



Minutes of the Board of Governors of the Federal Reserve System  
on Tuesday, April 24, 1962. The Board met in the Board Room at 10:00 a.m.

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

- Mr. Sherman, Secretary  
 Mr. Kenyon, Assistant Secretary  
 Miss Carmichael, Assistant Secretary  
 Mr. Molony, Assistant to the Board  
 Mr. Fauver, Assistant to the Board  
 Mr. Solomon, Director, Division of Examinations  
 Mr. Kelleher, Director, Division of Administrative Services  
 Mr. Connell, Controller  
 Mr. Hexter, Assistant General Counsel  
 Mr. Chase, Assistant General Counsel  
 Mr. Shay, Assistant General Counsel  
 Mr. Furth, Adviser, Division of International Finance  
 Mr. Leavitt, Assistant Director, Division of Examinations  
 Mr. Fuerth, Attorney, Legal Division  
 Mr. Troup, Supervisory Review Examiner, Division of Examinations  
 Mr. Kakalec, Assistant to the Controller, Office of the Controller

Item distributed to the Board. The following item, which had been distributed to the Board and a copy of which is attached to these minutes under the item number indicated, was approved unanimously:

Item No.

1

Telegram to the Federal Reserve Bank of New York approving a three-month extension of a gold loan to the Central Bank of the Philippines.

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Mr. Furth then withdrew from the meeting.

Report on competitive factors (Chambersburg-Dry Run, Pennsylvania). Under date of April 17, 1962, there had been distributed a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of The Valley National Bank of Chambersburg, Chambersburg, Pennsylvania, and The Path Valley National Bank of Dry Run, Dry Run, Pennsylvania.

In line with a general comment that had been made at a recent meeting, Mr. Leavitt indicated that it was planned to change the word "intensify" to "increase" in the conclusion of the report.

The report, with the conclusion reading as follows, was then approved unanimously for transmittal to the Comptroller:

Investigation discloses a relatively small amount of competition between The Valley National Bank of Chambersburg, Chambersburg, Pennsylvania, and The Path Valley National Bank of Dry Run, Dry Run, Pennsylvania. Merger of these two institutions may increase competition in the Path Valley area, but not to the extent that it would adversely affect other banks in the area.

Purchase of electric typewriters. In a memorandum from the Office of the Controller dated April 10, 1962, which had been circulated, it was recommended that the Board amend its replacement standards relating to electric typewriters by permitting purchase of such machines for use in all typing stations filled by experienced operators subject to the following restrictions:

- (1) Specific request to be made by the occupant of the typing station and approved by the Division Director.

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- (2) Each request be reviewed by the Division of Administrative Services and the Office of the Controller.
- (3) Replacement to be made only when the machine assigned to a station is eligible under rules outlined in the memorandum.
- (4) Electric machines to remain at stations to which assigned.
- (5) Normally, purchases to be limited to models with a modern distinctive standard type regularly carried in manufacturers' stock.
- (6) De luxe models or special attachments to be permitted only when adequate justification therefor exists.

The adoption of the recommendation would involve the purchase of as many as 83 additional electric typewriters in order to place electric machines in all of the 103 typing stations filled by experienced operators in the building. Provision had been made in the 1962 budget for the purchase of 12 electric typewriters at an average cost of \$427. It was suggested in the memorandum that the purchase of the remaining 71 machines be made over a three-year period, beginning in 1963, at an annual cost of about \$10,000.

As pointed out in the memorandum, the Board had been adhering to the eligibility standards specified by General Services Administration in connection with the purchase of electric typewriters. By contacting several Government agencies it had been learned that, while they were aware of the General Services Administration regulations, their application of the regulations had been progressively more lenient and at the present time about 75 per cent of their typewriters were electric, as compared with about 20 per cent at the Board.

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In a letter dated October 23, 1961, General Services Administration advised the Board that it planned in the near future to revise its standards for the purchase of electric typewriters. However, that agency recently indicated that a decision had been made not to change the existing standards since they provided that "exceptions to the criteria could be granted upon written justification and approval by the head of the agency or his authorized representative and made a part of the purchase file."

It was noted in the memorandum that, in addition to the 103 typewriters used by experienced operators at typing stations in the building, there were 172 other manual typewriters in the building. In the past, typewriters six years or older had been handed down from typing stations to these other locations. If the proposed schedule for replacing electric typewriters should be adopted, this would eliminate the source of supply for replacing the 172 manual typewriters used at nontyping stations. It was suggested in the memorandum that it would be appropriate to develop a replacement plan for the manual machines in the building. The memorandum also outlined proposed eligibility standards for the future replacement of electric typewriters.

At the Board's request, Mr. Connell commented on the reasons for the recommendation of the Office of the Controller, as outlined in the April 10 memorandum.

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Governor Shepardson observed that some time ago it had become apparent that Government agencies were not following too closely the rules prescribed by General Services Administration with respect to the purchase of electric typewriters. The matter had not heretofore been brought to the Board's attention because it had been thought that the prescribed standards would be revised. However, since it now appeared that no revision was contemplated, he believed it was appropriate for the Board to change its standards with respect to the purchase of electric typewriters.

Governor Mitchell inquired whether in matters of this nature the Board followed the practice of doing what it thought should be done or whether it was guided by the practices of other Government agencies.

Governor Shepardson responded that it had been the usual procedure for the Board to follow established Government standards in various areas, and he believed that there were reasons for doing so. However, when such standards ceased to be observed, as in this instance, he thought it was desirable to get away from those standards.

After further discussion, the recommendation of the Office of the Controller was approved unanimously.

Messrs. Connell, Kelleher, and Kakalec then withdrew from the meeting.

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Application of Commerce Union Bank. There had been distributed a memorandum from the Division of Examinations dated April 16, 1962, recommending favorably on an application by Commerce Union Bank, Nashville, Tennessee, for consent to the proposed merger of Broadway National Bank of Nashville, Tennessee, into Commerce Union Bank.

At the Board's request, Mr. Leavitt made a statement regarding the facts of the case and the reasons underlying the recommendation of the Division of Examinations, his comments being based substantially on the information presented in the April 16 memorandum.

In the ensuing discussion, Governor Shepardson raised a question regarding a statement in the April 16 memorandum to the effect that the capital structure of the resulting bank would be "reasonably adequate." He noted that it had been pointed out in preceding paragraphs that the latest examination of Commerce Union Bank showed a ratio of adjusted capital structure to risk assets of 1 to 6.3 and a capitalization of 113 per cent under the Form for Analyzing Bank Capital. The ratio of adjusted capital structure to risk assets at Broadway National was 1 to 4.4. Mr. Leavitt responded that the capital of the resulting bank was expected to be adequate and, accordingly, the word "reasonably" should not have been included in the memorandum.

Governor Mills commented that the staff should guard against the use of overstatements in public releases on merger cases. For example, it was stated in the memorandum on the case under consideration

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that the merger would have little, if any, effect on the convenience and needs of the community or upon the competitive situation. This was rather strong language. It might be preferable to indicate that the centralization of authority and control inherent in the merger, with the resulting elimination of a certain amount of administrative duplication and needless effort, should lead to greater efficiency, with probable benefits to customers of the resulting bank, which would be in a position to compete more effectively in the Nashville area.

During further discussion, all of the members of the Board indicated that they would favor approval of the proposed transaction. Accordingly, the application was approved unanimously, with the understanding that the Legal Division would prepare drafts of an order and supporting statement for the Board's consideration.

Messrs. Shay, Fuerth, and Troup then withdrew from the meeting.

Service of Reserve Bank officer as a director of a corporation.

A memorandum from the Legal Division dated April 20, 1962, had been distributed with reference to a question raised by President Clay of the Federal Reserve Bank of Kansas City as to whether an exception should be made, in a particular case that had arisen at the Bank, to the general policy stated in the following portion of the Board's letter of March 24, 1948, to all Reserve Bank Presidents:

"For many years the Board has taken the position that the good conduct and repute of the Federal Reserve System require that officers and employees occupying responsible

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positions in the Federal Reserve Banks shall give their entire time and attention to the affairs of the Banks and not be identified with any outside business interests. Stated as a general principle, it is important that officers and employees of a Federal Reserve Bank refrain from being placed in any position which might embarrass the Federal Reserve Bank in the conduct of any of its operations or result in any questions being raised as to the independence of their judgment or their disinterestedness in the discharge of their official responsibilities or their ability to perform satisfactorily all of the duties of their positions."

President Clay had pointed out that Mr. Leedy, General Counsel and Secretary of the Reserve Bank, would like to continue for the remainder of 1962 on the board of directors of a corporation for which he was legal adviser before coming to the Federal Reserve Bank. This would afford an opportunity for one of his former law partners to become more thoroughly familiar with the affairs of the corporation so that he could succeed Mr. Leedy as a director by 1963. In view of the corporation's favorable cash position, no bank borrowings had occurred since 1955 and none were anticipated in 1962. According to President Clay, the service of Mr. Leedy as a director of the corporation would require only a minimum amount of time and would in no way interfere with the discharge of his duties at the Reserve Bank.

Attached to the memorandum was a draft of reply that would state that the Board agreed there was little likelihood that Mr. Leedy's continuing on the board of the corporation during 1962 would produce any of the dangers referred to in the Board's letter of March 24, 1948. The letter would also state, however, that it was not clear to the

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Board why the transition to a new legal adviser for the corporation could not be accomplished by informal consultations between Mr. Leedy and his former partner who was taking over the work, or possibly by Mr. Leedy's attendance in an advisory capacity at the meetings of the corporation during 1962. The letter would conclude by stating that the Board would prefer not to make an exception to the policy outlined in the 1948 letter but would be glad to consider any further comments that President Clay or Mr. Leedy would care to make regarding the matter.

Mr. Chase, in commenting on the inquiry, remarked that while it appeared unlikely that any harm would result from Mr. Leedy's continuing to serve as a director of the corporation through 1962, there would not appear to be any good reason for making an exception to the established procedure.

Chairman Martin observed that the Board might wish to consider permitting Mr. Leedy to continue serving as a director if there was a clear understanding that he would disassociate himself from service in that capacity by the end of 1962.

Governor Mitchell said that he would have no objection to taking such a position.

Mr. Hexter commented that the letter from President Clay did not contain any information as to whether Mr. Leedy had been re-elected as a director of the corporation since he took office as General Counsel and Secretary of the Reserve Bank on October 1, 1961.

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Governor Robertson said that President Clay had discussed the matter with him recently and had indicated that Mr. Leedy was willing to take whatever steps the Board might suggest. Governor Robertson said he had told President Clay that he, of course, did not know what the Board's view in this matter would be, but that he personally thought it would be desirable for the Board not to make exceptions to the policy outlined in the 1948 letter. It was Governor Robertson's thought that Mr. Leedy might be able to work out the matter satisfactorily without actually continuing to serve as a director of the corporation.

After further discussion, during which members of the Board expressed reluctance to make exceptions to the principle embodied in the 1948 letter, but at the same time indicated that they would hesitate to take a firm position if that would result in undue hardship to Mr. Leedy or the corporation he was serving, it was agreed unanimously that Governor Robertson would discuss the matter further with President Clay. It was understood that the question whether a letter should be sent on the subject would be dependent on the outcome of Governor Robertson's conversation with President Clay.

Request of Cleveland Trust Company (Item No. 2). On March 5, 1962, the Board approved an application of The Cleveland Trust Company, Cleveland, Ohio, to establish a branch in the Midtown Shopping Center at Broadview and Snow Roads, Parma, Ohio. Subsequently, the Board received an application from that bank to establish a drive-in facility

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to be located approximately 400 feet from the branch quarters. The proposed facility would offer only limited services, consisting of cashing checks, receiving deposits, and accepting loan payments.

Mr. Leavitt reported that he had received a telephone call from Vice President Stetzelberger of the Federal Reserve Bank of Cleveland this morning indicating that an option held by The Cleveland Trust Company on a location for the proposed drive-in facility would expire today. Accordingly, it would be helpful if the bank might be advised whether the Board would approve the application.

Mr. Leavitt pointed out that, while The Cleveland Trust Company would have preferred to have a drive-in facility immediately adjacent to the branch approved on March 5, this was not possible because of the location of other property in the area. However, the facility would in effect be an adjunct of the other branch.

There being no objection, the establishment of the drive-in facility was approved unanimously. A copy of the letter sent to The Cleveland Trust Company pursuant to this action is attached as Item No. 2.

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

Provision of space. Following the meeting, the Secretary was informed by Governor Shepardson that during the executive session the Board requested that he proceed to negotiate with the Federal Deposit

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Insurance Corporation for a five-year lease of as much space in the new building of that Corporation as might seem to be necessary to meet the Board's needs for additional room over the next five years, with the understanding that he would report back to the Board on the results of his negotiations prior to formalizing the same.

The Secretary also was informed that Governor Shepardson was directed to communicate with the architectural firm of Harbeson Hough Livingston & Larson, Philadelphia, Pennsylvania, (successor to Paul P. Cret, Architect), requesting them to undertake a review of the plans, previously prepared by them, for an addition to the Board's building to be erected on the Board's lot on the north side of C Street between 20th and 21st Streets, in contemplation of the possible construction of such a building.

The meeting then adjourned.

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

Memorandum from the Division of Research and Statistics recommending the appointment of George J. Viksnins as Economist in that Division on a temporary basis, with basic annual salary at the rate of \$6,435, effective the date of entrance upon duty.

Telegram to Mr. Bryan, Chairman of the Presidents' Conference Committee on Systems and Procedures, advising that the Board would be glad to have the following members of its staff continue to serve as associates of the subcommittees indicated:

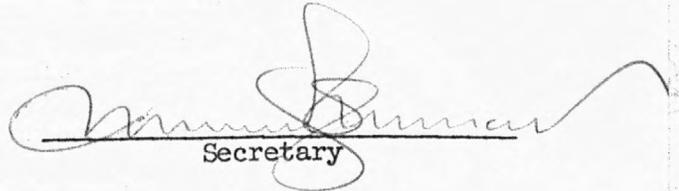
John R. Farrell  
Subcommittee on Electronics  
John N. Kiley, Jr.  
Subcommittee on Methods and Automation

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Letter to Mr. Deming, Chairman of the Presidents' Conference Committee on Collections and Accounting, advising that the Board would be glad to have the following members of its staff continue to serve as associates of the subcommittees indicated:

M. B. Daniels  
Subcommittee on Accounting  
John R. Farrell  
Subcommittee on Collections  
Howard H. Hackley  
Subcommittees of (1) Counsel on Collections  
and (2) Counsel on the Commercial Code



Secretary

TELEGRAM  
LEASED WIRE SERVICE

Item No. 1  
4/24/62

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTON

April 24, 1962

SANFORD - NEW YORK

Your wire April 20. Board approves granting a three-month extension of a loan on gold up to a total of \$23,250,000 by your Bank to the Central Bank of the Philippines on the following terms and conditions:

- (a) To be made up to 98 per cent of the value of gold bars set aside in the vaults of the San Francisco Reserve Bank (which holds the gold as your agent under pledge to you);
- (b) To mature in three months with option to repay at any time before maturity in multiples of \$1 million, with the exception of the final \$250,000; and
- (c) To bear interest at the discount rate of your Bank in effect on the date of renewal.

It is understood that in your cable to the Central Bank you will advise them that the original loan with the one renewal is all that the System's general gold loan policy contemplates. It is also understood that the usual participation will be offered to the other Federal Reserve Banks.

(Signed) Merritt Sherman

SHERMAN

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

Item No. 2  
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ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 24, 1962



Board of Directors,  
The Cleveland Trust Company,  
Cleveland, Ohio.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a drive-in facility by The Cleveland Trust Company, Cleveland, Ohio, in the Midtown Shopping Center at the northwest corner of the intersection of Broadview and Snow Roads, Parma, Ohio, provided the facility is established within six months from the date of this letter.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.