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The attached minutes of the meeting of the Board of Governors of the Federal Reserve System on July 9, 1962, which you have previously initialed, have been amended at the request of Governor Mills to revise the fourth complete paragraph on page 7.

If you approve these minutes as amended, please initial below.

Chairman Martin

M

Governor Robertson

Governor Balderston

CCB

Governor Shepardson

[Signature]

Governor King

[Signature]

Governor Mitchell

[Signature]

Minutes of the Board of Governors of the Federal Reserve System on Monday, July 9, 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
Miss Carmichael, Assistant Secretary
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Knipe, Consultant to the Chairman

Messrs. Noyes, Garfield, Koch, Williams, Brill, Gehman, Partee, Taylor, Yager, Flechsig, Freedman, Trueblood, and Wernick of the Division of Research and Statistics

Messrs. Furth, Hersey, Katz, Wood, Irvine, Emery, Fieser, Gemmill, Klein, Maroni, and Mills of the Division of International Finance

Economic review. The Divisions of International Finance and Research and Statistics presented a review of economic and financial developments in the United States and abroad.

Following discussion based on that review, all of the members of the staff except Messrs. Sherman, Molony, Fauver, and Noyes and Miss Carmichael withdrew from the meeting and the following entered the room:

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Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank Operations
Mr. Hexter, Assistant General Counsel
Mr. O'Connell, Assistant General Counsel
Mr. Shay, Assistant General Counsel
Mr. Hooff, Assistant General Counsel
Mr. Conkling, Assistant Director, Division of
Bank Operations
Mr. Benner, Assistant Director, Division of
Examinations
Mr. Smith, Assistant Director, Division of
Examinations
Mr. Leavitt, Assistant Director, Division of
Examinations
Mr. Bakke, Senior Attorney, Legal Division
Mr. Young, Senior Attorney, Legal Division

Continental Bank and Trust Company. At a meeting of the Board on July 6, 1962, it was agreed to send that day a letter to Counsel for The Continental Bank and Trust Company, Salt Lake City, Utah, granting permission for the filing of comments on a "Memorandum in Opposition to Respondent's Motion to Dismiss and Demand for Final Order" filed on July 5, 1962, by Board Counsel. In view of the lack of a quorum at the time the letter was considered, resulting from the abstention of Governor Robertson in all matters regarding the litigation with Continental Bank, it was understood that the action taken in sending the letter would be placed on today's agenda for ratification.

There being no objection, that action was ratified, Governor Robertson not participating.

Reproduction of dissertations. There had been circulated a memorandum from Messrs. Molony, Noyes, and Conkling dated June 5, 1962,

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with reference to a letter from Mr. David B. McCalmont in which he indicated that he was having some difficulty in having published his dissertation on "Redistribution of Gold Reserves Among Federal Reserve Banks," and inquired whether the Board would wish to have copies reproduced for distribution. The Board's staff had assisted Mr. McCalmont in making material available for inclusion in his dissertation. The cost of reproducing copies in the Board's duplicating unit was estimated to be about \$45. In addition, it would probably be necessary to purchase a book copyholder at a cost of approximately \$275 for use in producing the book; this holder could, of course, be used for other projects. By reproducing 25 copies of the dissertation it would be possible to place it in Federal Reserve Bank libraries and to furnish Mr. McCalmont with 12 copies for his personal distribution.

Reference was also made in the memorandum to a dissertation of Mr. Richard J. Bannon entitled "History of the Weekly Combined Statement of the Twelve Federal Reserve Banks." According to the memorandum, it was felt that Mr. Bannon's dissertation would be of equal interest to Federal Reserve Bank libraries and those having an interest in the subject matter covered in Mr. McCalmont's book. It was recommended that, if the Board should authorize reproduction of Mr. McCalmont's dissertation, authorization also be given for reproducing Mr. Bannon's book.

Governor Shepardson commented that the inquiry under consideration raised a question whether there was any reason for the Board to

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reproduce copies of a dissertation on a subject that seemed to be of so little general interest.

Governor Mitchell inquired as to the evaluation of Mr. McCalmont's dissertation, and Mr. Noyes replied that the quality of the document, which involved a technical study, was good but there was limited interest in the subject. There was a question whether the Board should take steps to make the dissertation available to the small group who might be interested. The Board's library had one copy, but there were none in Reserve Bank libraries.

After discussion, approval was given to reproducing 25 copies of each dissertation, with the understanding that copies would be placed in Reserve Bank libraries and a small number furnished each author.

Secretary's Note: Pursuant to this action, letters were sent to Mr. McCalmont and to Mr. Bannon on July 9 and 13, respectively, advising them of the Board's decision.

Mr. Conkling then withdrew from the meeting.

United Security Account Plan. At the Board meeting on July 3, 1962, it was decided to postpone until today consideration of a draft of letter to Citizens Bank & Trust Company, Park Ridge, Illinois, which had been distributed with a covering memorandum from the Legal Division dated June 29, 1962, relating to the possible abandonment of the United Security Account Plan of Citizens Bank. The letter would order the bank to discontinue the plan which in effect permitted withdrawals from savings

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accounts in payment of checks, a principle prohibited by section 217.1(e)(3) of the Board's Regulation Q, Payment of Interest on Deposits, as amended January 15, 1962. The letter would specify that discontinuance of the plan should be completed not later than August 27, 1962, and would indicate that if the bank failed to discontinue the plan the Board would have no alternative but to institute a proceeding to terminate the bank's Federal Reserve System membership in accordance with the ninth paragraph of section 9 of the Federal Reserve Act.

Governor Mills said that he had suggested this matter be considered at a meeting when all members of the Board were present since an ultimatum that might lead to a termination of membership proceeding was involved.

Mr. Hexter commented that the Legal Division recognized that the proposed letter could be the basis for a termination of membership proceeding. However, it was the feeling of Mr. Hodge, General Counsel of the Federal Reserve Bank of Chicago, that the letter would lead to abandonment of the United Security Plan and thereby eliminate any need for a proceeding. Mr. Hexter expressed the view that there was little to lose by sending the letter and much to be gained.

Governor Mitchell suggested an alternative plan by which the proposed letter would be changed to indicate that it was understood that Citizens Bank was making a study of the United Security Account Plan and that there was the possibility that it would be abandoned

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voluntarily at the completion of that study if it were found not to offer prospects for profitable operation. The letter that he had in mind would state that the Board would postpone until August 27 any action with respect to the bank's violation of Regulation Q, so as to permit the bank and the Board to know the results of the study under way. Governor Mitchell felt that by following this approach the Board would be indicating that it still believed the plan to be illegal but would not be issuing an ultimatum until the bank had been given an opportunity to complete its study.

Following discussion, it was agreed that the letter to Citizens Bank would be considered further after checking with the Federal Reserve Bank of Chicago regarding the revisions suggested by Governor Mitchell.

Messrs. Hexter, Hooff, and Benner then withdrew.

Application of Citizens Bank of Perry. There had been distributed a memorandum from the Division of Examinations dated June 28, 1962, recommending approval of the application by The Citizens Bank of Perry, N. Y., Perry, New York, to merge with The First National Bank of Perry, Perry, New York, under the charter of the former bank and with the title of The Bank of Perry, and incident thereto to operate a branch for a one-year period at the location of Citizens Bank.

At the Board's request Mr. Leavitt reviewed the circumstances of the case, his comments being based substantially on the June 28 memorandum.

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In discussion, Governor Mitchell mentioned that the memorandum of the Division of Examinations suggested that there was not enough business in the Town of Perry with a population slightly over 5,000 for two banks, but pointed to the profitable record of one of the banks and the below average earnings of the other. He wondered if there were statistics that would indicate whether a community of 5,000 in the same area of New York State as Perry could be served adequately by one bank. Mr. Leavitt responded that while such data were not available, it was known that in New York State there was about one banking office for every 10,000 people.

Governor Robertson expressed the view that the majority of towns with a population of 5,000 had two banking offices rather than one.

Chairman Martin then turned to members of the Board, asking for their position on the application.

Governor Mills said he would approve the application under the circumstances connected with the operation of the two existing banks. He considered Perry, New York, a one-bank town. There were two banks there now and if the merger were permitted, the way would then be open for some large bank in the area to make an application to establish a branch, if in its judgment the needs of the community offered an opportunity for a successful operation. In that event, Perry would again have alternative banking facilities available.

Governor Robertson said he considered this to be a close case. There were in his judgment certain points favorable for approval. One

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bank had a good earnings record and they were both sound institutions. One bank had about one-half as many loans as it could handle and the other probably had more than it wanted. It could be argued that through the merger the resulting bank would be in a position to make larger loans. If that were the case, he believed the bank might not be in a position to handle some of the smaller loans now being made. On the other hand, he thought that the elimination of competition between the two banks proposing to merge constituted a strong argument against the proposal. In his judgment the town was large enough to support two banks and, in the long run, he thought it would be better served by two banks rather than one. Accordingly, he would vote to disapprove the application.

Governor Shepardson stated that he would vote to approve the application.

Governor King likewise indicated that he would approve the application. He commented that, although the earnings record of Citizens Bank was good, the rate of its growth since it was established in 1888 had been slow.

Governor Mitchell stated that, even though the town's population was only slightly over 5,000, he believed its residents were entitled to alternative banking facilities and, accordingly, he would vote to disapprove the application.

Governor Balderston and Chairman Martin then indicated that they would vote to approve the application.

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Accordingly, the application was approved, Governors Robertson and Mitchell dissenting. It was understood that the Legal Division would prepare drafts of an order and supporting statement for the Board's consideration and that dissenting statements would also be prepared.

Messrs. Shay and Young then withdrew from the meeting.

State branch banking statutes. Pursuant to the understanding at the Board meeting on June 14, 1962, a memorandum from the Legal Division dated June 26, 1962, had been distributed with reference to the effect of State statutes that prohibited or circumscribed the establishment of branch banks upon the Board's functions and responsibilities under the Bank Holding Company Act.

On the basis of legislative history, it was concluded in the memorandum that the Congress had not intended that the Board of Governors should be influenced by State branch banking regulations in reaching decisions on bank holding company applications, but rather that the Board should be guided by the statutory provisions spelled out in the Bank Holding Company Act of 1956.

In discussion a number of questions were raised regarding the findings in the memorandum and their implications in handling bank holding company applications.

The meeting then recessed and the Board reconvened in executive session at 2:30 p.m. with Chairman Martin and Governors Balderston, Mills, Robertson, Shepardson, King, and Mitchell present.

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Margin requirements (Items 1, 2, and 3). Following the meeting, the Secretary was informed by the Chairman that during the executive session the Board gave consideration to the margin requirements prescribed in the Supplements to Regulation T, Credit by Brokers, Dealers, and Members of National Securities Exchanges, and Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Registered Stocks; and that approval was given to a reduction in the margin requirements from 70 per cent to 50 per cent, effective July 10, 1962, Governors Mills and Robertson dissenting, such action being taken with the understanding that the staff would take the necessary customary steps to announce the action, have amendments to the regulations prepared and distributed, and provide notice in the Federal Register.

Secretary's Note: Pursuant to this action, a press release was issued at 4:00 p.m. EDT, the Federal Reserve Banks and branches were informed of the Board's action by telegram, and a notice was published in the Federal Register. Copies of the press release and the amended Supplements to Regulations T and U are attached as Items 1, 2, and 3.

The meeting then adjourned.

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

Memorandum from Max E. Fieser, Economist, Division of International Finance, requesting permission to teach a course in the principles of economics and/or other courses in economics at George Washington University during the academic year 1962-63.

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Letter to the Federal Reserve Bank of Chicago (attached Item No. 4) regarding a call for a report of condition as of June 30, 1962, from Continental International Finance Corporation.

Secretary

For release at 4 p.m. E. D. T.
Monday, July 9, 1962

The Board of Governors of the Federal Reserve System today amended Regulations T and U, relating respectively to margin requirements for stock market credit extended by brokers and banks, by reducing margin requirements from 70 to 50 per cent, effective July 10, 1962.

In general terms, the Board's margin regulations require credit buyers of stocks to put up a minimum equity when the purchase is made. Under the new amendment, that equity must be at least 50 per cent, beginning tomorrow.

Margin requirements were established initially in October, 1934, under authority Congress granted to the Board of Governors in the Securities Exchange Act of 1934, "for the purpose of preventing excessive use of credit for the purchase or carrying of securities."

The requirements have ranged between 40 and 100 per cent, except in the earliest period of regulation. The change ordered today was the first since July 28, 1960, when the requirements were reduced from 90 to 70 per cent.

In making this change, the Board took into account a sharp reduction in stock market credit in recent weeks and the abatement in speculative psychology.

Bank loans to customers for the purpose of purchasing or carrying registered stocks declined more than 5 per cent in June to a level of \$1.3 billion. Furthermore, preliminary data indicate a \$600 million drop in borrowing by stock exchange member firms from banks on customer collateral, the largest monthly decline recorded in the post-war period. On the basis of these data, a substantial decline will be shown in customer debit balances and in total stock market customer credit, when final figures are available for June.

The reduced requirements apply to both purchases and short sales. No other change was made in the regulation.

Item No. 2
7/9/62

TITLE 12 - BANKS AND BANKING

CHAPTER II - FEDERAL RESERVE SYSTEM

SUBCHAPTER A - BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

[Reg. T, Supp.]

PART 220 - CREDIT BY BROKERS, DEALERS AND

MEMBERS OF NATIONAL SECURITIES EXCHANGES

Maximum Loan Value; Margin Required for Short Sales

1. Effective July 10, 1962, § 220.8 (the Supplement to Regulation T) is hereby amended to read as follows:

§ 220.8 Supplement - (a) Maximum loan value for general accounts. The maximum loan value of a registered security (other than an exempted security) in a general account, subject to § 220.3, shall be 50 per cent of its current market value.

(b) Margin required for short sales in general accounts.

The amount to be included in the adjusted debit balance of a general account, pursuant to § 220.3(d)(3), as margin required for short sales of securities (other than exempted securities) shall be 50 per cent of the current market value of each such security.

(c) Retention requirement for general accounts. In the case of a general account which would have an excess of the adjusted debit balance of the account over the maximum loan value of the securities in the account following a withdrawal of cash or securities from the account, the "retention requirement" of a registered security (other than an exempted security), pursuant to § 220.3(b)(2), shall be 50 per cent of its current market value.

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2. (a) This amendment is issued pursuant to the Securities Exchange Act of 1934, particularly section 7 thereof. Its purpose is to change loan values and margin requirements in order to carry out the purposes of the Act.

(b) The notice and public procedure described in sections 4(a) and 4(b) of the Administrative Procedure Act, and the thirty day prior publication described in section 4(c) of such Act, are impracticable, unnecessary, and contrary to the public interest in connection with this amendment for the reasons and good cause found as stated in § 262.1(e) of the Board's Rules of Procedure (Part 262 of this chapter).

(Secs. 3, 7, 8, 17, 23, 48 Stat. 882, 886, 888, 897, 901, as amended; 15 U.S.C. 78c, 78g, 78h, 78q, 78w.)

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

Item No. 3
7/9/62

TITLE 12 - BANKS AND BANKING

CHAPTER II - FEDERAL RESERVE SYSTEM

SUBCHAPTER A - BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

[Reg. U, Supp.]

PART 221 - LOANS BY BANKS FOR THE PURPOSE
OF PURCHASING OR CARRYING REGISTERED STOCKS

Maximum Loan Value of Stocks

1. Effective July 10, 1962, § 221.4 (the Supplement to Regulation U) is hereby amended to read as follows:

§ 221.4 Supplement - (a) Maximum loan value of stocks.

For the purpose of § 221.1, the maximum loan value of any stock, whether or not registered on a national securities exchange, shall be 50 per cent of its current market value, as determined by any reasonable method.

(b) Retention requirement. For the purpose of § 221.1, in the case of a loan which would exceed the maximum loan value of the collateral following a withdrawal of collateral, the "retention requirement" of a stock, whether or not registered on a national securities exchange, shall be 50 per cent of its current market value, as determined by any reasonable method.

2. (a) This amendment is issued pursuant to the Securities Exchange Act of 1934, particularly section 7 thereof. Its purpose is to change loan values in order to carry out the purposes of the Act.

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(b) The notice and public procedure described in sections 4(a) and 4(b) of the Administrative Procedure Act, and the thirty day prior publication described in section 4(c) of such Act, are impracticable, unnecessary, and contrary to the public interest in connection with this amendment for the reasons and good cause found as stated in § 262.1(e) of the Board's Rules of Procedure (Part 262 of this chapter).

(Secs. 3, 7, 17, 23, 48 Stat. 882, 886, 897, 901, as amended; 15 U.S.C. 78c, 78g, 78q, 78w.)

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

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

Item No. 4
7/9/62



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 9, 1962

Mr. Leland M. Ross,
Vice President,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Ross:

Enclosed is a copy of a letter dated today, addressed to Continental International Finance Corporation, calling for a report of condition as of June 30, 1962. You will observe that the letter requests that the report called for be submitted in duplicate to the Federal Reserve Bank for transmittal to the Board of Governors.

Upon receipt of the report it will be appreciated if you will have a proof made of the footings and obtain the correction of any obvious errors in the report. Please forward the original copy of the report to the Board and retain a copy for your files.

A complete review of the report will be made in the Board's Division of Examinations, and any correspondence which may be necessary as a result thereof will be initiated by the Board with a copy to you for your information.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

Enclosure