

Minutes for November 2, 1962

To: Members of the Board

From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, please initial below. If you were present at the meeting, your initials will indicate approval of the minutes. If you were not present, your initials will indicate only that you have seen the minutes.

Chm. Martin

Gov. Mills



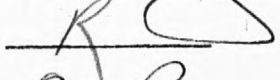
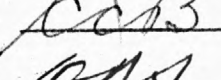
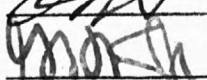
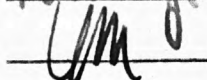
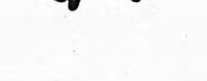
Gov. Robertson

Gov. Balderston

Gov. Shepardson

Gov. King

Gov. Mitchell

Minutes of the Board of Governors of the Federal Reserve System
on Friday, November 2, 1962. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Mills, Acting Chairman
Mr. Robertson
Mr. Shepardson
Mr. Mitchell

Mr. Sherman, Secretary
Mr. Young, Adviser to the Board and Director,
Division of International Finance
Mr. Molony, Assistant to the Board
Mr. Cardon, Legislative Counsel
Mr. Fauver, Assistant to the Board
Mr. Noyes, Director, Division of Research and
Statistics
Mr. Koch, Associate Director, Division of
Research and Statistics
Mr. Katz, Associate Adviser, Division of
International Finance
Mr. Spencer, General Assistant, Office of the
Secretary
Mr. Eckert, Chief, Banking Section, Division of
Research and Statistics
Mr. Keir, Senior Economist, Division of Research
and Statistics
Mr. Reynolds, Chief, Special Studies and
Operations Section, Division of International
Finance
Mr. Goldstein, Economist, Division of
International Finance

Money market review. There were distributed certain charts and tables relating to the results of recent Treasury refunding operations and the effect that those operations had on positions of Government securities dealers.

Mr. Keir commented on the results of the refunding operations and discussed other developments in the Government securities market, following which Mr. Koch presented a report on bank reserves, the money supply, and related matters. Mr. Goldstein then reported on developments in the foreign exchange and gold markets.

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Following discussion based on these reports, all members of the staff except Messrs. Sherman, Fauver, and Spencer withdrew from the meeting, and the following entered the room:

Mr. Hackley, General Counsel
 Mr. Solomon, Director, Division of Examinations
 Mr. O'Connell, Assistant General Counsel
 Mr. Daniels, Assistant Director, Division of
 Bank Operations
 Mr. Leavitt, Assistant Director, Division of
 Examinations
 Mr. Thompson, Assistant Director, Division of
 Examinations
 Mr. Enriken, Attorney, Legal Division
 Mr. Smith, Assistant Review Examiner, Division
 of Examinations

Discount rates. The establishment without change by the Federal Reserve Banks of New York, Philadelphia, Atlanta, Minneapolis, Kansas City, and San Francisco on November 1, 1962, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

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

	<u>Item No.</u>
Letter to Farmers and Merchants Bank of Lawrenceville, Lawrenceville, Virginia, approving the establishment of a branch in Brodnax.	1
Letter to The Citizens State Bank of Clare, Clare, Michigan, granting its request for permission to exercise fiduciary powers.	2

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	<u>Item No.</u>
Letter to First Bank and Trust Company, Cairo, Illinois, waiving the requirement of six months' notice of withdrawal from membership in the Federal Reserve System.	3
Letter to the Federal Deposit Insurance Corporation regarding the application of First Bank and Trust Company, Cairo, Illinois, for continuation of deposit insurance after withdrawal from membership in the Federal Reserve System.	4
Letter to Security State Bank, Hartley, Iowa, granting its request for permission to exercise a specific fiduciary power.	5
Letter to the Secretary of the Federal Advisory Council suggesting topics for inclusion on the agenda for its forthcoming meeting.	6
Letter to the Federal Reserve Bank of Atlanta authorizing the purchase of certain property adjoining the Birmingham Branch building.	7

Report on competitive factors (Baltimore-Salisbury, Maryland).

There had been distributed a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of The Salisbury National Bank, Salisbury, Maryland, into The First National Bank of Maryland, Baltimore, Maryland.

Following a brief discussion during which agreement was expressed with a change in the conclusion of the report that would reflect a suggestion made by Governor Robertson, the report was approved unanimously for transmittal to the Comptroller. The conclusion of the report, as approved, read as follows:

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This proposed merger would have little, if any, adverse effect on competition. While the relative size of First National in the State would not be altered by this proposed merger, the trend toward concentration of banking resources in a few large banks would be continued, and the only remaining local bank in Salisbury would be eliminated.

Application of Brenton Companies, Inc. There had been distributed a memorandum from the Division of Examinations dated October 23, 1962, recommending favorably on an application by Brenton Companies, Inc., Des Moines, Iowa, for consent to acquire direct ownership of at least 80 per cent of the voting shares of Poweshiek County National Bank of Grinnell, Grinnell; The First National Bank of Perry, Perry; Brenton State Bank, Dallas Center; and Jefferson State Bank, Jefferson, Iowa.

At the Board's request, Mr. Thompson 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 October 23 memorandum. He concluded his remarks by indicating that the Federal Reserve Bank of Chicago had recommended favorably on the application and the Comptroller of the Currency and the Iowa Superintendent of Banking expressed no objection to its approval.

In discussion, Governor Mitchell questioned whether approval of the application might constitute endorsement by the Board of a potential or actual conflict of interest operation between the Brenton family and minority shareholders of the holding company. As he saw the matter, the Brenton family owned about 53 per cent of the stock of the holding company and would be acquiring additional stock in exchange for shares

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of four banks that were almost wholly owned by Brenton family interests. There would be a premium involved in this transaction, the holding company stock being exchanged having a greater value than the bank stock being acquired. As a result, the minority shareholders' equity would be reduced. The Brenton family control would be increased to about 75 per cent and the minority shareholders' interest correspondingly decreased. Governor Mitchell stated that this was not an arm's-length transaction, but one that was tied to the Brenton family interests. While he recognized that there was nothing in the record to indicate that the Brenton family would be receiving through the exchange of stock a premium that was excessive, he had some reservation about approving this application without more information on the market price of stocks in Iowa.

Following Governor Mitchell's remarks, there was general discussion by the Board and staff with respect to the points raised by Governor Mitchell, during which it was indicated that it would be difficult to determine the fair market value of the bank stocks. It was suggested, however, that it would be desirable for the staff to investigate the feasibility of preparing an index of the selling prices of bank stocks for future reference. In this connection, Governors Mills and Robertson commented on the long and constructive role played by the Brenton family in Iowa banking and stated reasons why, in their opinion, it would be appropriate for the Board to approve the application

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even though statistical data of the type mentioned by Governor Mitchell were not available at this time.

At the conclusion of the discussion, the application was approved unanimously, Governor Mitchell's reservations having been noted. It was understood that the Legal Division would draft an order and supporting statement for the Board's consideration.

Governor Robertson commented that in future cases it would be worthwhile to have the bank examiners develop adequate information along the lines of premiums paid for bank stock as well as any other factors that might suggest a conflict of interest.

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

Salaries of Reserve Bank officers. Governor Mitchell reported that meetings had been held with most of the Reserve Bank Presidents by the Committee on Organization, Compensation, and Building Plans regarding officer salary proposals for 1963. None of the Presidents had indicated dissatisfaction with the general terms of the recent actions taken by the Board, and he thought that most of their final recommendations would come in in line with the revised guidelines that had been agreed upon.

Coin shortage. Governor Mitchell reported on word that he had received from the Chicago District indicating a serious shortage of coin in that area and a proposal of Jewel Tea Company to prepare supplies of scrip that might be used as a substitute if the coin shortage were not relieved.

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Contract for architectural services. Governor Shepardson reported that, in accordance with the authorization at the meetings of the Board on September 12 and September 27, 1962, there had been developed a form of contract with the firm of Harbeson Hough Livingston & Larson, Philadelphia, Pennsylvania, for architectural services in connection with the proposed annex to the Board's building. He reviewed briefly the terms of the contract, stating that it conformed with standard practices and with provisions of the previous contract insofar as they continued to be applicable. He also stated, in response to questions, that this contract was concerned with the terms for architectural services and did not go into the question of building details, although there had been some general discussion with Mr. Harbeson of the architectural firm as to the size and type of building. Governor Shepardson also said that he had in mind the desirability of an appropriate staff committee to assist in developing ideas for the building. He then inquired whether the Board wished to have copies of the contract for architectural services circulated for Board approval.

Governor Mitchell stated that while he was not concerned with the contract for architectural services as such, it seemed to him that at the outset it would be advisable to have discussions of the proposed annex and the features that might go into it in order that the architect could be given a fairly definite idea of what the Board

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desired and what it didn't desire. It was his view that suggestions should be obtained from the staff as well as from the members of the Board.

Governor Robertson stated that he concurred with the suggestions of Governor Mitchell, although he thought the completion of the contract for architectural services appropriately could come before individuals were asked to put down their specific ideas as to features of the building.

At the conclusion of the discussion, Governor Shepardson was authorized to proceed with the final details of the contract for architectural services with the understanding that when the contract was in a form satisfactory to Governor Shepardson the Secretary was authorized to execute it on behalf of the Board. It was also understood that Governor Shepardson would report subsequently on his suggestions for the procedure to be followed in developing detailed plans for the annex building.

The meeting then adjourned.

Secretary's Notes: Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson approved on behalf of the Board on November 1, 1962, the following actions relating to the Board's staff:

Appointment

Christine Pierce as Assistant Legal File Clerk in the Legal Division, with basic annual salary at the rate of \$4,390, effective the date of entrance upon duty.

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Salary increase

Rita D. Brinley, Secretary, Division of International Finance, from \$5,525 to \$5,885 per annum, effective November 11, 1962.

Transfer

Kay M. Bulow, from the position of Clerk-Typist in the Division of Personnel Administration to the position of Clerk-Typist in the Division of International Finance, with no change in basic annual salary at the rate of \$3,925, effective November 11, 1962.

Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson today approved on behalf of the Board the following actions relating to the Board's staff:

Appointment

Helen B. Junz as Economist, Division of International Finance, with basic annual salary at the rate of \$11,150, effective the date of entrance upon duty.

Acceptance of resignations

Daniel J. Edwards, Economist, Division of Research and Statistics, effective at the close of business November 10, 1962.

Polly Ann Yowell, Statistical Clerk, Division of Research and Statistics, effective at the close of business November 9, 1962.


Secretary

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

Item No. 1
11/2/62



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 2, 1962

Board of Directors,
Farmers and Merchants Bank
of Lawrenceville,
Lawrenceville, Virginia.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by Farmers and Merchants Bank of Lawrenceville, in Brodnax, Virginia, provided the branch is established within one year from the date of this letter.

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
11/2/62



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 2, 1962

Board of Directors,
The Citizens State Bank of Clare,
Clare, Michigan.

Gentlemen:

This refers to your request for permission, under applicable provisions of your condition of membership numbered 1, to exercise fiduciary powers.

Following consideration of the information submitted, the Board of Governors of the Federal Reserve System grants permission to The Citizens State Bank of Clare to exercise the fiduciary powers now or hereafter authorized by its charter and the laws of the State of Michigan.

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
11/2/62



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 2, 1962

Board of Directors,
First Bank and Trust Company,
Cairo, Illinois.

Gentlemen:

The Federal Reserve Bank of St. Louis has forwarded to the Board of Governors a letter dated October 9, 1962, signed by President Emerson, together with the accompanying resolution dated October 9, 1962, signifying your intention to withdraw from membership in the Federal Reserve System and requesting waiver of the six months' notice of such withdrawal.

The Board of Governors waives the requirement of six months' notice of withdrawal. Under the provisions of Section 208.10(c) of the Board's Regulation H, your institution may accomplish termination of its membership at any time within eight months from the date that notice of intention to withdraw from membership was given. Upon surrender to the Federal Reserve Bank of St. Louis of the Federal Reserve stock issued to your institution, such stock will be cancelled and appropriate refund will be made thereon.

It is requested that the certificate of membership be returned to the Federal Reserve Bank of St. Louis.

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
11/2/62



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 2, 1962

Honorable Erle Cocke, Sr., Chairman,
Federal Deposit Insurance Corporation,
Washington 25, D. C.

Dear Mr. Cocke:

Reference is made to your letter of October 17, 1962, concerning the application of First Bank and Trust Company, Cairo, Illinois, for continuance of deposit insurance after withdrawal from membership in the Federal Reserve System.

No corrective programs which the Board of Governors believes should be incorporated as conditions to the continuance of deposit insurance have been urged upon or agreed to by the bank.

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. 5
11/2/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



November 2, 1962

Board of Directors,
Security State Bank,
Hartley, Iowa.

Gentlemen:

This refers to your request for permission, under applicable provisions of your condition of membership numbered 1, to act in a specific fiduciary capacity.

Following consideration of the information submitted, the Board of Governors of the Federal Reserve System grants permission to Security State Bank to act as trustee for Mrs. Anna Gruhn under a prepaid burial agreement, with the understanding that your bank will not accept any other fiduciary appointments without first obtaining the permission of the Board.

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. 6
11/2/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 2, 1962.



Mr. Herbert V. Prochnow, Secretary,
Federal Advisory Council,
c/o The First National Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Prochnow:

The Board suggests the following topics for inclusion on the agenda for the meeting of the Federal Advisory Council to be held on November 19, 1962, and for discussion at the joint meeting of the Council and the Board on November 20:

1. What are the observations of the Council regarding (a) recent domestic economic developments, and (b) the outlook for the remainder of this year and the first part of 1963?
2. Has the Council seen indications of significant increase in consumer or business inventory buying or of price mark-ups as a result of the recent period of international tension? Are businesses tending to increase or reduce plans for fixed capital investment because of this situation?
3. In the light of present circumstances, what are the Council's views with respect to the advisability of substantial tax reduction?
4. What are the impressions of the Council with respect to the underlying strength of real estate markets and construction activity? Does the Council anticipate that the revaluation of stock market prices this year will be followed by a similar revaluation of real property values?
5. What are the prospects for loan demand at banks during the next several months, including the demand for real estate and consumer loans?
6. What are the Council's views regarding the adequacy and trend of bank liquidity?

Mr. Herbert V. Prochnow

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7. How does the Council appraise public reaction to latest U. S. balance of payments developments?

8. What are the views of the Council with respect to the impact of monetary and credit policy under current conditions?

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

Item No. 7
11/2/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



November 2, 1962

Mr. Malcolm Bryan, President,
Federal Reserve Bank of Atlanta,
Atlanta 3, Georgia.

Dear Mr. Bryan:

This refers to the proposed purchase of property adjoining the Birmingham Branch building, as described in Mr. Patterson's letter of October 18, 1962.

The Board will interpose no objection to the Bank's acquisition of the proposed property and authorizes its purchase at a cost not to exceed \$60,000.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.