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Minutes for April 23, 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

(Handwritten initials 'm')

Gov. Mills

Gov. Robertson

Gov. Balderston

Gov. Shepardson

Gov. King

Gov. Mitchell

(Handwritten initials 'ccsb')
(Handwritten initials 'SNO')
(Handwritten initials 'King')
(Handwritten initials 'Mitchell')

Minutes of the Board of Governors of the Federal Reserve System on Monday, April 23, 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. Fauver, Assistant to the Board
Mr. Solomon, Director, Division of Examinations
Mr. Johnson, Director, Division of Personnel Administration
Mr. Hexter, Assistant General Counsel
Mr. Hooff, Assistant General Counsel
Mr. Dembitz, Associate Adviser, Division of Research and Statistics
Mr. Daniels, Assistant Director, Division of Bank Operations
Mr. Kiley, Assistant Director, Division of Bank Operations
Mr. Goodman, Assistant Director, Division of Examinations
Mr. Smith, Assistant Director, Division of Examinations
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Spencer, General Assistant, Office of the Secretary

Discount rates. The establishment without change by the Federal Reserve Bank of Atlanta on April 20, 1962, of the rates on discounts and advances in its existing schedule was approved unanimously, with the understanding that appropriate advice would be sent to that Bank.

Circulated or distributed items. The following items, which had been circulated or distributed to the members of the Board and

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copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:

	<u>Item No.</u>
Telegram to the Federal Reserve Bank of New York interposing no objection to the purchase of an IBM 1401 general purpose computer.	1
Letter to Bank of America, New York, New York, approving an extension of time to establish an additional branch in the City of Singapore, Colony of Singapore.	2
Letter to the Federal Reserve Bank of Chicago approving the appointment of Robert W. Cook as Federal Reserve Agent's Representative at the Detroit Branch.	3
Letter to The First National Bank of Stevens Point, Stevens Point, Wisconsin, approving its supplemental application for a fiduciary power.	4
Letter to United California Bank, Los Angeles, California, approving an extension of time to establish a branch at 3029 Harbor Boulevard, Costa Mesa.	5

Mr. Goodman then withdrew from the meeting and Messrs. Molony, Assistant to the Board, and Benner, Assistant Director, Division of Examinations, entered the room.

Report on competitive factors (New York, New York-Brooklyn, New York). There had been distributed, with a memorandum from the Division of Examinations dated April 18, 1962, a draft of report to the Federal Deposit Insurance Corporation regarding the competitive factors involved in the proposed merger of The Peoples National Bank of Brooklyn in New York, Brooklyn, New York, into the Commercial Bank of North America, New York, New York. The conclusion in the report read as follows:

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While the negligible amount of competition existing between these two institutions would be eliminated, the over-all effect of the merger on competition in their service areas would be beneficial.

The report was approved unanimously for transmittal to the Corporation.

Mr. Noyes, Director, Division of Research and Statistics, entered the room at this point.

United Security Account Plan. At the meeting on February 1, 1962, consideration was given to the status under Regulation Q, Payment of Interest on Deposits, as amended January 15, 1962, of the United Security Account Plan offered by Citizens Bank and Trust Company, Park Ridge (Chicago), Illinois. At the conclusion of the discussion, the Board approved a letter to the Federal Reserve Bank of Chicago asking to be advised of the actual manner in which operations under the United Security Account Plan were being conducted.

In a memorandum dated April 4, 1962, prepared by the Legal Division, it was pointed out that on February 23 representatives of Citizens Bank had met with certain members of the Board's staff to discuss further the operation of the Plan; a memorandum dated February 27 containing the substance of that discussion was attached.

The memorandum of April 4 went on to discuss the information that had been obtained by the Chicago Reserve Bank from an examination of the bank, particularly the United Security Plan. Although the bank

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had taken no action to transfer funds from savings deposits to pay "loans" created by the bank's payment of checks drawn by savings depositors, this was probably because of operating difficulties, including a breakdown of the bank's electronic accounting equipment; instructions on file from several hundred savings depositors authorized such withdrawals. It was the belief of the Legal Division that it would be proper for the Board to inform Citizens Bank again that contracts with its customers, if carried out in accordance with one of the alternatives therein, would result in violations of section 19 of the Federal Reserve Act and of Regulation Q, which violations might warrant termination of the bank's membership in the Federal Reserve System. This would afford the bank an opportunity to achieve compliance with the applicable statute and regulation. A draft letter was attached. However, pursuant to a suggestion by Governor Robertson, it was decided at the meeting on April 10, 1962, to defer action on the matter.

Subsequently, under date of April 16, 1962, there was distributed a memorandum prepared by the Legal Division commenting on an attached draft of letter that had been prepared pursuant to suggestions made by Governor Robertson. As indicated in the memorandum, the purpose of the draft letter was to approach the problem presented by the United Security Account Plan in a different manner. The proposed letter would advise the bank that frequent examinations, possibly monthly, at the bank's expense, would be made until the System was satisfied that actual violations of Regulation Q had ceased or until the bank notified the

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Board that use of the plan had been abandoned. The memorandum pointed out certain questions that such a letter might raise and noted that it was not in form suitable for use as the first step in a possible expulsion proceeding, as was the draft letter distributed with the Legal Division's memorandum of April 4.

During discussion, Governor Mills stated that he would favor the letter that had first been proposed. The approach taken in the second draft letter might create the impression that the Board was cracking down on the bank by subjecting it to special examinations because of a practice that had to do with a breach of a Board regulation, rather than because of the quality and standing of the bank itself.

Governor Robertson said that, as the Board would recall, the original draft letter implied the possibility of action to remove the bank from membership in the System. However, such a proceeding would be based on a strained construction of the Regulation; the construction might stand up, but that was doubtful. Therefore, he felt that it was appropriate to devise some means whereby the Federal Reserve could stay on top of the situation. Further, in his judgment, this plan probably would not prove profitable to the bank. A letter like the one proposed might stop it. Such a letter could be considered as a "crackdown"; it was intended to be.

Following Governor Robertson's remarks, Governor Shepardson said he was aware of the difficulties that any membership proceeding

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would involve. However, it seemed to him that the approach now being considered was one that could hardly be justified. The Board would be likely to be charged with harassment. He would therefore favor the first draft letter.

Governor King expressed the view that there might be some merit in waiting a little longer before taking any action. While he would not object strongly to sending a letter along the lines proposed by Governor Robertson, he would leave out that portion with respect to the bank paying for the special examinations; also the reference to the possibility of examinations having to be made as frequently as every month. A statement that examinations might have to be made quite frequently would seem sufficient.

Governor Balderston said that he liked Governor Robertson's approach, but would feel that the last two sentences, telling the bank of the prospect of frequent examinations, should be deleted. He would not threaten the bank with frequent examinations or indicate that it would have to pay the cost of those examinations. As he saw it, the approach was appropriate insofar as it would provide for obtaining the facts. He would favor a membership proceeding only as a final recourse.

Chairman Martin stated that, as he read the letter suggested by Governor Robertson, he saw no implication of harassment if the last two sentences of the letter were omitted.

Mr. Hexter commented that to both the Examinations and Legal Divisions it seemed that the approach in the second draft would be

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tantamount to saying that the Board was not going to take action against what it regarded as a violation of the law, but instead proposed to let the practice continue with the hope that it would fall of its own economic weight. It should be borne in mind that banks throughout the country were asking questions about this plan and were being advised that the operation of plan appeared to be in violation of the law and the Board's regulation. There was nothing in this picture that would discourage the bank from going ahead; frequent examinations would not stop it.

Governor King inquired whether the Legal Division felt that the recent examination had revealed any violation of the law and regulation, to which Mr. Hooff replied that he thought it did. The bank had clearly entered into agreements with numerous depositors whereby funds would be withdrawn by the bank from savings accounts in settlement of loans created by checks drawn on the bank. The bank was obligated to pursue that course by the agreements. Only because its equipment had broken down was it temporarily estopped. Governor King then asked whether the Legal Division did not feel that the Board would be on more solid ground if another examination was conducted. Mr. Hexter replied that the Legal Division would not recommend instituting any proceeding against the bank until transactions deemed to be in violation of the law and regulation had actually taken place. However, the Board could assume that such violations would exist and probably now existed.

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In further discussion, Mr. Benner reported that an examination of the savings department of Citizens Bank was begun last week by the Federal Reserve Bank of Chicago. The results of the examination should be available within the relatively near future.

Accordingly, it was understood that the matter would be considered further following receipt of the report of the examination now being conducted by the Federal Reserve Bank of Chicago.

Interest rates on time deposits in New York State. There had been distributed a memorandum from the Division of Examinations dated April 20, 1962, stating that Vice President Crosse of the Federal Reserve Bank of New York had telephoned Mr. Leavitt on April 19, 1962, regarding plans by Mr. Oren Root, Superintendent of Banks for New York, to permit changes in the maximum rates of interest payable on time and savings deposits by State chartered banks. The Superintendent thought that it probably would be desirable to allow commercial banks in that State to pay interest as provided by Regulation Q. He was also considering permitting savings banks to pay interest at the rate of 4 per cent for periods shorter than now permitted by State law.

The memorandum further stated that Mr. Root was considering the possibility of removing entirely the maximum rates payable on savings deposits, feeling that there was little desire on the part of New York State chartered banks to pay interest at higher rates than permitted by Regulation Q and that this might be an appropriate time to remove all restrictions.

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Mr. Solomon reviewed the memorandum and called attention to the fact that the State Superintendent reportedly would be glad to have any comments the Board might wish to make.

Governor Mills expressed the view that the Board should not make any comment. This was a field of responsibility for Mr. Root. He went on to say that he viewed with much concern the interest rate situation across the country. Contributing causes were the Board's decision to go as high as a 4 per cent maximum rate of interest on time and savings deposits and its subsequent refusal to compromise with Mr. Root and, in effect, move the maximum rates back to coincide with those that New York State had set for State commercial banks.

Following Governor Mills' remarks, the Chairman asked whether any member felt that the Board should comment with regard to Mr. Root's plans and there was agreement that it should not. Accordingly, it was understood that Mr. Solomon would advise the New York Reserve Bank to such effect.

Messrs. Noyes, Hexter, Hooff, Dembitz, Benner, Leavitt, and Spencer then withdrew from the meeting.

Report of examination of Federal Reserve Bank of Atlanta.

Mr. Smith commented on the examination of the Federal Reserve Bank of Atlanta made as of November 27, 1961, the report on which had completed circulation to the members of the Board. On the basis of his comments, it was agreed that there were no matters disclosed by the examination that required action on the part of the Board.

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It was understood, however, that the Examinations and Bank Operations Divisions would continue to follow carefully the operations of the Bank's Fiscal Agency Department, in view of certain defects that had been noted.

Report of examination of Federal Reserve Bank of St. Louis.

The report covering the examination of the Federal Reserve Bank of St. Louis made as of February 1, 1962, had been circulated to the Board, along with the usual accompanying memoranda.

Mr. Smith commented on matters disclosed by the examination, and on the basis of his comments it was agreed that there were no matters appearing to require action on the part of the Board.

The meeting then adjourned.

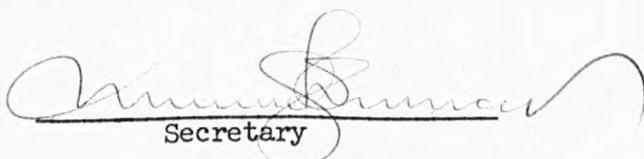
Secretary's Note: Governor Shepardson today approved on behalf of the Board the following items:

Memorandum from the Division of Administrative Services recommending an increase in the basic annual salary of Bishop Hart, Bindery Worker in that Division, from \$4,763 to \$5,429, effective April 29, 1962.

Memorandum from Thomas M. Klein, Economist, Division of International Finance, requesting permission to teach a course in money and banking during the summer session at Georgetown University.

Memorandum dated April 11, 1962, from the Division of Examinations recommending the establishment of a new position of Training Technician in that Division.

Letter to the Federal Reserve Bank of Atlanta (attached Item No. 6) approving the appointment of George D. Loomis as assistant examiner.


Secretary

T E L E G R A M

LEASED WIRE SERVICE

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTONItem No. 1
4/23/62

April 23, 1962

Treiber - New York

Board interposes no objection to proposed purchase of
general data processing system referred to in urlet of April 18,
1962.

(Signed) Merritt Sherman

SHERMAN

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

Item No. 2
4/23/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 23, 1962



Bank of America,
41 Broad Street,
New York 15, New York.

Gentlemen:

In view of the request contained in your letter of March 29, 1962, transmitted through the Federal Reserve Bank of New York, and on the basis of the information furnished, the Board of Governors extends to November 1, 1962, the time within which your Bank may establish an additional branch in the City of Singapore, Colony of Singapore, to be located in the vicinity of Carpenter Street, Singapore, as authorized by the Board on April 26, 1961.

Please advise the Board of Governors in writing, through the Federal Reserve Bank of New York, when the branch is opened for business, furnishing information as to the exact location of the branch.

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
4/23/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 23, 1962

Mr. Robert P. Briggs, Chairman,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Briggs:

As requested in your letter of April 12, 1962, the Board of Governors approves the appointment of Mr. Robert W. Cook as Federal Reserve Agent's Representative at the Detroit Branch to succeed Mr. Otis R. Radford.

This approval is given with the understanding that Mr. Cook 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 Assistant Federal Reserve Agent and the Board of Governors.

When not engaged in the performance of his duties as Federal Reserve Agent's Representative, Mr. Cook may, with the approval of the Federal Reserve Agent and the Vice President in charge of the Detroit Branch, perform such work for the Branch as will not be inconsistent with the duties as Federal Reserve Agent's Representative.

It will be appreciated if Mr. Cook 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 assumed that Mr. Cook will execute the usual Oath of Office, which will be forwarded to the Board of Governors along with the notification of 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. 4
4/23/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



April 23, 1962

Board of Directors,
The First National Bank of Stevens Point,
Stevens Point, Wisconsin.

Gentlemen:

The Board of Governors of the Federal Reserve System has given consideration to your supplemental application for a fiduciary power and grants you authority to act, when not in contravention of State or local law, in any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the State of Wisconsin. The exercise of such right shall be subject to the provisions of Section 11(k) of the Federal Reserve Act and Regulation F of the Board of Governors of the Federal Reserve System.

In addition to the fiduciary power herein authorized, the bank was granted authority, on April 14, 1922, to act as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, and committee of estates of lunatics.

A formal certificate indicating the fiduciary powers that your bank is now authorized to exercise will be forwarded in due course.

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. 5
4/23/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 23, 1962

Board of Directors,
United California Bank,
Los Angeles, California.

Gentlemen:

The Board of Governors of the Federal Reserve System extends to August 20, 1962, the time within which United California Bank may establish a branch in Costa Mesa, Orange County, California. It is noted that the address of the branch will be 3029 Harbor Boulevard.

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. 6
4/23/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 23, 1962

Mr. J. E. Denmark, Vice President,
Federal Reserve Bank of Atlanta,
Atlanta 3, Georgia.

Dear Mr. Denmark:

In accordance with the request contained in your letter of April 16, 1962, the Board approves the appointment of George D. Loomis as an assistant examiner for the Federal Reserve Bank of Atlanta, effective April 30, 1962.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

