Minutes for June 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.
Minutes of the Board of Governors of the Federal Reserve System on Friday, June 22, 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. Molony, Assistant to the Board
Mr. Cardon, Legislative Counsel
Mr. Fauver, Assistant to the Board
Mr. Holland, Adviser, Division of Research and Statistics
Mr. Koch, Adviser, Division of Research and Statistics
Mr. Furth, Adviser, Division of International Finance
Mr. Spencer, General Assistant, Office of the Secretary
Mr. Eckert, Chief, Banking Section, Division of Research and Statistics
Mr. Partee, Chief, Capital Markets Section, Division of Research and Statistics
Mr. Yager, Chief, Government Finance Section, Division of Research and Statistics

Money market review. Mr. Holland reviewed recent developments in the money market, in which connection he distributed certain charts. Mr. Partee then commented upon the stock market and long term capital markets, after which Mr. Yager discussed bank holdings of Government securities over the past year. Following Mr. Yager's remarks, Mr. Koch discussed the status of the so-called leading indicator series of the National Bureau of Economic Research.
All members of the staff except Messrs. Sherman, Kenyon, Molony, Fauver, and Spencer then withdrew from the meeting, and the following entered the room:

- Mr. Hackley, General Counsel
- Mr. Solomon, Director, Division of Examinations
- Mr. Goodman, Assistant Director, Division of Examinations
- Mr. Benner, Assistant Director, Division of Examinations
- Mr. Bass, Assistant Controller

Discount rates. The establishment without change by the Federal Reserve Banks of New York, Philadelphia, Chicago, Kansas City, and San Francisco on June 21, 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.

Distributed item. The following item, which had been distributed to the Board and a copy of which is attached to these minutes as Item No. 1, was approved unanimously:

Letter to The First National Bank of Miami, Miami, Florida, authorizing it to accept drafts or bills of exchange drawn for the purpose of furnishing dollar exchange.

Mr. Goodman then withdrew from the meeting.

Request by Internal Revenue Service (Item No. 2). There had been circulated a memorandum dated June 12, 1962, from the Division of Examinations with respect to a letter of June 8, 1962, from the Internal
Revenue Service requesting information on a loan made by The Chase Manhattan Bank, New York, New York, to Electronics Instrument Company of America, also of New York City. The loan was believed to have been made about January 24, 1958, in connection with the financing of oil property now owned and operated by the Lowe Petroleum Corporation, a Texas corporation. The letter pointed out that the Inspection Service of Internal Revenue was particularly interested in obtaining information in regard to the original amount of the loan, whether the loan was guaranteed or endorsed, and, if so, the name of the guarantor or endorser. The information requested would facilitate the work of the Service and eliminate the possibility of premature disclosure of an investigation of alleged violations of the Internal Revenue laws presently being conducted by the Service.

The memorandum noted that during a visit with Mr. Benner, an Assistant Director of the Inspection Service of Internal Revenue indicated that the member bank would not be implicated in the event certain information was developed, but only the property owner and endorser of the loan. It was hoped that the information could be developed from the examiner’s work papers in the Federal Reserve Bank of New York; Internal Revenue did not wish to have the matter taken up with the member bank.

There was attached to the memorandum a draft of letter to the Federal Reserve Bank of New York asking for information regarding the
6/22/62

Governor Mills commented that, as he had indicated in other instances, he objected to releasing unpublished and confidential information to another Government agency on the tenuous reasoning of cooperation between agencies in the performance of their duties. In the present case, he would especially object to furnishing the information because the member bank and its borrower would have no knowledge that Internal Revenue was seeking the information. Further, in his opinion, the Board would be guilty of unprincipled action if it sent the proposed letter to the Federal Reserve Bank of New York without disclosing why and by whom the information was desired.

Mr. Benner commented that it was his understanding that the matter was one dealing with internal control. The Inspection Service, which was charged with carrying out the inspection program of the Internal Revenue Service and with maintaining the highest standards of honesty and integrity among its employees, was checking to see whether the employees were properly informed about Internal Revenue laws and regulations. At the present time, Internal Revenue was making an investigation of tax matters in Texas and other oil producing States and in that connection wished to assure itself that its employees were performing their duties in accordance with Internal Revenue regulations.

loan in question that might be contained in the examiner's work papers and calling attention to the fact that the Board's request should be treated as confidential.
Following Mr. Benner's comments, Mr. Solomon remarked that this was a difficult problem and, in his view, primarily a question of policy. While he was uncertain as to whether there was a direct precedent, the matter of the North Shore Bank, Miami Beach, Florida, came to mind. In that case, the Board had furnished the Department of Justice with examination reports. In the matter now before the Board, Internal Revenue was not seeking information that would be in the examination report but rather in the working papers of the examiner. If the loan in question did not have a guarantor, certain tax advantages would flow to the borrower, whereas if there was a guarantor, those advantages would not be present. In this particular case, there was an unsettled question of whether or not the transaction was within the regulations of the Internal Revenue Service.

Governor Robertson stated that he would provide the information requested. Internal Revenue was a Government agency, as was the Board. Therefore, it seemed to him that the Board was in a position to trust another Government agency, and so far as he was concerned there was nothing to indicate that the Board could not trust Internal Revenue. In a reverse situation, the Board should be able to obtain information from Internal Revenue.

Governor Shepardson said the question was a difficult one, but he was inclined to feel the Board was obligated to furnish the information. However, it seemed to him that in such instances the Board was tending more and more toward violation of confidentiality of the examination procedure.
Mr. Hackley said that he had not reviewed the matter and was not familiar with all the facts, and he was uncertain whether or not there was a precedent. However, under the Board's Rules of Organization and Procedure it was at the discretion of the Board to decide whether to furnish information in a case of this kind.

Governor King, having indicated that he objected to furnishing the information to Internal Revenue, said that it would be difficult for the Board to refuse any such requests in the future once a precedent of this type was established.

Governor Balderston, while expressing some reservation, indicated that he would favor furnishing the information.

Chairman Martin indicated that he was agreeable to furnishing the information.

Following a general discussion of the points that had been brought out, the letter to the Federal Reserve Bank of New York was approved, Governors Mills and King dissenting. A copy is attached as Item No. 2.

Assessment on Federal Reserve Banks for second half of 1962. Copies of a memorandum from Mr. Bass dated June 20, 1962, had been distributed recommending that an assessment of .00249 of the total paid-in capital and surplus of the Federal Reserve Banks as of June 30, 1962, be levied upon the Banks to defray the expenses of the Board for the second half of 1962. Based on estimated capital and surplus of $1,345,633,550 the rate indicated would produce $3,350,627.
There being no objection, the proposed assessment was approved unanimously.

Security Trust Company, St. Louis. Question was raised by Mr. Molony with respect to the kind of reply that he should make to an inquiry from a reporter for the St. Louis Post Dispatch as to whether Security Trust Company, St. Louis, Missouri, had withdrawn from membership in the Federal Reserve System. Mr. Molony noted that the Board on June 7, 1962, had granted the bank's request for waiver of the statutory requirement of six months' notice of intention to withdraw from membership.

During discussion, consideration was given to referring the reporter to the member bank, which had received the Board's consent to waiver of the statutory waiting period, and which conceivably might still decide not to withdraw from membership or which might wish to make its own announcement of its withdrawal. On the other hand, it was pointed out that since the bank had requested waiver of the specified six-months' notice and the Board had consented, there would seem to be little harm in making a factual answer to the reporter's question.

Accordingly, it was understood that Mr. Molony would proceed on that basis.

The meeting then adjourned.

Secretary's Notes: The steps contemplated by the Board's action of June 11, 1962, in
issuing a preliminary permit to Chase Manhattan Overseas Banking Corporation, New York, New York, having been completed, a final permit to commence business was issued today to that corporation.

Pursuant to the recommendation contained in a memorandum from the Division of Research and Statistics, Governor Shepardson today approved on behalf of the Board acceptance of the resignation of Mary C. Jackson, Statistical Clerk in that Division, effective at the close of business June 29, 1962.

Secretary
June 22, 1962

The First National Bank of Miami,
Miami 1, Florida.

Gentlemen:

The Board of Governors of the Federal Reserve System authorizes your Bank, pursuant to the provisions of Section 13 of the Federal Reserve Act, to accept drafts or bills of exchange drawn for the purpose of furnishing dollar exchange as required by the usages of trade in such countries, dependencies, or insular possessions of the United States as may have been designated by the Board of Governors, subject to the provisions of the Federal Reserve Act and the Board's Regulation C issued pursuant thereto. Section 13 of the Federal Reserve Act provides that no member bank shall accept such drafts or bills in an amount exceeding at any one time the aggregate of one-half of its paid-up and unimpaired capital and surplus.

The right is reserved to terminate this authorization upon 90 days' notice to your Bank as provided in the Regulation.

Enclosed is a list of the countries with respect to which the Board of Governors has found that the usages of trade require the furnishing of dollar exchange. The Board of Governors may at any time, after 90 days' published notice, remove from such list the name of any country, dependency, or insular possession contained therein.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

Enclosure.
June 22, 1962

CONFIDENTIAL (FR)

Mr. Howard D. Crosse, Vice President,
Federal Reserve Bank of New York,

Dear Mr. Crosse:

It would be appreciated if you would forward information contained in examiner's work papers about a loan made by The Chase Manhattan Bank to Electronics Instrument Company of America of New York City. This loan is believed to have been made about January 24, 1958, in connection with the financing of oil property now owned and operated by the Lowe Petroleum Corporation, a Texas corporation. It is understood the loan has not been paid in full at this time.

Information is required particularly in regard to the original amount of the loan, whether such loan was guaranteed or endorsed, and if so, the name of the guarantor or endorser.

This request concerns only information which may be available in examiner's work papers, and you are especially requested not to obtain such information at this time directly from the member State bank.

You are also requested to treat as confidential the fact that this information has been requested.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.