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Minutes for August 9, 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	<u>RM</u>
Gov. Mills	<u>[Signature]</u>
Gov. Robertson	<u>R.</u>
Gov. Balderston	<u>CCB</u>
Gov. Shepardson	<u>[Signature]</u>
Gov. King	<u>[Signature]</u>
Gov. Mitchell	<u>[Signature]</u>

Minutes of the Board of Governors of the Federal Reserve System on Thursday, August 9, 1962. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman 1/
 Mr. Balderston, Vice Chairman
 Mr. Mills
 Mr. Robertson
 Mr. Shepardson
 Mr. King

Mr. Kenyon, Assistant Secretary
 Miss Carmichael, Assistant Secretary
 Mr. Fauver, Assistant to the Board
 Mr. Solomon, Director, Division of Examinations
 Mr. Chase, Assistant General Counsel
 Mr. Thompson, Assistant Director, Division of Examinations
 Mr. Young, Senior Attorney, Legal Division
 Mr. Potter, Senior Attorney, Legal Division
 Mr. Thompson, Review Examiner, Division of Examinations

Discount rates. The establishment without change by the Federal Reserve Bank of Minneapolis on August 7, 1962, of the rates on discounts and advances in its existing schedule was approved unanimously, with the understanding that appropriate advice would be sent to that Bank.

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 Bureau of the Budget recommending approval of the enrolled bill S. 1771, "To improve the usefulness of national bank branches in foreign countries."

1/ Entered meeting at point indicated in minutes.

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Application of Commercial Associates, Inc. There had been distributed a memorandum from the Division of Examinations dated July 30, 1962, recommending favorably on an application by Commercial Associates, Inc., Pensacola, Florida, for consent to acquire more than 50 per cent of the outstanding voting shares of The Commercial National Bank of Pensacola, Pensacola, Florida, and Bank of Gulf Breeze, Gulf Breeze, Florida.

At the Board's request Mr. Thompson, Assistant Director, Division of Examinations, 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 detailed information presented in the July 30 memorandum. He concluded his remarks by indicating that the Federal Reserve Bank of Atlanta and the Comptroller of the Currency had recommended favorably on the application and the Florida State Commissioner of Banking had issued a certificate of approval to Commercial Associates.

During the discussion, Governor Robertson raised a question regarding the type of stock that Commercial Associates proposed to issue. Mr. Thompson replied that initially only one type of common stock would be issued. If the company should wish to issue any other type of stock in exchange for stock of any bank sought to be acquired in the future, the Board would of course have knowledge of that fact through the application covering the proposed acquisition.

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At the conclusion of the discussion the application was approved unanimously, with the understanding that the Legal Division would draft an order and supporting statement for the Board's consideration.^{1/}

Chairman Martin joined the meeting at this point. Mr. O'Connell, Assistant General Counsel, also entered the room and all other members of the staff withdrew except Messrs. Kenyon and Chase.

Continental Bank and Trust Company. Governor Robertson requested that the record show that although he would remain in the room for the following discussion of a matter involving the administrative proceeding against The Continental Bank and Trust Company, Salt Lake City, Utah, he would not participate in the discussion or in any action that might be taken by the Board, in accordance with his long-standing position of having withdrawn from participation in the proceeding.

Chairman Martin stated that the purpose of the discussion today was to follow up on yesterday's meeting with Board Counsel in the matter of Continental Bank and Trust Company and determine how the Board wished to implement the advice it had received from Counsel. The immediate question was whether, through some appropriate person, the Board wished to contact President Sullivan of Continental informally, at the same time that the orders approved by the Board on August 6, 1962, were issued, for the purpose of making clear to

^{1/} When Chairman Martin joined the meeting, he stated that he would vote to approve the application by Commercial Associates, Inc.

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him that the issuance of the orders was separate and apart from the question of any further negotiations that Mr. Sullivan might want to undertake looking toward a settlement of the administrative proceeding.

Mr. O'Connell commented that if the Board wanted to take such a step, it would seem desirable to make sure that the information was conveyed to Mr. Sullivan prior to receipt of the Board's orders and statement by him or by Counsel for Continental. It was Mr. O'Connell's suggestion that, in the absence of the Board's Secretary, Mr. Kenyon might be designated as the person who would get in touch with Mr. Sullivan.

Governor Shepardson raised a question as to what should be said by the Board's representative in talking with Mr. Sullivan. He recalled that Mr. Sullivan, when he met with the Board on July 2, 1962, asked whether the Board would designate someone with whom he could sit down and explore the possibilities of an offer of settlement. Mr. Stephenson of the Board's staff and Mr. Ahlf of the Federal Reserve Bank of San Francisco thereafter visited with Mr. Sullivan at the offices of Continental Bank, but their visit was for the particular purpose of reconciling computations by the bank and by the Board's staff relating to the capital requirements of Continental under the Board's Form for Analyzing Bank Capital. Their visit did not touch upon questions relating to any possible offer of settlement that Mr.

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Sullivan or Continental Bank might wish to submit. Therefore, the Board might wish to consider, in response to Mr. Sullivan's initial request, designating some person or persons who could sit down with him and discuss the various possibilities. If such a person were designated, advice of that designation could be given to Mr. Sullivan at the same time that he was advised regarding the fact that the issuance of the Board's orders was not intended to foreclose consideration of any proposal for settlement that he might wish to submit.

Governor Shepardson further suggested that if Mr. Kenyon got in touch with Mr. Sullivan he might state that President Swan of the Federal Reserve Bank of San Francisco had been designated by the Board as the person with whom Mr. Sullivan should meet if he wished to have discussions regarding a possible offer of settlement. Mr. Sullivan could also be informed that Messrs. Stephenson and Ahlf would be available for consultation on technical points if their services were needed in the course of any such discussions.

Governor Mills said he would feel personally that it was up to Mr. Sullivan to propose a settlement. If Mr. Sullivan should propose a settlement, conference arrangements such as Governor Shepardson had suggested could be made. Governor Mills saw no reason to advise Mr. Sullivan what he might do and thereby run the risk of involving the Board in setting up a proposal that might subsequently have to be rejected.

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Chairman Martin said he understood it was Governor Shepardson's thought that President Swan simply would be named as the person who would be available to Mr. Sullivan for consultation if the latter desired to discuss the possibility of submitting a proposal for settlement.

Governor Shepardson stated that this was correct. He went on to describe certain areas that he felt might profitably be explored in discussions between President Swan and Mr. Sullivan and suggested that discussion along such lines would appear to be generally in accord with procedures followed in the course of consideration of bank supervisory matters. Discussion of this kind with Mr. Sullivan might suggest various adjustments that it would be possible for Continental to make, if it chose to do so, with a view toward improving its capital position.

Governor Mills commented that the Board had not mentioned any target figures at its meeting with Mr. Sullivan. The only thing discussed at that meeting was the application to Continental of a particular capital adequacy formula. It was Governor Mills' understanding that under the procedure now suggested Mr. Sullivan would be informed, in effect, of the basis on which the Board would settle. He doubted the propriety of vesting a representative of the Board with such authority.

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Chairman Martin responded that he did not think the Board should vest such authority in its representative. That should be made clear. The only thought would be to designate a person or persons with whom Mr. Sullivan might consult if he wished to do so.

Governor Balderston indicated that he saw no essential conflict between Governor Mills' point of view, which he shared, and Governor Shepardson's proposal. Mr. Sullivan, when he met with the Board, had inquired whether the Board would designate someone with whom he might talk if he wished to discuss a possible offer of settlement. Governor Balderston's thought was that the Board, through its Assistant Secretary, might tell Mr. Sullivan (1) that the Board's orders concerning the several motions and demands filed by Continental were about to be issued, and (2) that the Board had named President Swan as the person with whom Mr. Sullivan might get in touch if he desired to discuss the possibility of submitting a proposal for settlement. Mr. Sullivan might also be informed that Messrs. Ahlf and Stephenson would be available, if necessary, for the purpose of giving technical advice.

Governor Shepardson expressed agreement. However, the Board should have in mind what it would authorize President Swan to say in talking with Mr. Sullivan. Unless Mr. Swan was in a position to be somewhat responsive to Mr. Sullivan's statements or proposals, it would not appear that much was going to be gained.

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Governor Mills suggested that President Swan could serve as a conduit for transmitting any proposals to the Board.

Along the same lines, Chairman Martin questioned whether the Board ought to go so far as to authorize President Swan to say to Mr. Sullivan that in his opinion a certain proposal might be accepted by the Board or that another proposal would not be accepted.

Governor Shepardson agreed that the Board's representative should not go that far. On the other hand, he did not think it would be unreasonable for a person like President Swan to say that a certain proposal was something that he could recommend to the Board, while another proposal was something he could not recommend.

Governor King suggested that the person designated by the Board must be allowed to exercise a certain range of judgment. That was why he would favor using a man like President Swan. It would not appear feasible for the Board to suggest any rigid pattern of conversation.

Governor Balderston stated that he saw merit in having a liaison person who would serve as a conduit. If Mr. Sullivan should submit a proposal that was unacceptable, conceivably the Board might suggest, through the liaison person, that Mr. Sullivan might want to consider certain alternative possibilities and submit, if he wished, a revised proposal.

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In further discussion Mr. O'Connell said he would assume that, by reason of the visit of Messrs. Stephenson and Ahlf to the offices of Continental Bank, they knew Mr. Sullivan's position with regard to the capital situation of the bank, and vice versa. Through the memoranda from Messrs. Stephenson and Ahlf, their conclusions apparently had been made known to the Board. At this stage, however, there was the question whether Mr. Sullivan was ready to make an offer with a particular figure of additional capital in mind. Mr. Sullivan might be told that the initiative in submitting any proposal for settlement was with him and Continental Bank. He could also be told that the Board assumed his conversation with Messrs. Stephenson and Ahlf had sufficed to establish a format for any further conversations he might wish to have, and that Messrs. Stephenson and Ahlf would continue to be available to him for technical discussions. It could be made clear, also, that Mr. Sullivan would have access to the Board through President Swan should he wish to enter into conversations looking toward an undertaking on the part of Continental Bank to provide additional capital.

Chairman Martin commented that he thought this made sense. He would not want to go too far down the road at this stage. The Assistant Secretary could, however, indicate to Mr. Sullivan that the door was not closed; and in the Chairman's opinion the Administrative Procedure Act required that the door be kept open. It might be that an initial proposal would then come to the Board from Mr. Sullivan rather

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promptly. That proposal, of course, might be of such nature that the Board could not accept it. Mr. Sullivan would then have to come in with another proposal or that would be the end of the matter.

Chairman Martin then proposed that the Board proceed on the basis that had been suggested, as summarized by Mr. O'Connell. This would mean that Mr. Kenyon would get in touch with Mr. Sullivan, while he (Chairman Martin) would get in touch with President Swan to explain the situation to him.

After further discussion, it was understood that the steps mentioned by Chairman Martin would be taken.

Referring to the role of Mr. Kenyon, Governor Balderston suggested that it might be helpful if Board Counsel were present in his office during the conversation with Mr. Sullivan, not to participate in the conversation but to be available for the purpose of assisting with any questions that might arise during the course of the conversation.

Secretary's Note: Pursuant to this suggestion, Mr. O'Connell was present in Mr. Kenyon's office during the telephone conversation of the latter with Mr. Sullivan, which took place this afternoon, but it developed that there was no occasion for him to enter into the conversation.

All of the members of the staff except Mr. Kenyon then withdrew and Mr. Fauver returned to the room.

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Appointment of director at Birmingham. Subject to a check by Governor King with Chairman Warner of the Birmingham Branch and Chairman Tarver of the Federal Reserve Bank of Atlanta, it was agreed unanimously to ascertain through Chairman Tarver whether Mr. C. Caldwell Marks, Chairman of the Board of Owen-Richards Company, Inc., Birmingham, Alabama, would accept appointment, if tendered, as a director of the Birmingham Branch for the unexpired portion of the term ending December 31, 1964, to succeed Dr. Henry King Stanford, who had resigned effective July 1, 1962, upon accepting the Presidency of the University of Miami, Miami, Florida. This action was taken with the understanding that if it were ascertained that Mr. Marks would accept the appointment if tendered, the appointment would be made.

Secretary's Note: It having been ascertained that Mr. Marks would accept the appointment if tendered, a telegram advising him of his appointment was sent on August 9, 1962. The appointment was announced on August 14, 1962.

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 Richmond (attached Item No. 2) approving the appointment of Donald E. Perry as assistant examiner.

Letter to the Federal Reserve Bank of Richmond (attached Item No. 3) approving the reappointment of Lloyd Woodson Bostian, Jr., as assistant examiner.

Letter to the Federal Reserve Bank of San Francisco (attached Item No. 4) approving the appointment of William Thomas Speer, Jr., as assistant examiner.

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Letter to Dr. Calvin D. Linton confirming arrangements for him to conduct a 20-hour course in Effective Writing for members of the Board's staff as an activity of the Employee Training and Development Program, with compensation in the amount of \$500, payable at the completion of the course.

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

Reemployment following maternity leave

Juliann Perkins as Maid, Division of Personnel Administration, with basic annual salary at the rate of \$3,290, effective August 13, 1962.

Transfer

Jo Ann Healy, from the position of Clerk-Stenographer in the Division of Personnel Administration to the position of Clerk-Stenographer in the Division of Administrative Services, with no change in basic annual salary at the rate of \$4,040, effective the date of assuming her new duties.

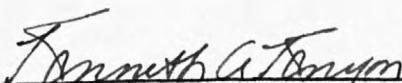
Resignations

Diane Quick, Secretary, Office of the Secretary, effective at the close of business August 17, 1962.

George R. Morrison, Economist, Division of Research and Statistics, effective at the close of business August 10, 1962.

Gene L. Finn, Economist, Division of Research and Statistics, effective at the close of business August 18, 1962.

Helen Heacock, Statistical Clerk, Division of Bank Operations, effective at the close of business August 31, 1962.


Assistant Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 1
8/9/62

OFFICE OF THE CHAIRMAN

August 9, 1962



Mr. Phillip S. Hughes, Assistant Director
for Legislative Reference,
Executive Office of the President,
Bureau of the Budget,
Washington 25, D. C.

Attention Mrs. Garziglia.

Dear Mr. Hughes:

This is to advise in response to your communication of August 7, 1962, that the Board recommends approval of the enrolled bill, S. 1771, "To improve the usefulness of national bank branches in foreign countries".

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.
Wm. McC. Martin, Jr.

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

Item No. 2
8/9/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 10, 1962

Mr. John L. Nosker, Vice President,
Federal Reserve Bank of Richmond,
Richmond 13, Virginia.

Dear Mr. Nosker:

In accordance with the request contained
in your letter of August 6, 1962, the Board approves
the appointment of Donald E. Perry as an assistant
examiner for the Federal Reserve Bank of Richmond,
effective today.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.



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

Item No. 3
8/9/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 10, 1962

Mr. John L. Nosker, Vice President,
Federal Reserve Bank of Richmond,
Richmond 13, Virginia.

Dear Mr. Nosker:

In accordance with the request contained
in your letter of August 3, 1962, the Board approves
the reappointment of Lloyd Woodson Bostian, Jr., as
an assistant examiner for the Federal Reserve Bank
of Richmond, effective today.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.



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

Item No. 4
8/9/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 10, 1962

CONFIDENTIAL (FR)

Mr. H. E. Hemmings, First Vice President,
Federal Reserve Bank of San Francisco,
San Francisco 20, California.

Dear Mr. Hemmings:

In accordance with the request contained in your letter of August 3, 1962, the Board approves the appointment of William Thomas Speer, Jr., as an assistant examiner for the Federal Reserve Bank of San Francisco. Please advise the effective date of the appointment.

It is noted that Mr. Speer is indebted to Citizens National Bank, Los Angeles, California. Accordingly, the Board's approval of Mr. Speer's appointment is given with the understanding that he will not participate in any examination of that institution until his indebtedness has been liquidated.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.