to take

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the position that the law was clear, that there was no legal requirement to hold a public hearing, and that it was not necessary to consider the public relations aspect. At the other extreme, one might argue that a public hearing should be held on every application.

There followed comments regarding the points of view on procedure that had been expressed during which it was noted, among other things, that the holding of a public hearing in this instance might encourage the filing of objections, even if not relevant, in future cases. Thus, a difficult precedent might be established whereby the Board would have to be reconciled to holding a considerable number of public hearings. It was also suggested, however, that a formal hearing in this case might tend to clarify for the public the validity, or lack of validity, of objections to the formation of a holding company on the ground that the branch banking laws of a State would be circumvented, and such clarification might be helpful if cases arose in the future involving the same issue. The comment was made, on the other hand, that if the Board should decide favorably on the application after a public hearing was held at which objections of this kind were registered, that might also produce an adverse reaction from the standpoint of public relations.

The discussion then turned to some of the broader aspects of the bank holding company problem, Chairman Martin pointing out that a longer-run question was whether a substantial part of the banking

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system of the country was going to be converted to the holding company pattern of operations. He felt that the possibility of such a development deserved serious consideration in the process of deciding individual applications under the Bank Holding Company Act, and that the problem with which the Board was dealing should not be underestimated. A favorable decision on one application might make it extremely difficult to reject subsequent applications that were submitted on a generally similar basis.

Governor Robertson said that it seemed to him one must view the bank holding company problem in historical perspective. For a long time, efforts were made to enact legislation that would have choked off such companies. And although the present statute did not go that far, it was designed to control bank holding companies. Nevertheless, many people regarded the statute as "opening the gates", and there was a trend at the present time toward the substitution of holding company operations for branch bank operations.

Governor Robertson commented, with respect to the present case, that he did not see how the Board could justify not holding a hearing when objections had been registered. In other cases, hearings had been held. The mere fact that this applicant was not a large institution should not affect policy considerations; it would not be desirable, from a public relations standpoint, to suggest

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that the Board dealt differently with applications according to size. In his view, therefore, the Board should order a hearing before a hearing examiner despite the delay that would necessarily be involved.

After Chairman Martin had indicated that his views were similar to those of Governor Robertson, Governor Mills stated that he would like to be recorded as dissenting from any decision that might be reached today to hold a public hearing on the application. He did not think that the objections that had been registered were relevant to the factors on which the Board must base its decision. Also, in the prevailing circumstances, he doubted whether the holding of a hearing would promote a good public relations atmosphere, particularly if the Board then approved the application in seeming disregard of the views of those who had objected.

Governor Mitchell indicated that he was inclined to subscribe to the position of Governor Mills, especially in view of the nature of the objections that had been received.

Governor Shepardson noted that the intent of the Bank Holding Company Act had never been clarified to his complete satisfaction. He was not too optimistic that a hearing in this particular case would afford further clarification. As far as facts were concerned, he thought that a hearing probably would not produce any substantial additional information. Basically, however, he was always inclined to feel that objectors should have an opportunity to be heard.

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Governor King suggested that it might be desirable for the Board to have more time to consider this matter, especially from the standpoint of the various questions it raised. At this moment, he said, he was inclined to feel that a hearing should not be held, because the objections that had been received did not appear to be relevant and the net effect of holding a hearing might be adverse from the public relations standpoint. However, he would like more time to consider the subject.

After additional discussion, and in light of the differing views that had been expressed, it was agreed that the matter would be considered further by the Board at another meeting.

Messrs. O'Connell, Thompson, and Lyon then withdrew from the meeting.

Report on competitive factors (New Castle-New Wilmington, Pennsylvania). A draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed purchase of assets and assumption of liabilities of The Depositors National Bank of New Wilmington, New Wilmington, Pennsylvania, by First National Bank of Lawrence County at New Castle, New Castle, Pennsylvania, had been distributed with a memorandum from the Division of Examinations dated March 13, 1962.

In discussion, agreement was expressed with a suggestion by Governor Robertson that the last sentence of the proposed

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conclusion be deleted, inasmuch as there might be some question as to whether competition in the New Wilmington area would be intensified. The report was then approved unanimously for transmittal to the Comptroller in a form in which the conclusion read as follows:

Investigation discloses that competition between The First National Bank of Lawrence County at New Castle, Pennsylvania, and The Depositors National Bank of New Wilmington, Pennsylvania, is not strong.

Messrs. Holland and Young (Senior Attorney) then withdrew from the meeting.

Report on competitive factors (Kansas City, Kansas). There had been distributed a memorandum from the Division of Examinations dated March 14, 1962, prepared in connection with a question raised by the Comptroller of the Currency as to whether the Board wished to submit a supplemental report on the competitive factors involved in the proposed consolidation of Security National Bank of Kansas City and Riverview State Bank, both of Kansas City, Kansas.

The memorandum pointed out that in a letter dated February 23, 1962, the Comptroller requested that he be informed whether the Board intended to submit an amended report in view of a letter dated December 5, 1961, written by Mr. Henry G. Blanchard, President, The Commercial National Bank, Kansas City, Kansas, relative to the proposed consolidation. Further, the Comptroller had stated in a letter dated March 1, 1962, that a hearing would be held on March 21 and that he would welcome any views the Board might care to submit.

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The memorandum went on to point out that in view of Mr. Blanchard's statements concerning the substantial Breidenthal family influence in Commercial National, which was not apparent in either the application or the report of the original field investigation, a supplemental investigation was made by the Kansas City Reserve Bank in an effort to determine common ownership between the two banks and Commercial and the extent of the Breidenthal influence in Commercial. This investigation had disclosed that the consolidation of Security and Riverview would not change significantly the amount of the Breidenthal influence. However, it would shift the point from which the influence was focused from a bank substantially smaller than Commercial to a bank substantially larger than Commercial.

Attached to the memorandum was a copy of a letter proposed to be sent to the Comptroller, the concluding paragraph of which stated that a consolidation of Security and Riverview would probably have an adverse effect on competition since Commercial might be handicapped in its competitive efforts by having as directors members of a group that would control the consolidated bank.

Governor King indicated that inasmuch as he was personally acquainted with several of the parties involved, he would refrain from participating in this matter.

During ensuing discussion, Governor Robertson raised the question whether the situation described in the final paragraph of

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the proposed letter was not as true today as it would be after the proposed consolidation, except that then the problem might be intensified.

Following considerable discussion of this point, question was raised as to the need for sending any letter to the Comptroller. However, it was pointed out that certain information on interbank relationships had been developed since the Board's original report on competitive factors was submitted. In this circumstance, there was a general sentiment in favor of sending a letter for the completion of the record.

In order that language taking into account the point mentioned by Governor Robertson might be reviewed by the Board, it was agreed that a revised draft of letter to the Comptroller of the Currency would be distributed for consideration at a later meeting of the Board.

Mr. Hunter then withdrew from the meeting.

Inter-Agency Bank Examination School. A memorandum from Governor Robertson dated March 13, 1962, regarding the Inter-Agency Bank Examination School had been distributed.

The memorandum gave background information on the sessions of junior and advanced schools for examiners that had been held since the establishment of the School in 1952 and listed the 20 State Banking Departments that had participated in the program. With respect to the

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session beginning on March 26, 1962, it was pointed out that replies received from State Banking Departments gave two main reasons for not sending men; namely, no funds and shortage of examining personnel. In this connection, Governor Robertson had discussed with Mr. Cocke, Chairman of the Federal Deposit Insurance Corporation, the possibility of the Corporation paying a portion of the expense involved in attendance of State examiners at the School if the Federal Reserve did likewise. Mr. Cocke's tentative reaction was favorable.

Governor Robertson's memorandum went on to discuss the estimated cost involved should the Board deem it appropriate to underwrite a portion of the expense of attendance by State examiners. Specifically, he recommended that the Board pay one-third of the expense of State examiners attending the school provided the Federal Deposit Insurance Corporation would also pay one-third. The expense involved would be a per diem of \$16 and transportation. It was estimated that about 80 State examiners could be accommodated each year and that it would cost approximately \$600 for a State examiner to attend one four-week session. Thus, the Board's share might amount to about \$16,000 on a full-year basis. For the remainder of 1962, the Board's share might amount to about \$12,000.

Governor Robertson also recommended that a school for experienced senior examiners be initiated. This school would be held in various parts of the country, rather than in Washington, in order to

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save time and money and would utilize the experience of the participants by using the seminar approach. The Federal Deposit Insurance Corporation was known to be interested in starting such a school, but the Comptroller of the Currency did not appear interested. It was Governor Robertson's recommendation that the Board authorize the establishment of a senior school of this type, either with or without the participation of the Comptroller of the Currency.

In commenting on the first of his two recommendations, Governor Robertson said that in discussions with some State bank supervisors the thought had been expressed that this would be a means whereby the facilities of the Inter-Agency Bank Examination School could be offered to additional State examiners. If the proposal should be approved, it was contemplated that two additional sessions of the School would be arranged during each calendar year. In his opinion, the proposal had merit, and it would not be too costly. With regard to the second recommendation, this proposal had been under discussion for a long time. The school for experienced examiners would be operated on a seminar basis and would probably be held at various Federal Reserve Banks, with sessions of a week or 10 days. Each participant would be notified in advance as to the segment of the course for which he would be responsible, and he would be expected to lead that part of the discussion. In summary, Governor Robertson felt that the twin approach outlined in his memorandum would enable the Inter-Agency Bank Examination School to do a much better job in fulfilling its objectives.

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The understanding was expressed that some State Banking Departments would be unable to take advantage of the cost-sharing proposal because of legal restrictions against out-of-state travel. The question therefore was raised whether consideration should be given to a sharing of the entire cost between the Board and the Federal Deposit Insurance Corporation.

Governor Robertson indicated that he would have no particular preference. However, while some State authorities might be glad to have the full cost borne by the Board and the Corporation, others were believed to feel that the States should be in the position of making some contribution. Mr. Myers, Secretary of Banking of Pennsylvania and President of the National Association of Supervisors of State Banks, had expressed the view that the offering of this plan might provide some of the State bank supervisors an opportunity to approach their legislators with a view to obtaining authority to participate. It was Mr. Myers' view that it might be preferable if the State departments actually participated in the cost of the program to some extent.

Governor Mills said he would approve the plan recommended by Governor Robertson. He added, however, that he felt the operation of the plan should be followed carefully since the result might be, in effect, that a State Bank Superintendent would accept the offer and use funds saved thereby for some other activity of his office. There was also the question whether this kind of program would possibly be regarded

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as an invasion of States' rights, and an attempt to indoctrinate State examiners with a centralized point of view.

On the latter point, the comment was made that the experience of 20 States in sending their examiners to sessions of the School would seem to offer evidence to allay any such apprehension. However, there was general agreement that the operation of the plan should be followed closely.

Other members of the Board expressed themselves as favorable to the proposal, either on the basis outlined in Governor Robertson's memorandum or on a basis whereby the Board and the Federal Deposit Insurance Corporation would pay the full expense of attendance of State examiners. At the same time, the arguments mentioned by Governor Robertson in favor of some contribution to such expenses by the State Banking Departments were recognized.

Accordingly, the recommendations made in Governor Robertson's memorandum were approved, it being understood that this action included approval of such budget overexpenditures for the year 1962 as might be occasioned thereby.

Governor Robertson then stated that in a recent conversation Mr. Cocke, Chairman of the Federal Deposit Insurance Corporation, had raised the question whether it would be thought desirable to transfer the facilities of the Inter-Agency Bank Examination School

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to the new building of the Corporation when it was completed. In this connection, Governor Robertson stated reasons why he would like to be authorized to say to Chairman Cocke that because of his long-standing interest in the School he would like, as a personal matter, to see it continue in the Federal Reserve Building.

No objection was indicated to Governor Robertson's expressing this personal view to Chairman Cocke.

Messrs. Johnson and Connell then withdrew from the meeting.

Department store data. A memorandum from Mr. Sherman dated March 15, 1962, which had been distributed, noted that at the meeting of the Conference of Presidents of the Federal Reserve Banks on March 5, 1962, approval was given to the recommendations with respect to department store statistics that were contained in a memorandum of February 27, 1962, from the Committee of Five, consisting of representatives from the Federal Reserve, the Budget Bureau, and the trade. Those recommendations were:

1. Initiation by the Federal Reserve of a new national departmental report of department store sales.
2. Initiation by the Bureau of the Budget and the Bureau of the Census of plans for a new merchandise line series for all retail trade.

In approving those recommendations, the Presidents' Conference did so with an understanding to the effect that a major objective should be the withdrawal of the Federal Reserve from the retail trade statistics field as promptly as possible.

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The Committee of Five had in mind that, if both the Presidents and the Board approved the recommendations in the February 27 report, the next step would be formal presentation of the report to the President of the National Retail Merchants Association. A preliminary draft of such a letter was submitted with Mr. Sherman's memorandum, and the purpose of bringing the matter to the Board at this time was to obtain guidance as to what approach should be taken in making such a presentation.

In commenting on the matter, Mr. Sherman (Chairman of the Committee of Five) noted that several years ago (in 1960) the National Retail Merchants Association had asked the Board to study the problem of Federal Reserve activities in the field of collecting department store data, without in the meantime disturbing the status of such activities. Under date of February 27, 1962, the Committee of Five had made two recommendations, both designed to improve the quality of data on consumer takings. The Presidents' Conference had now approved these recommendations, with the stipulation indicated in the March 15 memorandum. President Deming, who dissented, had subsequently explained that he would have voted to approve the recommendations of the Committee of Five, but felt that the amendments to the motion to approve them were too restrictive. Mr. Shuford, who attended in the absence of President Irons, abstained from voting because he thought the Presidents

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were not being realistic in the qualifications they attached to their approval of the recommendations of the Committee of Five. It was his understanding that this would have been the view of Mr. Irons.

Mr. Sherman went on to say that in the preliminary draft of letter to the President of the National Retail Merchants Association there were certain statements that might provoke a question at this time. While the letter did not go quite as far as some of the Presidents probably would like in saying that the Federal Reserve was going to get out of the field of department store statistics, it would hint rather strongly that the Federal Reserve might want to discontinue a series dear to the heart of the trade, namely, the local city comparisons of sales and stocks by departments.

Mr. Sherman said he had had some preliminary discussion of the matter with Governor Balderston, who had suggested that the Board might want to have a discussion with the Presidents, perhaps on March 27. The question, in essence, was whether the Board would want to send a letter couched in terms that could open up again at this stage the question of the position of the Federal Reserve in the field of collecting department store data. The Committee of Five had been unanimous in its recommendations, and members of the Committee had had some discussion with other officers of the National Retail Merchants Association. However, if the Board indicated that the Federal Reserve

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intended to discontinue the local departmental data, that might lead to substantial discussion within the trade.

In reply to a question, Mr. Sherman said it would be his recommendation that the Federal Reserve go ahead with the new national departmental report. However, he would be somewhat hesitant about raising, even as strongly as in the draft of letter, the suggestion that the local city comparisons probably would be discontinued. There had been frank discussions within the Committee of Five, but some parts of the trade had not been through all the discussions. If it was the view that a letter should go out along the lines of the draft, he felt it would be rather desirable to discuss the matter again with the Committee of Five and let the members representing the trade know the tone of the pertinent parts of the letter.

Mr. Noyes commented that he was much more skeptical than the Committee of Five about the feasibility of the proposed national departmental report. Without going into details, its success would depend upon obtaining a degree of cooperation from the department stores, including particularly the large chain stores, that the Federal Reserve had not heretofore been able to obtain. It would involve a reporting burden that they had not been willing to accept, and he was doubtful that they would be willing to accept such a burden. Before undertaking such a report as a Federal Reserve responsibility, he would want assurance of the active cooperation of the National Retail Merchants Association in obtaining the support of the department stores.

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As to the possible discontinuance of the local departmental figures, Mr. Noyes said that actually this was the only major issue that had ever existed between the Federal Reserve and the trade. This was the question that had caused the uproar three years ago, and sooner or later it must be faced. He was not prepared to suggest what the Board's position should be, but the Board would have to decide whether or not it was going to provide this service to the trade. The statistics were of no appreciable value except to the management of certain downtown department stores in certain cities. However, the service had been provided for some 20 years, and the trade had grown accustomed to it. In his opinion, at this stage there would be no point in hinting at the issue. He saw no advantage in stirring up the trade unless the Federal Reserve was going to do something. If the Federal Reserve was going to discontinue this activity, however, he felt that it should give notice in rather explicit terms.

The Chairman then called upon Governor Mitchell, who said he was rather surprised that the Committee of Five had gotten as far as it had. He wished, however, that the Committee had gone a little further in its report and had recommended that the local departmental data be discontinued if the proposed national departmental report was instituted. The local data did not serve any useful economic purpose, and they involved a cost to the Federal Reserve estimated

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at around \$200,000 a year. As to obtaining the cooperation of large chain stores on the national departmental, some problems would be involved, but he felt that their cooperation in reporting on a monthly basis probably could be obtained. As to the local departmental data, he felt that the Federal Reserve should discontinue this service on the basis that it was not justified, and he doubted whether the trade would be unanimous in opposing such a move. If the Board was not firm in its position, he thought it might get into an intolerable position.

As to the question of procedure at this point, Governor Mitchell suggested that there was some advantage in dealing with principals rather than with people who were representatives of principals. He would be inclined to revise the proposed letter to make the Board's position much firmer and the letter much shorter. He would have in mind, more specifically, saying that the Federal Reserve proposed to institute the national departmental report by, say, the first of next year, and at the same time to discontinue the local and regional departmental statistics.

After further discussion, it was agreed to continue the discussion of this matter at another meeting of the Board.

The meeting then adjourned.

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Secretary's Notes: Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson approved on behalf of the Board on March 15, 1962, the following actions relating to the Board's staff:

#### Salary increases

Phyllis Featherstone, Statistical Clerk, Division of Research and Statistics, from \$3,970 to \$4,145 per annum, effective March 18, 1962.

Sudelle Rice, from \$5,820 to \$6,015 per annum, with a change in title from Training Technician to Employee Development Technician, Division of Personnel Administration, effective March 18, 1962.

#### Transfer

Claudia Ann Mahoney, from the position of Minutes Clerk in the Office of the Secretary to the position of Secretary in the Division of Research and Statistics, with an increase in her basic annual salary from \$4,460 to \$4,675, effective March 18, 1962.

#### Acceptance of resignation

Ramsay Wood, Senior Economist, Division of Research and Statistics, effective at the close of business March 20, 1962.

Governor Shepardson today approved on behalf of the Board the following items:

Letter to the Federal Reserve Bank of Cleveland (attached Item No. 10) approving the appointment of David Preston Alexander as assistant examiner.

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

#### Appointment

Myra Evans Beck as Statistical Clerk in the Division of Bank Operations, with basic annual salary at the rate of \$4,460, effective the date of entrance upon duty.

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Salary increases

Edward R. Fry, Economist, Division of Research and Statistics, from \$8,340 to \$8,955 per annum, effective March 18, 1962.

Robert N. Westmoreland, Jr., Assistant Federal Reserve Examiner, Division of Examinations, from \$6,345 to \$6,600 per annum, effective March 18, 1962.

  
Secretary

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

Item No. 1  
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ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

March 16, 1962



Mr. W. S. Farmer, General Counsel,  
Federal Reserve Bank of Richmond,  
Richmond 13, Virginia.

Dear Mr. Farmer:

This refers to your letter of February 16, 1962, requesting the Board's views on the question presented by the District of Columbia Bankers Association whether, in paying interest on a savings account at 4 per cent, compounded quarterly, interest paid on interest may be computed at the 4 per cent rate since the basic interest credited to the account quarterly will, of course, not have been on deposit for 12 months.

It is provided in the Supplement to Regulation Q that "No member bank shall pay interest accruing at a rate in excess of 4 per cent per annum, compounded quarterly, regardless of the basis upon which such interest may be computed", on that portion of the deposit that has remained on deposit for not less than 12 months. This permits a member bank, under certain circumstances, to pay interest at a rate of 4 per cent, compounded quarterly. Therefore, when a member bank, pursuant to this authority, agrees to pay interest on a 12 months' deposit at a rate of 4 per cent, compounded quarterly, the bank is obligated to compute the interest on the interest at 4 per cent.

In compounding interest, the interest being credited to the account quarterly is not treated the same as a new deposit; on such a deposit, interest would be restricted to a rate of 3-1/2 per cent until the funds have remained on deposit for 12 months at which time they become eligible for the so-called retroactive bonus of 1/2 per cent. It has been recognized (1960 Bulletin 630) that in compounding interest, a bank is permitted to pay interest in an amount slightly greater than that paid on a straight yearly percentage basis.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM,  
WASHINGTON

Item No. 2  
3/16/62

OFFICE OF THE CHAIRMAN

March 16, 1962

AIR MAIL

Mr. Javier Márquez, Director,  
Center for Latin American  
Monetary Studies,  
San Juan de Letran No. 2 - Piso 32,  
Mexico 1, D. F.

Dear Javier:

We have been giving careful consideration to the invitation contained in your letter of February 15, 1962, to be represented at the Seventh Operational Meeting of the Center for Latin American Monetary Studies to be held in Mexico City, September 3-14, 1962.

While we are not yet able to make a firm decision, in all probability we will be represented at the Meeting by Mr. Yves Maroni who, as you know, is particularly concerned with Latin American economic affairs. However we shall have to let you know later about this, and also whether or not he will be preparing a paper.

Your letter mentions the possible participation of private banks in the Meeting. If it is your desire to invite private United States banks, I suggest that you write directly to the American Bankers Association, extending an invitation. As you probably know Mr. Charles Walker is the Executive Vice President of the Association. The address is:

The American Bankers Association,  
12 East 36th Street,  
New York 16, New York.

Sincerely yours,

(Signed) Bill

Wm. McC. Martin, Jr.

TELEGRAM  
LEASED WIRE SERVICE

Item No. 3  
3/16/62

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTON

March 16, 1962

Fulton - Cleveland

The Board has approved, subject to appropriate concurrence by the Treasury Department, the actions of the Presidents' Conference on March 5, 1962, concerning changes in the Accounting Manual provisions relating to (1) usage charges for Bank-owned furniture and equipment, (2) functional expense distributions for "Retirement and other benefits," and (3) the placing into effect of the new formula for computing charges to reimbursable Fiscal Agency units for use of floor space in Bank-owned buildings. A copy of this telegram is being sent to all Reserve Bank presidents.

(Signed) Merritt Sherman

SHERMAN

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

Item No. 4  
3/16/62

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

March 16, 1962



Board of Directors,  
First American State Bank,  
Wausau, Wisconsin.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the application of First American State Bank, Wausau, Wisconsin, for stock in the Federal Reserve Bank of Chicago, subject to the numbered conditions hereinafter set forth:

1. Such bank at all times shall conduct its business and exercise its powers with due regard to the safety of its depositors, and, except with the permission of the Board of Governors of the Federal Reserve System, such bank shall not cause or permit any change to be made in the general character of its business or in the scope of the corporate powers exercised by it at the time of admission to membership.
2. The net capital and surplus funds of such bank shall be adequate in relation to the character and condition of its assets and to its deposit liabilities and other corporate responsibilities.

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

It is noted that under its articles of incorporation the bank may exercise fiduciary powers but that at the present time is not exercising such powers. Should the bank at any future time desire to broaden the scope of its corporate activities or exercise any powers not exercised at the time of admission to membership it will be necessary, under condition of membership numbered 1, to obtain permission of the Board of Governors.

First American State Bank

If at any time a change in or amendment to the bank's charter is made, the bank should advise the Federal Reserve Bank, furnishing copies of any documents involved, in order that it may be determined whether such change affects in any way the bank's status as a member of the Federal Reserve System.

Acceptance of the conditions of membership contained in this letter should be evidenced by a resolution adopted by the Board of Directors and spread upon its minutes, and a certified copy of such resolution should be filed with the Federal Reserve Bank. Arrangements will thereupon be made to accept payment for an appropriate amount of Federal Reserve Bank stock, to accept the deposit of the required reserve balance, and to issue the appropriate amount of Federal Reserve Bank stock to the bank.

The time within which admission to membership in the Federal Reserve System in the manner described may be accomplished is limited to 30 days from the date of this letter, unless the bank applies to the Board and obtains an extension of time. When the Board is advised that all of the requirements have been complied with and that the appropriate amount of Federal Reserve Bank stock has been issued to the bank, the Board will forward to the bank a formal certificate of membership in the Federal Reserve System.

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

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.

Enclosure

TELEGRAM  
LEASED WIRE SERVICE

Item No. 5  
3/16/62

940

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTON

March 16, 1962

BRIGGS - CHICAGO

KEBJE

- A. Central Wisconsin Bankshares, Inc., Wausau, Wisconsin.
- B. First American State Bank, Wausau, Wisconsin.
- C. Prior to the issuance of permit authorized herein, applicant shall execute and deliver to you in duplicate an agreement in form accompanying Board's letter S-964-a (F.R.L.S. #7190).

STOP. Although Board has approved application of First American State Bank for membership, subject to conditions set forth in letter which is in mail, general voting permit authorized herein shall not be issued until bank is admitted to membership. Meanwhile, you may assure Corporation that voting permit will be issued when membership is accomplished.

(Signed) Merritt Sherman

SHERMAN

Definition of KEBJE

The Board authorizes the issuance of a general voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to the holding company affiliate named below after the letter "A", entitling such organization to vote the stock which it owns or controls of the bank(s) named below after the letter "B" at all meetings of shareholders of such bank(s), subject to the condition(s) stated below after the letter "C". The period within which a permit may be issued pursuant to this authorization is limited to thirty days from the date of this telegram unless an extension of time is granted by the Board. Please proceed in accordance with the instructions contained in the Board's letter of March 10, 1947, (S-964).

**TELEGRAM**  
LEASED WIRE SERVICE

Item No. 6  
3/16/62

**BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTON**

March 16, 1962

Treiber - New York

Board has noted without objection rental of check  
collection equipment referred to in urlet March 5, 1962.

(Signed) Merritt Sherman

SHERMAN

**TELEGRAM**  
LEASED WIRE SERVICEItem No. 7  
3/16/62**BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM**  
WASHINGTON

March 16, 1962

Swan - San Francisco

Board interposes no objection to your proposal for rental under purchase option of electronic check processing equipment at Los Angeles as outlined in urlet March 2.

(Signed) Merritt Sherman

SHERMAN

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

Item No. 8  
3/16/62

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

March 16, 1962



Mr. Joseph B. Hall,  
Chairman of the Board and  
Federal Reserve Agent,  
Federal Reserve Bank of Cleveland,  
Cleveland 1, Ohio.

Dear Mr. Hall:

In accordance with the request contained in your letter of March 8, 1962, the Board of Governors approves the appointment of Mr. Clifford G. Miller as Assistant Federal Reserve Agent at the Federal Reserve Bank of Cleveland to succeed Mr. D. C. Robinson.

This approval is given with the understanding that Mr. Miller will be solely responsible to the Federal Reserve Agent and the Board of Governors for the proper performance of his duties, except that, during the absence or disability of the Federal Reserve Agent or a vacancy in that Office, his responsibility will be to the Board of Governors.

When not engaged in the performance of his duties as Assistant Federal Reserve Agent Mr. Miller, may, with the approval of the Federal Reserve Agent and the President, perform such work for the Bank as will not be inconsistent with his duties as Assistant Federal Reserve Agent.

It will be appreciated if Mr. Miller is fully informed of the importance of his responsibilities as a member of the staff of the Federal Reserve Agent and the need for maintenance of independence from the operations of the Bank in the discharge of these responsibilities.

It is noted from your letter that, upon the approval of the appointment of Mr. Miller by the Board of Governors, he will execute the usual Oath of Office which will be forwarded to the Board giving the effective date of his appointment.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

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

Item No. 9  
3/16/62

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

March 16, 1962

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

Dear Mr. Hughes:

This is in response to your request by memorandum dated February 7, 1962, for the views of the Board of Governors on a draft bill submitted by the Federal Home Loan Bank Board. The bill is in two sections.

The first section would amend the first part of subsection (c) of Section 5 of the Home Owners' Loan Act to read: "Such associations shall lend their funds only on the security of their shares or on the security of first liens upon homes or other dwelling units (all of which may be defined by the Board and are hereinafter referred to as homes) or combinations of homes and business property within fifty miles of their home office: Provided, That no more than \$35,000 for each home covered by such lien shall be loaned on the security of any such lien".

The second section would, in subdivision (6) of Section 2 of the Federal Home Loan Bank Act, substitute for the language "upon which is located a dwelling for not more than four families" the language "upon which is located, or which comprises or includes, one or more homes or other dwelling units, all of which may be defined by the Board and are referred to as homes in subsection (b) of section 10". In the case of subsection (b) of section 10, as amended, the term "\$35,000" would be eliminated in favor of the language, "a sum equal to \$35,000 for each home covered by such mortgage".

As the Home Owners' Loan Act now stands, the only kind of real estate loan that may be held by a Federal savings and loan association without limitation in the aggregate to a stipulated proportion of assets is a loan, not in excess of \$35,000, secured by homes or combination of homes and business property. Insured or guaranteed loans may be secured by property located anywhere; other loans must be secured by property located in the association's lending area.

Mr. Phillip S. Hughes

-2-

The effect of the first of the proposed amendments would be to make any improved real estate eligible security for a mortgage loan from a Federal savings and loan association, without limitation to a proportion of assets, provided the improvements included dwelling units or "homes" as defined by the Federal Home Loan Bank Board, up to an amount equal to \$35,000 multiplied by the number of dwelling units on the property. A loan in excess of this amount would be permitted but the excess apparently would be limited, by the various exceptions provided in section 5 (c), to a proportion of assets.

The effect of the second amendment would be to make such mortgages not in excess of \$35,000 per dwelling unit eligible as collateral for advances (to State-chartered as well as Federal associations) from the Federal Home Loan Banks.

The proposed amendments would thus permit investment in multiunit residential properties. They would also permit much more, however, including the financing, for example, of commercial developments with incidental residential uses, or of hotels combining residence and transient quarters. The absence of a limit on the aggregate size of loan means that the developments that would be authorized by these amendments could be quite large.

There is a danger that a Federal association, by concentrating an unduly large proportion of its resources in one or a few investments of the type authorized by the proposed amendments, could jeopardize its own soundness. If such broadened investment authority is to be granted, it should be accompanied by additional supervisory authority in the Federal Home Loan Bank Board to regulate both the standards to be applied to individual investments and the total amount of assets an association may hold in loans of the type to be permitted. Considering the high degree of liquidity that shareholders in savings and loan associations have become accustomed to expect for their shares, extensive acquisition of the investments proposed, in the absence of appropriate regulatory standards, would seem likely to add to the problems of maintaining the necessary safety and liquidity of the savings and loan system.

For these reasons, the Board of Governors would not favor passage of this bill as drafted. We are enclosing for your information, a staff memorandum that discusses some of the questions raised by this proposal.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

Enclosure

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

Item No. 10  
3/16/62

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

March 16, 1962



Mr. Paul C. Stetzelberger, Vice President,  
Federal Reserve Bank of Cleveland,  
Cleveland 1, Ohio.

Dear Mr. Stetzelberger:

In accordance with the request contained in your letter of March 9, 1962, the Board approves the appointment of David Preston Alexander as an assistant examiner for the Federal Reserve Bank of Cleveland. Please advise the effective date of the appointment.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.