

Minutes for May 22, 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

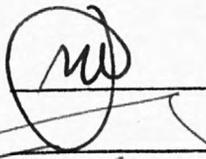
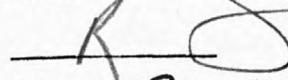
Gov. Robertson

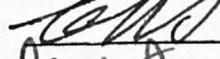
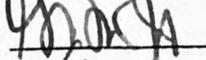
Gov. Balderston

Gov. Shepardson

Gov. King

Gov. Mitchell


Minutes of the Board of Governors of the Federal Reserve System on Tuesday, May 22, 1962. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Young, Adviser to the Board and Director,
Division of International Finance
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Cardon, Legislative Counsel
Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank
Operations
Mr. Solomon, Director, Division of Examinations
Mr. Johnson, Director, Division of Personnel
Administration
Mr. O'Connell, Assistant General Counsel
Mr. Hooff, Assistant General Counsel
Mr. Goodman, Assistant Director, Division of
Examinations
Mr. Leavitt, Assistant Director, Division
of Examinations
Mr. Thompson, Assistant Director, Division of
Examinations
Mr. Guth, Review Examiner, Division of
Examinations
Mr. Poundstone, Review Examiner, Division of
Examinations
Mr. Potter, Senior Attorney, Legal Division

Items distributed to the Board. The following items, which had been 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:

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- | | <u>Item No.</u> |
|--|-----------------|
| Letter to The First National Bank of Chicago, Chicago, Illinois, authorizing the organization of First Chicago International Banking Corporation, to be located at 48 Wall Street, New York, New York. | 1 |
| Letter to The First National Bank of Chicago, Chicago, Illinois, authorizing the organization of First Chicago International Finance Corporation, to be located at 38 South Dearborn Street, Chicago, Illinois. | 2 |
| Letter to Counsel for Irving Trust Company, New York, New York, with further regard to a demand for production of certain reports of examination in connection with a civil proceeding. | 3 |
| Letter to Chairman Robertson of the Senate Banking and Currency Committee reporting on S. 3291, a bill "to amend section 14(b) of the Federal Reserve Act, as amended, to extend for two years the authority of Federal Reserve Banks to purchase United States obligations directly from the Treasury." | 4 |

During discussion of Item No. 2, Governor Mills referred to the following statement that had been made by the proponents of First Chicago International Finance Corporation:

Since the risks of investing in either new or expanded business projects abroad are affected by currency convertibility, taxation, political stability, and government attitudes, flexibility in creating an appropriate capital structure for each project will be essential. Investments of First Chicago International Finance Corporation would, at times, take the form of medium term loans at a fixed interest rate. However, interest would usually have to be supplemented by additional rewards as it is now for domestic loans made by our Small Business Investment Company, First Capital Corporation of Chicago. These supplementary returns to the Finance Corporation would include rights to participate in profits, to receive

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shares or other forms of finance fees, to subscribe to equity shares, to buy shares through warrants, or to obtain a combination of such inducements. The Corporation would not seek voting control of enterprises in which it invests, but would, however, seek appropriate arrangements with other shareholders so that its interests would be protected.

Governor Mills commented that the statement indicated a direction in the use of small business investment companies that he regarded as a far cry from the spirit of the Small Business Investment Act. While the Board had been aware that there was the tendency to require supplementary inducements in the case of Edge Act financing corporations, and had not objected, to him it continued to leave a bad taste that the objectives were of an acquisitive type and that they were now being introduced into the operations of small business investment companies, which ostensibly had been created out of interest for customers and not the banks themselves. The theory, as he had always interpreted it, was that parties--especially banks--who entered this field were doing so with an element of regard to the public interest, by taking advantage of a legal authority to engage in long-term financing that would benefit the borrower. However, when that statute was used in a manner whereby the lender reaped supplementary rewards from a project such as obtaining equity shares, he regarded it as an inducement to bad banking. The routing into small business investment companies of projects having the lure of exceptional profits could contravene the requirements of sound banking. It might be unobjectionable for a company that obtained capital from the public

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market to engage in that kind of undertaking, but he had serious reservations about such an operation being linked with operations of commercial banks. He also had somewhat the same views with regard to Edge Act financing corporations, in that he felt it was the lure of exceptional profits that had tempted banks into the field.

Governor Robertson indicated that he shared many of the misgivings expressed by Governor Mills. He felt that many of the operations of small business investment companies involved a departure from the original concept of the statute.

Governor Mitchell suggested that in order to make a private enterprise system function successfully, it was necessary to offer opportunities for profit making. To promote interest in high risk ventures, lenders and investors must be given the prospect of a substantial return.

Messrs. Goodman and Poundstone then withdrew.

Report on competitive factors (Charlotte-Wilmington, North Carolina). 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 Bank of Wilmington, Wilmington, North Carolina, into North Carolina National Bank, Charlotte, North Carolina. The conclusion, as drafted, stated that "North Carolina National and Bank of Wilmington are direct competitors in Wilmington and New Hanover County. The proposed merger would eliminate alternate and competitive banking facilities and is in continuance of a trend

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in North Carolina toward concentration of banking resources in a few large banks."

In discussion, Governor Mills raised the question whether, in the State of North Carolina where there was a general trend toward combination of banking resources and a relatively few commercial banking organizations, the supervisory agencies were not confronted to a degree with the same situation as in California. If so, he asked whether there were not grounds for recognizing an accomplished fact. In this particular case, in which the tone of the proposed competitive factors report was adverse, a small bank would become part of a larger bank that in turn would be thrown into more active competition in the Wilmington area with two other banks of large size. If the proposed merger should be denied, the small bank would be forced to continue to do business in its present competitive status contrary to its own wishes. To moderate the tone of the conclusion, a sentence might be added to the effect that if the merger should be consummated, increased competition in Wilmington could be anticipated between the large branch banking institutions operating in that locality.

In further comments, Governor Mills referred to certain California merger proposals that had been decided by the Board or were pending. Using those cases by way of illustration, he raised the question whether it was a proper interpretation of the law to permit a bank that had fallen behind competitively to enter into a merger while refusing similar permission to another bank that had managed to operate successfully.

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The Wilmington, North Carolina, proposal was one involving a small bank in the latter category.

Governors Robertson and Mitchell expressed the view that the conclusion, as drafted, was appropriate to the facts of the case. Governor Mitchell said that on the basis of statements attributed to the Richmond Reserve Bank in this case and another recent case he had some concern as to whether the Bank fully appreciated the issues involved in proposals of this kind. (The Reserve Bank had stated that "It would not appear that reduction by one in the number of banks serving a city the size of Wilmington would result in serious lessening of competition but will, in all likelihood, intensify competitive efforts of the remaining four banks, especially the three Statewide institutions.") Governor Robertson cautioned against undue qualification of conclusions in reports on competitive factors.

Governors Shepardson and Balderston indicated that they would be inclined to add to the conclusion a sentence along the lines suggested by Governor Mills.

Accordingly, the report was approved for transmittal to the Comptroller in a form in which the conclusion read as follows, it being understood that Governors Robertson and Mitchell would have preferred not to include the final sentence:

North Carolina National and Bank of Wilmington are direct competitors in Wilmington and New Hanover County. The proposed merger would eliminate alternate and competitive banking facilities and is in continuance of a trend in North Carolina toward concentration of banking resources in a few large banks.

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However, increased competition in Wilmington could be anticipated as between the large branch banking institutions operating in that locality.

Mr. Young then withdrew.

Practice of computing interest on savings deposits on daily basis (Item No. 5). As requested in a Board letter of December 27, 1961, the Federal Reserve Banks had submitted reports on the practice of some member banks in computing interest on savings deposits on a daily basis. The reports did not indicate that the practice was leading to abuses. There had been circulated to the Board a draft of letter to the Reserve Banks citing the tone of the comments received, but requesting that the Banks continue to observe developments and report any abuses that might come to their attention.

Mr. Hackley pointed out that this was the second review made by the Reserve Banks at the Board's request. Like the first survey, it revealed little or no evidence of abuse of savings deposits; it did not appear that there was any general tendency for large amounts of idle funds to be placed on deposit for a few days simply to obtain income. He also pointed out that last year the Board had considered a possible amendment to Regulation Q, Payment of Interest on Deposits, that was intended to prevent any such abuses. Under that amendment, member banks would have been prohibited from paying interest on any part of a deposit that was withdrawn without having been in the bank 30 days. At that time, however, it was felt that in the absence of clear evidence of abuse, such an amendment probably was not warranted.

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It undoubtedly would give rise to bookkeeping problems and be burdensome to many banks, including banks that had not adopted the practice of computing interest on a daily basis.

Mr. Hackley then went on to describe a number of possible amendments to Regulation Q with respect to savings deposits that were under study by the Legal Division. After assuring the Board that these possible amendments would continue to receive active consideration, he noted that the Division would be rather reluctant to suggest a series of amendments to Regulation Q, even though the amendments might have some merit.

The point of view expressed by Mr. Hackley was concurred in by the members of the Board. Accordingly, the proposed letter to the Federal Reserve Banks was approved unanimously, with the understanding that the various suggested amendments to Regulation Q would continue to be studied by the Legal Division and that a summary memorandum would be submitted for the Board's consideration in due course. A copy of the letter to the Reserve Banks is attached as Item No. 5.

Mr. Hooff then withdrew.

Application of Marine Corporation. At the meeting on May 17, 1962, the Board gave consideration to an application by The Marine Corporation, Milwaukee, Wisconsin, for prior approval of the acquisition of shares of Security State Bank, Madison, Wisconsin. Action on the application was deferred, however, in view of a suggestion by Governor Mitchell that the material pertaining to the case be supplemented by

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information as to the extent, if any, to which the holding company was providing services for its subsidiary banks, as contrasted with merely accumulating a portfolio of bank stocks. Under date of May 18, there was distributed a memorandum from the Division of Examinations submitting information, taken from reports of examination of the holding company and of the subsidiary banks, which indicated that the holding company was providing substantial services and was integrating the operations of the subsidiary banks to an appreciable degree.

Governor Mitchell stated that he was satisfied with the additional information that had been submitted. He suggested, however, that in making examinations of bank holding companies it might be well, if it was not being done already, to have as an objective ascertaining and describing the functions performed by such companies. It was his impression that the information submitted by the Division of Examinations in its May 18 memorandum had been accumulated from scattered comments in examination reports of the holding company and its subsidiary banks.

Governor Robertson said it was his impression that the Division of Examinations, in preparing memoranda on holding company applications, did so against a general background of information known to the Division. In light of Governor Mitchell's comments with respect to the current application, it might be desirable in the future to include information on the activities of the applicant holding company in the memoranda submitted to the Board.

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The application of The Marine Corporation was then approved by unanimous vote, with the understanding that the Legal Division would draft an order and statement reflecting this decision for the Board's consideration.

Messrs. O'Connell, Leavitt, Thompson, Potter, and Guth then withdrew.

Question of establishing Federal Reserve Bank branch in Milwaukee (Item No. 6). Pursuant to the understanding at the meeting on May 17, 1962, there had been distributed to the Board a revised draft of letter to Congressman Reuss of Wisconsin with regard to an inquiry he had made about the possibility of establishing a Federal Reserve Bank branch in Milwaukee. The revised draft of letter included alternative final paragraphs. The first would suggest kinds of information that might be provided in submitting an application for a Milwaukee branch to the Board for consideration. The second alternative paragraph would state that the Board had requested the Federal Reserve Bank of Chicago to make another survey in view of the time that had elapsed since the Reserve Bank last surveyed the question of branches in the Seventh District.

Mr. Cardon reported that he had received a letter from Congressman Reuss enclosing a copy of a "fact sheet" that the latter had sent to Wisconsin member banks in the Seventh Reserve District listing points that he considered relevant to the establishment of a branch in Milwaukee. After reciting the items included in the list,

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Mr. Cardon discussed the points included in the revised draft of letter to Congressman Reuss, which reflected views expressed by members of the Board at the May 17 meeting.

Mr. Farrell commented on certain factors that suggested to him that an additional branch or branches in the Seventh District could conceivably be helpful from the standpoint of the Federal Reserve System. These had to do principally with the cost of handling country checks, in which respect the Chicago and New York Banks were the highest in the System. He noted that the Chicago Bank was among those showing the largest increases in the volume of float. Mr. Farrell also suggested that a tendency to play down the importance of Federal Reserve branches in replying to Congressman Reuss might lead the Congressman to question the need for expenditures on branch buildings in other cities where construction projects were now pending.

The proposed letter to Congressman Reuss was then commented upon at some length by members of the Board. Inasmuch as Mr. Reuss apparently had already begun a survey of member banks in Wisconsin for the purpose of collecting information and sentiment regarding the possibility of establishing a branch in Milwaukee, it was the consensus that it would be appropriate to advise him generally along the lines of the first alternative final paragraph in the draft letter, rather than to state that the Board was asking the Chicago Reserve Bank to make a further survey. However, a number of suggestions were made for changes in that paragraph and in other parts of the draft letter.

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Governor Mitchell expressed a different point of view, stating that the Board should avoid seeming to indicate that it had not been alert to the question of additional Reserve Bank branches. By virtue of improvements in transportation facilities and in data processing, it seemed probable to him that a number of existing Reserve Bank branches could in fact be abandoned without detriment to service. These developments, viewed against the background of the 1953-54 survey by the Chicago Reserve Bank, would suggest that there was no justification for additional branches in the Seventh District. In the circumstances, he saw no need for adopting a posture that might suggest that the Board had been negligent.

Turning to the proposed letter, Governor Mitchell made several suggestions, some of which were concurred in by the other members of the Board. As to the final paragraph, he commented that Congressman Reuss could not be stopped from making a survey if he chose to do so. However, he (Governor Mitchell) did not think that the Board should seem to endorse such a survey or commit itself in any way. Therefore, he would prefer to state to Mr. Reuss that in view of the latter's interest the Board was asking the Chicago Reserve Bank to survey the Milwaukee situation again and that the Board would advise of the results as promptly as possible.

After further discussion, approval was given to a letter to Congressman Reuss in the form attached as Item No. 6, Governor Mitchell dissenting for the reasons he had stated.

Note: Pursuant to a subsequent request from Mr. Reuss, a copy of the Chicago Reserve Bank's survey was sent to him on May 28, 1962.

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All of the members of the staff except Messrs. Sherman and Johnson then withdrew.

Salaries of officers--San Francisco (Item No. 7). Reference was made to a draft of letter to Mr. Swan, President of the Federal Reserve Bank of San Francisco, that would approve the payment of salaries to certain officers and under which there would be established at the Los Angeles Branch of the Federal Reserve Bank of San Francisco an additional position carrying the title of "Vice President", effective August 1, 1962. Under this arrangement the Branch would be headed by a Vice President and Manager, and the second officer in the Branch would have the title of Vice President.

Mr. Johnson stated that this change was being made incident to the retirement at the end of October of Mr. Volberg as Vice President and Manager of the Los Angeles Branch. The directors of the Federal Reserve Bank of San Francisco felt that because of the size and importance of the Branch, it should have two senior officers of the Bank assigned to it. This would be the first such arrangement at a Reserve Bank branch, Mr. Johnson said, and in his opinion it would be justified in the case of the Los Angeles Branch because of its volume of operations, number of employees, and general importance. There now would appear to be only three or four Reserve Bank branches at which a similar arrangement might even be suggested or considered, in Mr. Johnson's opinion, and he did not feel that approval of the arrangement for the Los Angeles Branch would constitute a precedent for other Reserve Banks generally.

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After comments by several members of the Board, unanimous approval was given to the letter approving the payment of salaries to certain officers of the Federal Reserve Bank of San Francisco.

A copy is attached as Item No. 7.

Salaries of officers--New York (Item No. 8). There had been circulated to the Board a proposed letter to the Federal Reserve Bank of New York approving the payment of salaries to certain officers at annual rates fixed by the Board of Directors.

Following a brief discussion, the letter was approved unanimously.

A copy is attached as Item No. 8.

The meeting then adjourned.

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

Letter to the Federal Reserve Bank of Dallas (attached Item No. 9) approving the appointment of Harold P. Dodd as examiner.

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

Appointment

Milton B. Doolittle as Guard, Division of Administrative Services, with basic annual salary at the rate of \$3,500, effective the date of entrance upon duty.

Salary increase, with change in title

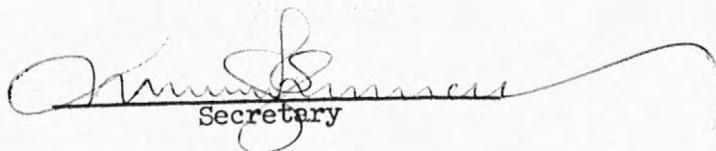
P. D. Maddox, from \$3,920 to \$4,472 per annum, with a change in title from Guard to General Mechanic-Operating Engineer, Division of Administrative Services, effective immediately.

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Salary increases, effective May 27, 1962

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>Office of the Secretary</u>			
Betty Jane Abbott, Records Clerk		\$4,145	\$4,250
Mary William Wahle, Records Clerk		4,040	4,145
<u>Research and Statistics</u>			
Charles W. Bryson, Economist		6,435	6,600
Kathryn Ridgway, Statistical Clerk		4,670	4,775
<u>Bank Operations</u>			
James A. McIntosh, Data Processing Analyst		7,820	8,080
Jacqueline Schuster, Statistical Clerk		4,355	4,460
<u>Administrative Services</u>			
Jane C. Charuhas, Utility Clerk		4,675	4,840
Viola E. Heflin, Charwoman		3,290	3,395
Lorraine T. Hirz, Clerk-Stenographer		4,145	4,250
Charles R. Norris, Head, Mail and Messenger Service		5,490	5,655
Unit			


Secretary

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

Item No. 1
5/22/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



May 22, 1962

Mr. C. W. Wilson, Senior Vice President and
General Counsel,
The First National Bank of Chicago,
38 South Dearborn Street,
Chicago 90, Illinois.

Dear Mr. Wilson:

The Board of Governors has approved the Articles of Association and the Organization Certificate, dated April 17, 1962, of First Chicago International Banking Corporation, and there is enclosed a preliminary permit authorizing that Corporation to exercise such of the powers conferred by Section 25(a) of the Federal Reserve Act as are incidental and preliminary to its organization. The Corporation may not exercise any of the other powers conferred by Section 25(a) until it has received a final permit from the Board authorizing it generally to commence business. The steps which must be taken prior to issuance of a final permit are enumerated in Section 211.3(c) of the Board's Regulation K.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

Enclosure

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

May 22, 1962

Preliminary Permit

IT IS HEREBY CERTIFIED that the Board of Governors of the Federal Reserve System, pursuant to authority vested in it by Section 25(a) of the Federal Reserve Act, as amended, has this day approved the Articles of Association and Organization Certificate, dated April 17, 1962, of FIRST CHICAGO INTERNATIONAL BANKING CORPORATION duly filed with said Board of Governors, and that FIRST CHICAGO INTERNATIONAL BANKING CORPORATION is authorized to exercise such of the powers conferred upon it by said Section 25(a) as are incidental and preliminary to its organization pending the issuance by the Board of Governors of the Federal Reserve System of a final permit generally to commence business in accordance with the provisions of the Board of Governors of the Federal Reserve System issued pursuant thereto.

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM

By (Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

(SEAL)

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

Item No. 2
5/22/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



May 22, 1962

Mr. C. W. Wilson, Senior Vice President and
General Counsel,
The First National Bank of Chicago,
38 South Dearborn Street,
Chicago 90, Illinois.

Dear Mr. Wilson:

The Board of Governors has approved the Articles of Association and the Organization Certificate, dated April 17, 1962, of First Chicago International Finance Corporation, and there is enclosed a preliminary permit authorizing that Corporation to exercise such of the powers conferred by Section 25(a) of the Federal Reserve Act as are incidental and preliminary to its organization. The Corporation may not exercise any of the other powers conferred by Section 25(a) until it has received a final permit from the Board authorizing it generally to commence business. The steps which must be taken prior to issuance of a final permit are enumerated in Section 211.3(c) of the Board's Regulation K.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

Enclosure

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

May 22, 1962

Preliminary Permit

IT IS HEREBY CERTIFIED that the Board of Governors of the Federal Reserve System, pursuant to authority vested in it by Section 25(a) of the Federal Reserve Act, as amended, has this day approved the Articles of Association and Organization Certificate, dated April 17, 1962, of FIRST CHICAGO INTERNATIONAL FINANCE CORPORATION duly filed with said Board of Governors, and that FIRST CHICAGO INTERNATIONAL FINANCE CORPORATION is authorized to exercise such of the powers conferred upon it by said Section 25(a) as are incidental and preliminary to its organization pending the issuance by the Board of Governors of the Federal Reserve System of a final permit generally to commence business in accordance with the provisions of the Board of Governors of the Federal Reserve System issued pursuant thereto.

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM

By (Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

(SEAL)

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

Item No. 3
5/22/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 22, 1962

Silas M. R. Giddings, Esq.,
Winthrop, Stimson, Putnam & Roberts,
40 Wall Street,
New York 5, New York.

Re: TWA v. Hughes, et al.

Dear Mr. Giddings:

In reference to the above-captioned action, the Board of Governors, by letter of May 15, 1962, declined to authorize the production by your client, Irving Trust Company, a defendant in this action, of copies of designated reports of examination of that Bank prepared by the Federal Reserve Bank of New York. It is understood that following a conference with the Special Master assigned to this case, he has requested that portions of the reports of examination of Irving Trust Company for the years 1954 through 1961 be made available to him for his determination of the relevancy of entries and comments relating to the respective parties to this action. It is further understood that the Special Master has consented to your blocking out, prior to submission of the reports to him, all portions of the reports that do not relate to the matter at issue. Under these circumstances, you ask whether the Board will authorize the production before the Special Master of the reports of examination for the years 1954 through 1961 in the edited form you have described.

The Board will permit your editing the reports in such a manner as to prevent disclosure of any portion of their contents other than that relating to the litigation in question, and thereafter making the reports as edited available to the Special Master for a ruling on the relevancy of the unedited material. Prior to submission of the edited reports to the Special Master, the reports should be reviewed by the Vice President in charge of the Examinations Department of the Federal Reserve Bank of New York.



Silas M. R. Giddings, Esq.

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The permission herein given contemplates your further contacting the Board, pursuant to the Board's Rules Regarding Information, Submittals and Requests, before complying with any order of the Special Master for disclosure other than is herein authorized.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 4
5/22/62

OFFICE OF THE VICE CHAIRMAN

May 22, 1962

The Honorable A. Willis Robertson,
Chairman,
Committee on Banking and Currency,
United States Senate,
Washington 25, D. C.

Dear Mr. Chairman:

This is in response to your letter of May 15, 1962, requesting the views of the Board on S. 3291, a bill "To amend section 14(b) of the Federal Reserve Act, as amended, to extend for two years the authority of Federal Reserve banks to purchase United States obligations directly from the Treasury."

The use of this authority by the Federal Reserve enables the Treasury to avoid creating unnecessary financial strains that would otherwise occur if it had to draw heavily on its accounts especially during periods immediately preceding tax payment dates. Temporary Treasury borrowing at such times, followed by prompt repayment from the proceeds of tax payments, provides a smooth operating mechanism, without the abrupt money market fluctuations that would otherwise occur. The authority could also be useful in dealing with situations resulting from a national emergency. Since 1942 when the authority was granted it has been used sparingly, and its use is reported, as required by law, each year in detail in the Board's Annual Report. The results of its use also appear currently in weekly statements issued by the Federal Reserve and in daily statements issued by the Treasury. The Board favors the proposed legislation.

Sincerely yours,

(Signed) C. Canby Balderston

C. Canby Balderston,
Vice Chairman.

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

Item No. 5
5/22/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 22, 1962.

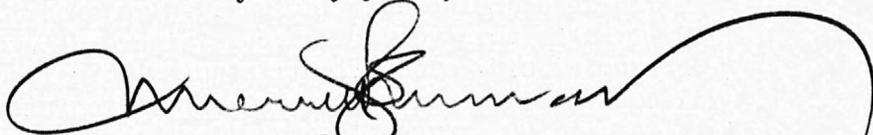
Dear Sir:

As you will recall, the Board's letter of December 27, 1961, requested your Bank to observe the development of the practice of computing interest on savings deposits on a daily basis in your District, and to report any such development that might suggest that the practice is leading to abuses.

Reports from the Reserve Banks indicated little, if any, evidence of abuses, and they contain no suggestion for action by the Board at this time to curtail such practice.

The Board appreciates receiving this information, and requests that your Bank continue to observe the development of this practice in your District and report any abuses that may come to your attention.

Very truly yours,



Merritt Sherman,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 6
5/22/62

OFFICE OF THE VICE CHAIRMAN

May 22, 1962

The Honorable Henry S. Reuss,
House of Representatives,
Washington 25, D. C.

Dear Mr. Reuss:

This is in reply to your letter of May 9, 1962, regarding the possibility of establishing a Federal Reserve branch at Milwaukee. I appreciate your courtesy in letting me know of your interest in this matter in advance of the hearing on S. 1005.

The main function of Federal Reserve branches is to provide check collection and cash services for the banks in the branch territory, and thus to improve such service for the benefit of the general public. Efficient performance of these services depends to a large degree on facilities available for transporting checks and cash between Federal Reserve offices and commercial banks. Thus, the marked improvement in transportation facilities in the past twenty-five years has tended to minimize the need for additional branches.

To a large extent, checks are moved between Federal Reserve offices and commercial banks by mail. Air express is used where it is available and the volume justifies. In addition, special arrangements may be developed under which the checks are sent by chartered trucks or by regularly scheduled inter-city buses. Cash is moved by registered mail or by armored car. Postmasters have the option of using air mail where this is more convenient than train mail. The use of armored car services for this purpose has been spreading in recent years.

A survey of the need for additional branches throughout the Seventh Federal Reserve District was made in 1953-54. The report, submitted by the Federal Reserve Bank of Chicago in March 1954, reached the conclusion that such additional branches were not justified. It indicated that, if branches were established, they would be best placed in Des Moines, Indianapolis, and Milwaukee;

The Honorable Henry S. Reuss

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that establishment of these branches would entail additional operating costs in the district of up to \$2 million a year plus a possible \$3 million for each branch building; and that, while major benefits would accrue to the banks in the three cities involved, the establishment of branches in these cities would not improve service for the great majority of banks in the three States. The Reserve Bank reported that the only improvement in service in Wisconsin would be to a scattering of banks. This conclusion was based on a survey of mailings on five successive days to determine how many collecting points were not reached by one day mail service from Chicago. All points in Wisconsin were usually reached in one day, except nine (five in Shawano County, and one each in Calumet, Langlade, Racine, and Waukesha Counties). The facts presented were given extensive consideration by the Board on a number of occasions over the next few years, but because they did not present a persuasive case for establishing these branches, the Board took no action in the matter.

In considering whether to establish a branch, the Board takes into account (1) whether the branch would result in improved service to the banks and thus to the public; (2) what additional cost would be involved; and (3) what intangible benefits, if any, would result. The first two factors can be measured objectively; the first factor, in particular, turns largely on a comparison of transportation services to the member banks concerned, as between the proposed location and the office now serving the banks. The third factor is more a matter of judgment, involving such questions as whether the branch would promote better understanding of the Federal Reserve System's operations, whether it would assist the Board and other officials of the System in interpreting economic and other developments, and whether the various communities affected favor the establishment of the branch. Experience in connection with the 1953-54 survey suggests that favorable reaction in the city where a branch is proposed to be located may be accompanied by adverse reactions in other cities in the State.

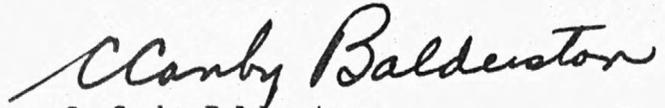
I understand that you are taking steps to determine what support exists in Wisconsin communities for a Milwaukee branch. In answer to the question in your letter, the Board will, of course, give to the question of the establishment of a Milwaukee branch the full and fair consideration you outline. In pursuance of this inquiry, I would suggest that attention should be given to (1) information that would indicate how establishment of the branch

The Honorable Henry S. Reuss

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would serve the public interest; (2) information as to what points, if any, would have better or worse mail or other transportation service from the new branch than they have from the Federal Reserve office now serving them; and (3) information as to which banks in the area favor or oppose the establishment of a branch, together with reasons.

Sincerely yours,

A handwritten signature in cursive script that reads "C. Canby Balderston". The signature is written in dark ink and is positioned above the typed name and title.

C. Canby Balderston,
Vice Chairman.

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

Item No. 7
5/22/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 22, 1962

CONFIDENTIAL (FR)

Mr. Eliot J. Swan, President,
Federal Reserve Bank of San Francisco,
San Francisco 20, California.

Dear Mr. Swan:

The Board of Governors approves the payment of salaries to the officers of the Federal Reserve Bank of San Francisco listed below, from the effective date through December 31, 1962, at the rates indicated:

<u>Office</u>	<u>Officer</u>	<u>Title</u>	<u>Annual Salary</u>
<u>Effective June 1</u>			
Head Office	Paul W. Cavan	Vice President	\$14,000
Los Angeles	Gerald R. Kelly	Assistant Manager	9,500
<u>Effective August 1</u>			
Los Angeles	C. H. Watkins	Vice President	17,500
Los Angeles	Donald M. Davenport	Assistant Manager	16,000
Portland	William M. Brown	Asst. Vice President	12,250
Portland	Francis R. Skinner	Assistant Manager	10,000
Salt Lake City	T. M. Simmons	Asst. Vice President	12,000
Seattle	W. R. Sandstrom	Asst. Vice President	14,000
<u>Effective November 1</u>			
Los Angeles	C. H. Watkins	Vice President and Manager	20,000
Los Angeles	Donald M. Davenport	Vice President	16,000

The rates approved by the Board are those fixed by your Board of Directors, as reported in your letter of May 4, 1962.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 8
5/22/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 22, 1962

Mr. William F. Treiber,
First Vice President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Treiber:

The Board of Governors approves the payment of salaries to the following officers of the Federal Reserve Bank of New York for the period May 15 through December 31, 1962, at the rates indicated, which are the rates fixed by your Board of Directors as reported in your letter of May 10:

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
Robert G. Rouse	Vice President and Senior Adviser	\$35,000
Robert W. Stone	Vice President	25,000
Thomas J. Roche	Senior Foreign Exchange Officer	20,000
Edwin S. Rothman	Manager	15,000

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.



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

Item No. 9
5/22/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 23, 1962.

CONFIDENTIAL (FR)

Mr. L. G. Pondrom, Vice President,
Federal Reserve Bank of Dallas,
Dallas 2, Texas.

Dear Mr. Pondrom:

In accordance with the request contained in your letter of May 9, 1962, the Board approves the appointment of Harold P. Dodd, at present an assistant examiner, as an examiner for the Federal Reserve Bank of Dallas, effective June 1, 1962.

It is noted that Mr. Dodd is indebted to Park Cities Bank and Trust Company, Dallas, Texas, a nonmember bank. Accordingly, the Board's approval of the appointment of Mr. Dodd is given with the understanding that he will not participate in any examination of that bank until his indebtedness has been liquidated.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

