FR 608
Rev. 9/61

Minutes for October 18, 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 proposed to place in the record of policy actions required to be kept under the provisions of section 10 of the Federal Reserve Act an entry covering the item in this set of minutes commencing on the page and dealing with the subject referred to below:

Page 16 Amendment to Supplement to Regulation D, Reserves of Member Banks.

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 WM

Gov. Mills

Gov. Robertson R

Gov. Balderston CCB

Gov. Shepardson

Gov. King

Gov. Mitchell

Minutes of the Board of Governors of the Federal Reserve System on Thursday, October 18, 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. 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. Hackley, General Counsel
Mr. Noyes, Director, Division of Research and Statistics
Mr. Solomon, Director, Division of Examinations
Mr. Shay, Assistant General Counsel
Mr. Hooff, Assistant General Counsel
Mr. Conkling, Assistant Director, Division of Bank Operations
Mr. Masters, Associate Director, Division of Examinations
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Young, Senior Attorney, Legal Division

Ratification of actions. Actions taken by the available members of the Board at a meeting held on October 17, 1962, as recorded in the minutes of that meeting, were ratified by unanimous vote.

Circulated items. The following items, copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:

	Item No.
Letter to The Cleveland Trust Company, Cleveland, Ohio, approving an extension of time to establish a branch in Brecksville.	1

1/ Entered at point indicated in minutes.

	Item No.
Letter to Fidelity Savings Bank, Ottumwa, Iowa, approving an investment in bank premises.	2
Letter to the Federal Reserve Bank of San Francisco waiving the assessment of penalties incurred by Pacific National Bank, San Francisco, California, and Umpqua National Bank, Reedsport, Oregon, because of deficiencies in their required reserves.	3
Memorandum dated October 2, 1962, from Messrs. Hackley, General Counsel, and Farrell, Director, Division of Bank Operations, regarding proposed visits to the Federal Reserve Banks by audit representatives of the Department of Agriculture to examine food stamp coupons received from local banks.	4

In connection with the approval of Item No. 4, it was understood that advice of the Board's action would be given by telephone to the Chairmen of the Presidents' Conference Subcommittee on Collections and Subcommittee of Counsel on Collections.

Transfer of records (Item No. 5). There had been distributed copies of a memorandum from Mr. Masters dated October 12, 1962, with regard to the request of the Comptroller of the Currency, per letter dated October 4, 1962, that the Board transfer into his possession records and files derived from the Board's administration of the provisions of section 11(k) of the Federal Reserve Act relating to the granting of trust powers to national banks and the regulation of the exercise of such powers. The memorandum noted that regulations promulgated by

General Services Administration under authority of the Federal Records Act of 1950 require prior written approval of the National Archives and Records Service for the transfer of records from the custody of one agency to another, but that such approval is not required when the transfer of records or functions, or both, is required by statute, executive order, or Presidential reorganization plan or by specific determinations made thereunder. These provisions seemed clearly to contemplate the transfer of records associated with the performance of any function transferred by statute from one agency to another without National Archives approval, even though the statutory transfer of authority (as in the case of the section 11(k) authority) contained no specific reference to the transfer of records. It was reported to be the consensus of staff opinion, in any event, that the Board might reasonably be expected to furnish the Comptroller of the Currency the official records and files associated directly with the performance of the functions that had been transferred to the Comptroller in order to enable him to discharge effectively the regulatory authority now reposed in his office.

With respect to the various types of records maintained at the Board, the memorandum discussed first the national bank fiduciary files, consisting of a folder for each national bank currently exercising fiduciary powers. The folders included applications, Reserve Bank memoranda, memoranda prepared by the Board's staff, and correspondence related to the applications and the actions taken thereon by the Board.

It was recommended that the Board transfer to the Comptroller the complete active national bank fiduciary files, including the memoranda contained therein, with the understanding that the Board would have access to such files in the event of any future need.

The memorandum dealt next with certain files maintained by the Legal Division, consisting of material duplicating that contained in the Board's general files but arranged according to a different filing scheme. It was recommended that such files be transferred to the Comptroller, with the provision that the Board's staff have access to them if needed in the future.

The memorandum then discussed the Board's general (subject) files, consisting of material assigned to the files during the 48 years of the Board's administration of the section 11(k) authority that pertained to the promulgation and amendment of Regulation F and interpretations thereof, as well as material relating to all matters arising in connection with the performance by member banks, both national and State, of fiduciary functions or the System's supervisory activities concerned therewith. After describing four possible alternative courses of action, it was recommended that a review be undertaken of the contents of these files, that copies be made of all material regarded as useful for the Board's future supervisory responsibilities, and that the files then be transferred intact to the Comptroller.

(Certain subsidiary card records maintained by the Division of Examinations reflecting the history of every trust authority granted to individual national banks had already been transferred to the Comptroller's Office. With the approval of Governor Shepardson, Kardex equipment housing these subsidiary records also had been transferred to the Comptroller without charge.)

Following comments by Mr. Masters in supplementation of the information contained in his memorandum, during the course of which Chairman Martin joined the meeting, Mr. Hackley made a statement in which he said that the Legal Division had participated in the staff consideration of the subject and that it agreed with the recommendations contained in Mr. Masters' memorandum. Mr. Hackley pointed out that it had always been customary in connection with transfers of functions between Government agencies, either pursuant to statute or reorganization plan, also to transfer records pertaining to such functions. Such transfer was sometimes specifically required by statute. In this particular case no such provision was included in the statute, apparently through oversight. However, there was the general provision under the Federal Records Act requiring the transfer of records when functions were transferred between executive agencies. The argument could be made that the Board was not an executive agency, but on the other hand the Records Act reflected the policy of the Congress. Accordingly, the Board might be subject to criticism if the complete records relating to trust powers of national banks were not transferred to the Comptroller's Office.

In the discussion that ensued, no objection was indicated to the transfer to the Comptroller of the files described in Mr. Masters' memorandum as the national bank fiduciary files. As to the general (subject) files, some question was raised as to the contents, including whether they consisted entirely of material that might be described as official records. It was pointed out that in any event it would be necessary for the staff to review these files to determine which of them should be copied for the purposes of the Board's responsibilities with respect to trust powers of State member banks. Such review, it was brought out, would enable the Board to have a better understanding of the types of material contained in these files. Accordingly, agreement was expressed with a suggestion that a final decision with respect to the material that should be transferred to the Comptroller's Office be deferred pending a report on the staff review of the subject files.

Attached as Item No. 5 is a copy of the letter sent to the Comptroller of the Currency pursuant to the discussion at this meeting.

Messrs. Masters and Hooff then withdrew from the meeting and Messrs. Johnson, Director, Division of Personnel Administration, and Holland, Adviser, Division of Research and Statistics, entered the room.

Procedure for handling merger applications. In a memorandum dated October 11, 1962, which had been distributed, the Division of Examinations suggested a procedure that it was felt might be in the interest of expediting action on merger applications. According to this procedure, the memorandum from the Reserve Bank concerned would be supplemented by any comments the Division of Examinations might feel would aid the Board in reaching a decision. The Division would expand and explain to such extent as seemed desirable, and indicate agreement or disagreement with the Reserve Bank's views on the statutory factors to be considered. Also, any necessary comments about the reports on competitive factors received from the other bank supervisory agencies and the Department of Justice would be made by the Division. The suggested procedure had been followed in making available to the Board material concerning the proposed merger of Gary Trust and Savings Bank, Gary, Indiana, and Lake County State Bank, East Gary, Indiana.

In commenting on the suggested procedure, Mr. Leavitt noted that it could perhaps be used in all cases. However, it might be used more effectively on a selective basis, since not all Reserve Bank memoranda were of comparable quality. Mr. Leavitt pointed out that the objective of the proposal was to effect a saving of time, which brought into question not only the time consumed within the Division of Examinations but also the time of the Legal Division. Further, a basic question was whether the members of the Board would consider this manner of presentation acceptable.

In the discussion that followed, question was raised as to the amount of time that might be expected to be saved in the Division of Examinations through use of the suggested procedure. The reply was made that the saving would come essentially from the time involved in the preparation of the usual Division memorandum, including the typing thereof. This led to the question whether a high quality of analysis could be maintained within the Division if the discipline of memorandum preparation was not involved, and Mr. Solomon assured the Board that the staff of the Division would endeavor to maintain the quality of analysis even though the preparation of a completely self-contained memorandum was not required. Messrs. Hackley and Shay then referred to the function of the Legal Division in preparing orders and statements on merger applications following the deciding of such cases by the Board and expressed the view that the availability of memoranda such as prepared by the Division of Examinations had been most helpful. It was their feeling that the time saved in the Division of Examinations would be offset, at least to some extent, by additional time that would be required in the Legal Division.

Members of the Board appeared to feel that the presentation in regard to the application of Gary Trust and Savings Bank was generally satisfactory, although one member of the Board (Governor Mitchell) indicated that it would be helpful to him to have the application itself included in the distributed papers in order to assist him in distinguishing facts from judgments. At the same time, considerable concern was expressed by the Board regarding the expressions that had been made to the effect that the memoranda received from Reserve Banks on merger cases were not uniformly of high quality. It was understood that this unevenness of quality sometimes added to the work and time expended by the Division of Examinations in the processing of such cases, and that it was necessary on some occasions to go back to the Reserve Banks for additional information. Mr. Solomon described certain steps that had been taken by the Division of Examinations with a view to improving the Reserve Bank presentations, including the distribution of sample memoranda prepared by the Division.

In light of the concern expressed by the Board regarding the quality of Reserve Bank memoranda, the Chairman suggested that there be prepared for his signature a letter to the Reserve Bank Presidents noting the Board's desire to expedite the handling of merger applications and expressing the hope that all possible steps would be taken toward bolstering staff resources devoted to work at the Reserve Banks on such applications. There was general agreement with this suggestion, and it was understood that such a letter would be drafted. It was also understood that the Division of Examinations, in the light of the discussion at this meeting, would consider further the possibility of experimenting further on a selective basis with the method of presentation of merger applications that had been suggested in the memorandum of October 11, 1962.

Application of Gary Trust and Savings Bank. There had been distributed to the Board a summary memorandum from the Division of Examinations dated October 11, 1962, recommending approval of the application of Gary Trust and Savings Bank, Gary, Indiana, for permission to merge with Lake County State Bank, East Gary, Indiana, under the charter of the applicant and the title of Bank of Indiana. Distributed with the memorandum from the Division were the reports on competitive factors from the other bank supervisory agencies and the Department of Justice, along with a memorandum from Mr. Achor, Review Examiner, who recommended denial of the application. Also submitted with the file on the matter was the memorandum from the Federal Reserve Bank of Chicago dated September 4, 1962, in which the Reserve Bank made a favorable recommendation. In a memorandum dated October 15, 1962, the Legal Division indicated that it had no special comments on the application.

At the Board's request, Mr. Leavitt reviewed the facts of the application, stated why he and Mr. Solomon recommended approval, and discussed the reasons why Mr. Achor recommended denial, his comments being based on the several memoranda that had been distributed to the Board.

The Chairman then called upon the members of the Board for their views, and Governor Mills stated that he would approve the application although in his view it was not an application that had very definite merit. The merger would eliminate one of the three local banks serving the Gary-East Gary area, which he regarded as unfortunate, even though there were branches of other banks in the general area and banks in surrounding communities were reasonably accessible. While it appeared that the bank resulting from the merger could provide stronger competition for the dominant Gary National Bank, in a community such as Gary he thought it not completely desirable to see the expiration of an independent bank. Beyond that he had some concern about the Lakeside Corporation, a one-bank holding company affiliate owning a majority of the stock of Gary Trust and Savings Bank. The holding company affiliate appeared to be dominated by Mr. Raymond E. Daly, President of Gary Trust and Savings Bank, and in its activities Governor Mills saw some inclination that Mr. Daly tended to be promotionally-minded in his business ventures and investments. This tendency, he thought, might provide an insight into the character of the management of the bank. All things considered, he felt that the merger application was of borderline status. He would approve, but without enthusiasm.

There followed comments by the other members of the Board which indicated that they would concur, on balance, in the recommendation of the Division of Examinations.

Accordingly, the application was approved unanimously, with the understanding that the Legal Division would prepare for the Board's consideration drafts of an order and statement reflecting this decision.

Messrs. Shay and Young (Legal Division) then withdrew from the meeting.

Framework for collection of banking statistics. With the notation that it constituted a step in furtherance of the kind of data collection objectives outlined by Governor Mitchell at the Board meeting on October 3, 1962, there had been distributed a memorandum from Mr. Noyes dated October 11, 1962, submitting for formal Board endorsement a copy of the report "Framework for Collection of Banking Statistics" that had been issued by the System Research Advisory Committee under date of February 23, 1962. Mr. Noyes' memorandum explained that this report had been drafted as a working paper early in the current year, that it had been reviewed and authorized by the System Research Advisory Committee, and that it had been approved in principle by the Conference of Presidents of the Federal Reserve Banks at the meeting of the Conference on March 5, 1962. A copy had previously been distributed to the Board as a matter of information with a memorandum from Mr. Noyes dated February 26, 1962.

Mr. Noyes' memorandum further explained that the basic purpose of the document was to guide future research and data collection in the field of banking statistics. It outlined the major data needs to be served, the general types of reporting arrangements to be utilized, the issues of cost, feasibility, and respondent relations to be resolved, and the procedural arrangements for communication and decision that might best implement such a program. In particular the report called for increased reliance upon sample surveys as distinct from universe reporting. The report was written in general terms, leaving a great deal of room for the adaptation of particular series to the realities of the moment, this approach being considered necessary in order to avoid being outdated by changes in the emphasis of monetary policy, the performance of the banking system, and the technology of data collection and analysis. It was indicated that the research staff had certain fairly specific ideas as to the implementation of the general principles set forth in the report; some areas of possible application were outlined in an attached exhibit.

Mr. Noyes' memorandum noted that a number of new series or surveys were implicitly called for by the distributed document, along with the redesign of numerous existing series. Some existing series involved considerably larger numbers of reporters or more frequency or detail in reporting than would appear warranted in an integrated system of data collection. The principles expressed in the statement had been tested by application in the revision of the Federal funds series, recently approved by the Board, and in the development of a new survey on negotiable time certificates of deposit, soon to be presented for Board consideration.

Mr. Noyes' memorandum indicated that with formal Board endorsement of this program System committees would be asked to assign a higher order of priority to its implementation, and within that framework to give early attention to the feasibility of reduced reliance on quarterly call reports in full detail from all member banks. A comprehensive revision of bank data collection could not be accomplished quickly, for it involved heavy demands on relatively scarce System statistical personnel and some large-scale alterations of member bank reporting arrangements conducted within the framework of a coordinated set of guiding principles. However, it was felt that the effort should yield a progressive improvement in banking statistics.

Following comments by Mr. Noyes in supplementation of his memorandum the Chairman turned to Governor Mitchell, who expressed himself favorably with regard to the report, stating that for anyone who wanted to know why the System was collecting banking statistics there was now a rational answer related to System operations and requirements. He hoped the implementation of the report might come about even more quickly than seemed to be anticipated.

Governor Mills also expressed his general approval of the report but added that he hoped in its implementation particular care would be taken to see that respondents were not overburdened. In this connection Mr. Noyes pointed out that endorsement of the report would not constitute a blank check; proposed changes in any series would be brought to the attention of the Board as well as other interested parties within the System for specific approval. When Governor Mitchell inquired whether endorsement of the report did not contemplate fulfillment of the needs outlined therein, Mr. Noyes commented that this was true but that specific implementing steps would be presented for review. A general rationale for the collection of statistics was contained in the report, but the means of implementation would be subject to specific approval.

Governor Balderston then made a statement in which he expressed concern about the public relations aspect of System data collection procedures. He offered the suggestion that consideration might be given to publishing in the Federal Reserve Bulletin an article couched in lay language, with particular reference to the rationale involved in sampling techniques. Mr. Noyes indicated that he was hopeful that some such material might be generated within the ranks of the American Bankers Association, following which Governor Mitchell expressed the view that the success of a program such as contemplated by the framework for collection of banking statistics would depend in considerable measure on contacts made personally with bankers by Reserve Bank Presidents and other Reserve Bank personnel in an effort to promote a cooperative attitude. It was agreed, however, that steps such as mentioned by Governor Mitchell and Mr. Noyes did not mean that consideration should not also be given to the publication of a Bulletin article such as Governor Balderston had proposed.

After further discussion the report, "Framework for Collection of Banking Statistics," was endorsed by unanimous vote.

Salary of officer at New York Bank (Item No. 6). As recommended in a file that had been circulated, unanimous approval was given to a letter to the Federal Reserve Bank of New York approving the payment of salary to Peter Fousek as Manager for the period October 4 through December 31, 1962, at the rate fixed by the Board of Directors. A copy of the letter is attached as Item No. 6.

All of the members of the staff except Messrs. Sherman, Kenyon, Young, Molony, Hackley, and Noyes then withdrew from the meeting.

Revenue bonds. It was agreed that a meeting of available members of the Board with the Committee for Study of Revenue Bond Financing, a group representing investment banking firms interested in State and municipal bond underwriting, would be held at 10:00 a.m. on October 31, 1962, in response to a request received from the Committee.

Reserve requirements (Items 7 and 8). There had been distributed a memorandum from Mr. Young dated October 17, 1962, with respect to a suggestion that had been made that in providing additional reserves needed during the latter part of 1962 a portion might be provided by a reduction of 1 per cent in the reserve requirement on time deposits. With total time deposits of member banks around $76 billion, such a reduction would supply about $760 million of the reserves needed. As indicated in an attached tabulation any such release of reserves would be needed mostly in the week of November 1-7, and also to a smaller extent in the preceding week. If the reduction was made effective for reserve city banks (about $400 million) on October 25, and for country banks (about $360 million) on November 1, this would not depart too far from the projected pattern of reserve needs. Any surplus reserve availability that might develop in the reserve week of October 25-31 could easily be absorbed by offsetting System sales of Treasury bills.

The memorandum pointed out that announcement of any reduction in reserve requirements should be timed in such a way as to avoid interference with Treasury financing operations. Announcement of the exchange offering to holders of November and December maturities was tentatively scheduled for October 24, with the books to be open October 29-31, to be followed by announcement of a short-term cash offering to cover attrition sometime in the week of November 5-9. Announcement of any change in reserve requirements should therefore be made as early as practicable in order to allow time for the market to react to such reduction before the date for Treasury pricing and announcement of its refunding issues.

The memorandum also noted that the providing of reserves through a reduction of requirements would serve to diffuse reserves more quickly throughout the banking system than would open market purchases, thus meeting perhaps a wider range of seasonal needs and doing so with less concentration of downward pressure on central money market rates. With respect to the supply and demand in the market for short-term Government securities, a reduction in requirements (taking the place of an equivalent amount of open market purchases) would avoid the need for the Federal Reserve to go into the market to make purchases, and therefore presumably would have some influence in the direction of lower prices and higher yields. However, it would also avoid the need on the part of the banks to make sales; the net effect might therefore be small. After the seasonal use of reserves had passed, there would presumably arise the need for their absorption through open market sales; the amount of such sales would be determined by the net free reserve range within which the Federal Open Market Committee was then operating.

An important question about a reduction in reserve requirements was whether such action would be interpreted by the business and financial community, both domestic and foreign, as a policy action in the direction of greater credit ease. Open market purchases, being routine at this season and carrying an expectation of routine reversal afterwards, probably would not be considered by the public in this way.

Logically the reserve reduction should not have any such effect either, if it were announced as a structural change with the presumption that its effects on reserve availability would be offset by open market sales in early 1963. Much might depend upon the phrasing used in the announcement of such an action. In order to facilitate discussion of the problem, there were attached drafts of a possible press release, with alternative paragraphs, and of a possible cable to foreign central banks of leading countries.

Mr. Young's memorandum pointed out that member banks were in competition for time and savings deposits with savings institutions that were not subject to cash reserve requirements. Therefore, a reduction in the requirement against member banks' savings deposits would be a move in the direction of placing these competitors on a more equal footing. However, member banks were also issuing an important volume of negotiable certificates of deposit that served as a close substitute for temporary excess balances in demand accounts. Question might be raised as to whether the present difference between the reserve requirement on these and on demand deposits was already too large. The reduction under consideration would widen this difference still further.

The memorandum also noted that a reduction in member bank reserve requirements would have the advantage of providing reserve backing for a larger money supply without increasing the total liabilities and hence the gold reserve requirement of the Federal Reserve Banks. If $760 million were provided by this means instead of by expansion of open market holdings, this would reduce gold reserve needs by $190 million.

In an opening comment, Chairman Martin noted that there had been some preliminary discussion of this subject at a recent informal meeting of available members of the Board. He then called upon Mr. Young, who reviewed his memorandum and commented in supplementation thereof.

Governor Mills indicated that he was much influenced by the possible psychological reaction to a change in reserve requirements at this time. At this point, without having had the benefit of expressions by other members of the Board, he had no firm conclusion. However, his present feeling was that he would be adverse to a reduction in reserve requirements because he was not convinced of the urgency of taking that means of introducing additional reserves into the banking system. Governor Mills then read the following memorandum:

> The proposed reduction of 1 per cent in the reserve requirement on time deposits may be expected to exert downward pressure on short-term interest rates to the extent that the reserves released are not absorbed by an expansion in commercial bank loans and investments. On present prospects, there will not be a heavy demand for commercial bank loans and, consequently, the additional reserves placed in commercial bank hands will very likely find their way into investments in short-term U. S. Government securities with a consequent softening of their interest yields. Under such circumstances and assuming a monetary and credit policy aimed at pegging the yield on U. S. Treasury bills, it will become necessary for the System Open Market Account to reverse direction and sell U. S. Treasury bills so as to firm their interest yields. Any such development would add to the

erratic and alternately substantial purchases and sales of U. S. Treasury bills by the System Open Market Account that have highlighted its activities for many months past. This is not the sort of System Open Market Account action that should be further encouraged.

It is recognized that the proposed reduction in reserve requirements would occur at around a time of a U. S. Treasury financing operation, which would be facilitated thereby. However, there is a question whether the Federal Reserve System should take an overt action of this sort to assist the Treasury, or at least be exposed to the challenge that its action was so intended. Preferably, assistance to the U. S. Treasury should follow the conventional pattern of providing such reserve support as it requires through the channel of open market actions. In any event, it is certain that the proposed reduction in reserve requirements would immediately arouse the political criticisms of Congressman Patman and Senator Proxmire, who would charge that the Federal Reserve System was acting to make an interest-earning gift to the commercial banks which at the same time would have been intended to keep up interest rates when, in their judgment, lower interest rates are called for by the state of the economy.

It is my personal belief that the Federal Reserve System would be well advised to throw its influence on the side of a somewhat easier monetary policy and in the direction of a somewhat lower short-term interest rate structure. To the extent that the proposed reduction in reserve requirements would obtain that objective, it would be desirable. However, the problems above cited argue against a reduction in reserve requirements and a continuation of the use of conventional mechanics for supplying reserves to the commercial banking system as they are needed. Considering the difficulty of projecting reserve requirements and the unavoidable errors that have been made in those projections, the current projections of reserve needs may not be reliable and there may be less need for supplying reserves in coming weeks than has been forecast. If that should prove to be true, the proposed reduction in reserve requirements could end in producing a plethora of reserves requiring reverse action through the System Open Market Account, with subsequent disturbances in the U. S. Government securities market. The need for reducing reserve requirements has not, in my opinion, been clearly demonstrated and it would be preferable, as indicated, to supply reserves through ordinary channels and not via a reduction in reserve requirements.

Chairman Martin indicated that his thinking ran along the lines that structurally there was little reason for a 5 per cent reserve requirement against time and savings deposits. Further, he felt that in its implementation of monetary policy the Federal Reserve should use all of the tools at its disposal, and a reduction of reserve requirements would diffuse reserves more quickly and widely throughout the commercial banking system than open market operations. Open market operations perhaps would carry slightly less risk of criticism than a reduction of reserve requirements, but he did not believe that the fundamentals were any different and there was an opportunity at hand to make a structural adjustment in reserve requirements. As to the possibility of any adverse Congressional reaction, he doubted whether that would be as strong in regard to a reduction in requirements against time and savings deposits as against a reduction in requirements against demand deposits, although one could not be sure. Quite likely, a reduction in reserve requirements would be interpreted in some quarters as a step toward easier money. At the same time, it might be easier to explain a reduction in requirements on time and savings deposits to foreign observers than if the System were to engage more actively in open market operations. The question of timing also involved a matter of judgment. One could not determine in advance the monetary policy decision of the Open Market Committee at its next meeting, scheduled for Tuesday, October 23, particularly since majority and minority views had existed recently. At present, there was of course the matter of the forthcoming Treasury refinancing to be taken into account. Earlier in the fall, there had been a question of timing from the standpoint of the Fund and Bank annual meetings. Looking to the future, if action was not taken at this time, another opportunity might not arise before the spring of 1963.

His feeling, the Chairman said, was that by and large the proposed reduction of reserve requirements would be an intermediate step that would be of assistance. The psychological impact admittedly was something to be borne in mind. Unquestionably such action would be commented upon in the press and elsewhere as a move toward easier money, but there might be less comment in this regard than there would be if certain other things were done. On balance, he felt that the posture of the System would be generally good. As Mr. Young's memorandum pointed out, if the Board was going to take this action it should be taken today or tomorrow, in advance of the Treasury refunding announcement.

After further comments, the Chairman confirmed that he would be prepared to make the proposed reserve requirement reduction, but he added that he wished to hear the views of the other members of the Board. As to monetary policy in general, he stated that he had not changed his views substantially. He continued to believe that the economy was not going to be stimulated at this juncture by easier money.

In this connection he noted some of the stronger elements of the current business picture.

Governor Balderston said that he was somewhat concerned about the recent amplitude of System open market operations. He would consider it unfortunate if a continued high volume of activity on the part of the Trading Desk contrived to create turmoil in the market. Turning to the gold outflow, he noted that in the fourth quarter of 1961 and the first quarter of 1962 the outflow had amounted to something like $800 million. He was hopeful that in the comparable quarters of 1962 and 1963 the outflow would not be so large, but he felt that a drain of at least $500 million must be anticipated. Such drain, he noted, would diminish the need for absorption of reserves after the turn of the year.

Governor Shepardson said that from a long-range standpoint it seemed to him there was some merit and justification in reducing reserve requirements against time and savings deposits. He had been wondering for some time whether the seasonal need for reserves might not afford an opportunity to move in that direction. It was his hope that such a move could be made without a significant change in monetary policy toward greater ease, for he was not convinced that a policy of greater ease would be to the advantage of the economy at the present time. The concern he would have about the suggested reduction of reserve requirements was that it might be interpreted as a move toward a policy of significantly greater ease. Aside from this factor, he would be inclined to think that this was an opportune time to take a step in a long-run adjustment in the reserve requirements against time and savings deposits. As he had indicated, he would be concerned about a significant easing of policy regardless of what device was used, for he felt there was an abundance of funds available and he questioned the need for greater ease. He thought of a reserve requirement reduction in terms of a contribution toward meeting seasonal reserve needs within the framework of current monetary policy.

Governor Mitchell said that he had thought a great deal about the matter since the recent informal meeting of members of the Board. There was one thing that bothered him; namely, whether this would be a desirable move as far as negotiable certificates of deposit were concerned, for they constituted an entirely different type of instrument from anything that had existed before in the time deposit field. In his opinion, liquidity should have a price tag on it. Banks should not be encouraged to push people into certificates of deposit because the Board had lowered reserve requirements. Apart from that factor, he was troubled by the nature of the announcement that would be made by the Board. Fundamentally, he felt that those within the ranks of the System might not be far apart in their views on monetary policy if it were not for the foreign situation. He thought there was probably no great disagreement on the domestic side; given the current levels of utilization of capacity, everyone would like to encourage business expansion. Until there was a break in the rate structure, it might seem as though there was too much money available. In his opinion, the rate structure would break, and the key factor was the short-term rate which the System and the Treasury were trying to protect against competitive rates abroad. Basically, he felt that this accounted for the difference of views within the Open Market Committee, in which forum he had been stating why he felt that rates ought to be pushed down a little to see whether anything adverse would happen. If not, he felt that a reduction of rates would help the domestic economy. It would make it harder for people to stay short. Accordingly, with respect to the proposed reserve requirement reduction, his inclination was to agree with Governor Mills. He would prefer to use the mechanism of open market operations. On the other hand, he would not object strongly to going in the direction of a reserve requirement reduction if there was some appropriate way of handling the announcement, the impact of which he considered very important. In fact, his vote would be conditioned on the type of statement the Board proposed to release.

The Board then turned its attention to the draft of press statement submitted with Mr. Young's memorandum, including the alternative paragraphs. Governor Mills suggested that the announcement might be limited to the first two paragraphs of the draft, which would provide a factual description of the action taken and indicate that the release of reserves would assist in meeting the heavy seasonal needs that the banking system experiences in the closing months of the year; also, that the reserves thus supplied would be available to support the longer-term growth in bank deposits needed to facilitate the expansion of economic activity and trade. In response to a question, Governor Mills indicated that he would not be averse to retention of the final paragraph of the draft, which would convey the thought that the reduction in the reserve requirement against time deposits had also taken into account the character of deposit growth at commercial banks during the past year. It would point out that the net increase in time deposits during 1962 had been comparatively large, in response to widespread offering by banks of higher rates of interest for time deposits of longer duration; with deposit expansion partaking more of the nature of saving, the Board felt that a lower requirement behind such deposits would be appropriate.

After further discussion, Governor Mitchell indicated that he would not object strongly to the inclusion in the press statement of a portion of one of the alternative paragraphs in the draft which would note that the reserve requirement action was consistent with the practice that had been followed for about two years of supplying reserves, when possible, in ways that would minimize downward pressure from System operations on short-term rates, in this respect continuing to recognize the need for avoiding undue encouragement to short-term capital outflows.

Governor Mills indicated that he would not object strongly. However, he suggested that the reserve requirement reduction might lead to a decline in short-term rates, and in his opinion the press statement would be clear without this sentence.

The Chairman then suggested giving consideration to a portion of one of the other alternative paragraphs in the draft. The sentences to which he referred would point out that the supplying of reserves in this manner was a substitute for a corresponding amount of reserve-creating Federal Reserve purchases of Government securities in the open market, most of which--because of the characteristics of the market--would be in short-term securities. Thus, this method of supplying reserves would avoid direct downward pressures from System purchases upon short-term market rates, which was desirable in the present circumstances in order to moderate incentives for short-term capital flows abroad. A reserve requirement reduction would make reserves available directly to banks throughout the country, to be used by them as their own local circumstances dictated to support seasonal or other changes in earning assets and deposits.

After further discussion, general agreement was reached on the formulation of a press statement that would include the first two paragraphs of the draft attached to Mr. Young's memorandum followed by the sentences to which Chairman Martin had just referred and the final paragraph in the draft statement. This was with the understanding that Mr. Molony had permission to make minor editorial changes, and with the further understanding that the language of the press release would be included in the cable sent to foreign central banks notifying them of the Board's action.

The Chairman then turned to Governor Mills and asked him whether he wished to be recorded as voting against a reduction from 5 per cent to 4 per cent in the reserve requirement against time and savings deposits.

Governor Mills responded in the negative. He added, however, that he would like the record to show that he voted for the action not because he thought it was the most appropriate way of supplying reserves at this time but because he thought it would create a climate that would lead to moderation of the interest rate structure. If such moderation occurred, he hoped it would not be aggressively offset by open market operations.

Governor Mitchell indicated that he would like to associate himself with the views expressed by Governor Mills.

Governor Shepardson stated that he would vote for the action because he thought it represented a desirable move in line with a longer-run adjustment in the structure of reserve requirements. He hoped that it would not result in a significant change in the present degree of monetary ease.

Subject to the understanding that the foregoing comments would be reflected in the minutes, it was voted unanimously to amend the Supplement to Regulation D, Reserves of Member Banks, so as to reduce the reserve requirements of member banks against time deposits from 5 per cent to 4 per cent, effective as to banks in reserve cities at the opening of business October 25, 1962, and as to other banks at the opening of business November 1, 1962. It was understood that the Board's press statement on the matter would be released at or after 4:00 p.m. today. It was also understood that appropriate information concerning the Board's action would be sent to the Federal Reserve Banks and branches, the Federal Register, and foreign central banks of leading countries.

Attached as Item No. 7 is a copy of the amendment to the Supplement to Regulation D in the form in which it was published in the Federal Register. Attached as Item No. 8 is a copy of the press statement that was issued by the Board under date of October 18, 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. 9) approving the appointment of Robert Louis Henkle as assistant examiner.

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

Appointments

Ketty Anagnos as Statistical Assistant, Division of Research and Statistics, with basic annual salary at the rate of $4,565, effective the date of entrance upon duty.

Mary Anne McVeigh as Stenographer, Legal Division, with basic annual salary at the rate of $4,390, effective the date of entrance upon duty.

Transfer

Judy Marconi, from the position of Stenographer in the Division of Examinations to the position of Secretary in the Division of Bank Operations, with an increase in basic annual salary from $4,530 to $4,885, effective October 28, 1962.

Acceptance of resignation

Mary Ann O'Leary, Secretary, Division of Research and Statistics, effective at the close of business October 22, 1962.

Secretary

Item No. 1
10/18/62

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 18, 1962

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

Gentlemen:

The Board of Governors of the Federal Reserve System extends to January 24, 1963, the time within which The Cleveland Trust Company may establish a branch in the Brecksville Shopping Center on Chippewa Road near the intersection of Brecksville Road, Brecksville, Ohio.

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. 2
10/18/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 18, 1962

Board of Directors,
Fidelity Savings Bank,
Ottumwa, Iowa.

Gentlemen:

The Board of Governors of the Federal Reserve System approves, under the provisions of Section 24A of the Federal Reserve Act, an investment in bank premises by Fidelity Savings Bank, Ottumwa, Iowa, of not to exceed $98,000 for the purpose of acquiring land for a future banking site. This sum includes an expenditure of $18,000 representing the cost of a lot located diagonally across the street from the present banking quarters which is to be sold at the first opportunity.

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
10/18/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 18, 1962

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

Dear Mr. Hemmings:

This refers to your letter of October 1, 1962, regarding the penalties totaling $142.88 incurred by the Pacific National Bank, San Francisco, California, on deficiencies in its reserves during four weekly computation periods in July and August 1962, and penalties totaling $310.69 incurred by the Umpqua National Bank, Reedsport, Oregon, on deficiencies in its reserves during nine biweekly computation periods since mid-October 1961.

It is noted that: (1) these deficiencies were discovered in the mid-year comparison of condition reports with deposit reports; (2) since April 26, 1962, in the case of the Pacific National Bank and since July 14, 1961, in the case of the Umpqua National Bank these banks had been erroneously including time certificates of deposits of a correspondent bank, at various times and in varying amounts, in the deduction item "Due from Banks" on their reports of deposits for reserve purposes; (3) both banks have indicated that steps have been taken to insure proper reporting in the future; and (4) the banks would have maintained adequate reserves if the time certificates had been properly classified.

In the circumstances, and in view of your recommendation, the Board authorizes your Bank to waive the assessment of these penalties against both banks.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 4 4001
10/18/62

Office Correspondence

Date October 2, 1962.

To Board of Governors

From Messrs. Hackley and Farrell

Subject: Examination of food stamp coupons.

The Department of Agriculture, in connection with the Food Stamp Program, has recently advised the Reserve Banks that they may be asked to hold food stamps received from local banks until such time as an investigator of the Internal Audit Division of the Agricultural Marketing Service has had an opportunity to examine them. Such examinations will be pursuant to suspected violations of the program and involve the use of marked food stamps which have been issued to Internal Audit Division investigators.

This proposal was not specifically contemplated at the time the agreement between the Department of Agriculture and the Reserve Banks was originally executed in May 1961 or as amended in March 1962.

The program for the visits to the Reserve Banks by Internal Audit Division investigators has been reviewed by the Subcommittee on Collections and the Subcommittee of Counsel on Collections. It is the consensus of the Subcommittees that the contemplated visits fall within both the language and the spirit of the last sentence of paragraph 5 of the agreement, as amended March 1, 1962, insofar as that sentence states that the Reserve Banks, in assisting the Department in making claims with respect to coupons, will make available to the Department "their records and any relevant evidence in their possession".

The Subcommittees are also agreed that since the visits are a routine operation under the terms of the Food Stamp agreement, reports of individual visits in compliance with the Board's letter of December 19, 1946 (F.R.L.S. #5771) would be entirely perfunctory and would serve no useful purpose.

The Legal Division and the Division of Bank Operations agree with the views of the Subcommittees and, if the Board has no objection, the Chairmen of the respective Subcommittees will give appropriate advice to other members of their committee and to the liaison officers (or fiscal agency officers) at the Reserve Banks not represented on the Subcommittees.

Item No. 5
10/18/62

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 22, 1962.

The Honorable James J. Saxon,
Comptroller of the Currency,
Treasury Department,
Washington 25, D. C.

Dear Mr. Saxon:

This is in further reference to the Board's letter of September 25, 1962 and yours of October 4, 1962, concerning the transfer to your Office of various files maintained by the Board in connection with its exercise of the Section 11(k) authority concerned with the granting of trust powers to national banks and the regulation of the exercise of such powers.

The national bank fiduciary files, comprising thirteen legal-size file drawers, which contain the application and related documents and correspondence concerned with the granting of trust powers to each national bank holding such authority are now available for transfer to your Office. These files are being transferred to your Office with the understanding that Board representatives may have access to them if circumstances in the future should require it.

The Board's general files related to the exercise of trust powers, and the trust power subject files maintained in the Board's Legal Division, contain a considerable body of material related solely to the fiduciary activities of State member banks. A review of these files is now under way to separate this material from that concerned with the exercise of trust powers by national banks. Also, a considerable portion of the material which these files contain has a significant bearing on fiduciary activities of State member banks even though it arose in connection with the Board's administration of the national bank trust power regulation. Consequently, arrangements are under way for copying such material as will have usefulness to the Board in connection with its continuing State member bank supervisory responsibilities.

As soon as this review has been completed we will advise you further.

Very truly yours,

Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 6
10/18/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 18, 1962

CONFIDENTIAL (FR)

Mr. Thomas M. Timlen, Jr., Secretary,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Timlen:

The Board of Governors approves the payment of salary to the following officer of the Federal Reserve Bank of New York for the period October 4 through December 31, 1962, at the rate indicated, which is the rate fixed by the Board of Directors as reported in your letter of October 8:

Name	Title	Annual Salary
Peter Fousek	Manager	$16,000

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

TITLE 12 - BANKS AND BANKING

Item No. 7
10/18/62

CHAPTER II - FEDERAL RESERVE SYSTEM

SUBCHAPTER A - BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

[Reg. D]

PART 204 - RESERVES OF MEMBER BANKS

Reserve Percentages; Counting of Currency and Coin

1. Effective as to member banks in reserve cities at the opening of business on October 25, 1962, and as to all other member banks at the opening of business on November 1, 1962, § 204.5 [Supplement to Regulation D] is amended to read as follows:

§ 204.5 Supplement.

(a) Reserve percentages. Pursuant to the provisions of section 19 of the Federal Reserve Act and § 204.2(a) and subject to paragraph (b) of this section, the Board of Governors of the Federal Reserve System hereby prescribes the following reserve balances which each member bank of the Federal Reserve System is required to maintain on deposit with the Federal Reserve bank of its district:

(1) If not in a reserve city--

(i) 4 per cent of its time deposits, plus

(ii) 12 per cent of its net demand deposits.

(2) If in a reserve city (except as to any bank located in such a city which is permitted by the Board of Governors of the Federal Reserve System, pursuant to § 204.2(a)(2), to maintain the reserves specified in subparagraph (1) of this paragraph)--

(i) 4 per cent of its time deposits, plus

(ii) 16-1/2 per cent of its net demand deposits.

(b) Counting of currency and coin. The amount of a member bank's currency and coin shall be counted as reserves in determining compliance with the reserve requirements of paragraph (a) of this section.

2. This amendment is issued pursuant to the authority granted to the Board of Governors by section 19 of the Federal Reserve Act with primary regard to the general credit and business situation. The notice and public procedure described in sections 4(a) and 4(b) of the Administrative Procedure Act, and the prior publication described in section 4(c) of such act, are impracticable, unnecessary and contrary to the public interest in connection with this amendment reducing reserve balances of member banks of the Federal Reserve System for the reasons and good cause found as stated in paragraph (e) of § 261.2 of the Board's Rules of Procedure (Part 262), and especially because such notice, procedure, and prior publication would prevent the action from becoming effective as promptly as necessary, and would serve no useful purpose.

(Sec. 11(i), 38 Stat. 262; 12 U.S.C. 248(i). Interpret or apply secs. 11, 19, 38 Stat. 261, 270, as amended; 12 U.S.C. 248(c), (e), 461, 462, 462a-1, 462b, 464, 465.)

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

(Signed) Merritt Sherman)
Merritt Sherman,
Secretary.

FEDERAL RESERVE
press release

Item No. 8
10/18/62

For immediate release October 18, 1962

The Board of Governors of the Federal Reserve System acted today to reduce from 5 per cent to 4 per cent the reserves against savings and time deposits that member banks are required to maintain with Federal Reserve Banks. The reduction in requirements will become effective at the beginning of the next reserve computation periods, October 25, 1962, in the case of reserve city banks and November 1, 1962, for all other member banks.

This action will reduce member bank required reserves by an estimated $767 million, $410 million at reserve city banks and $357 million at all other member banks. The release of these reserves, coming at this time, will assist in meeting the heavy seasonal needs for reserves that the banking system experiences in the closing months of the year. In addition, the reserves thus supplied will help in providing for the longer term growth in bank deposits needed to facilitate the expansion of economic activity and trade.

Reserves supplied in this manner substitute for a corresponding amount of reserves supplied through Federal Reserve purchases of Government securities in the open market, most of which, because of the characteristics of the market, would necessarily be in short-term securities. Thus, this method of supplying reserves will minimize downward pressures from System purchases upon short-term market rates, which is desirable in the present circumstances in order to keep incentives for short-term capital flows abroad from becoming stronger. In addition, the reduction in the requirement will make reserves available directly to banks throughout the country, to be used by them as their own local circumstances dictate to support seasonal or other changes in earning assets and deposits.

In taking this action, the Board took into account the character of the growth in deposits at commercial banks this past year. Net increases in savings and time deposits during 1962 have been comparatively large, in response to widespread offering by banks of higher rates of interest for such deposits. In these circumstances, the Board felt a lower requirement behind these deposits would be appropriate.

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

Item No. 9
10/18/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 19, 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 October 10, 1962, the Board approves the reappointment of Robert Louis Henkle 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.