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Minutes for January 23, 1963

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 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 Wednesday, January 23, 1963. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Balderston, Vice Chairman
Mr. Robertson
Mr. Shepardson
Mr. Mitchell

Mr. Sherman, Secretary
Miss Carmichael, Assistant Secretary
Mr. Young, Adviser to the Board and Director, Division of International Finance
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Noyes, Director, Division of Research and Statistics
Mr. Solomon, Director, Division of Examinations
Mr. Connell, Controller
Mr. Shay, Assistant General Counsel
Mr. Brill, Adviser, Division of Research and Statistics
Mr. Goodman, Assistant Director, Division of Examinations
Mr. Smith, Assistant Director, Division of Examinations
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Sprecher, Assistant Director, Division of Personnel Administration
Mr. Bakke, Senior Attorney, Legal Division
Mr. Potter, Senior Attorney, Legal Division
Mr. Doyle, Attorney, Legal Division
Mr. Poundstone, Review Examiner, Division of Examinations
Mr. Reynolds, Chief, Special Studies and Operations Section, Division of International Finance
Mr. Maroni, Senior Economist, Division of International Finance

Report on competitive factors (Utica-Dolgeville, New York).

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 First National Bank of Dolgeville, Dolgeville, New York, into The Oneida National Bank and Trust Company of Central New York, Utica, New York. As drafted, the conclusion of the report would indicate that the proposed merger would eliminate the small amount of competition existing between the two institutions. It would state further, while the proposed merger might by itself have little effect on the present competitive situation of other banks in the two-county area concerned, the concentration of banking resources in that area was already such that any increase therein, such as this merger would effect, must be viewed adversely from the standpoint of banking competition.

Prior to the meeting, Governor Shepardson had raised a question regarding the proposed conclusion of the report and had asked whether the Division of Examinations could verify statements in the report of the Federal Reserve Bank of New York to the effect that the proposed merger would eliminate a small unaggressive independent bank that had been unable to acquire new business or even retain the business it had. The Reserve Bank report had stated also that this bank's record of poor earnings, declining deposits, and unsatisfactory management indicated that the bank was not competitive.

If this were true, Governor Shepardson said, he felt that the conclusion of the proposed report to the Comptroller of the Currency was unduly harsh. If, as the New York Reserve Bank had suggested, First

National of Dolgeville was a noncompetitive bank, he believed that this should be reflected more clearly in the conclusion.

Mr. Leavitt commented on the information furnished by the New York Reserve Bank and suggested a substitute conclusion for the Board's report.

During the discussion that followed, Governor Robertson referred to the importance of having accurate information covering any statements included in competitive factor reports.

It was then agreed that the staff would obtain additional information regarding the operations of The First National Bank of Dolgeville, after which the proposed report would be considered further by the Board.

Mr. Leavitt then withdrew from the meeting.

Retail credit statistics. Distribution had been made of a memorandum from Mr. Noyes dated January 21, 1963, recommending that a survey be undertaken for the purpose of reviewing retail accounting practices, techniques for financing consumer receivables, and the extent to which some of the newer types of retail credit plans had gained acceptance in the industry. It was pointed out in the memorandum that information in these areas was particularly needed in view of recent institutional developments in the retail credit industry and problems associated with making meaningful classifications of credit under the new option-type credit plans.

The proposed survey would involve interviews in March 1963 by Federal Reserve Bank staffs with selected large retail outlets throughout the country. Plans for the survey had been developed and pretested by the System Committee on Current Reporting Series; they had been considered and approved by a majority of the System Research Advisory Committee; and the Presidents' Conference Subcommittee on Research and Statistics had recommended approval of the survey. A questionnaire form and a document describing the survey in detail were attached to the memorandum.

After comments by Mr. Noyes, and discussion based thereon, unanimous approval was given to the proposed survey.

Messrs. Noyes and Brill then withdrew from the meeting.

Gold loan to Colombia. Mr. Young reported that the Federal Reserve Bank of New York had received a request from Banco de la Republica de Colombia for a gold loan of $30 million for a term of 180 days. The directors of the New York Reserve Bank had not acted on the request, but Mr. Young had been asked to determine whether the Board would be favorably inclined.

The Colombian bank had indicated that the loan was needed primarily for seasonal financing of the country's coffee exports. This type of financing, Mr. Maroni pointed out, was really domestic financing and did not fall within the criteria included in the statement of policy on gold loans approved by the Board on December 6, 1955. However, the real need for financing in Colombia was to lend temporary support to the financial stabilization program recently adopted by Colombia in cooperation with the International Monetary Fund. The program in Colombia included restrictive measures of monetary policy put into effect during the past six weeks, fiscal measures, some of which were still pending, and a 25 per cent devaluation of the official exchange rate.

Mr. Maroni went on to say that some uncertainty had arisen in Colombia with respect to fiscal performance. Tax measures were pending, but there was a question as to how soon or in what form they would be approved. Moreover, the government had postponed the effective date of increases in the price of gasoline, bus fares, and other transportation rates in view of a call for a general strike by the labor confederations and riots in some urban centers. The increased rates were scheduled to go into effect February 1, after the expected passage of a law granting wage increases. Current conditions in Colombia had weakened the confidence of the people and led to a run on the peso during the past week, severely straining the official position in view of the policy to support the exchange rate in the free market. On January 21, 1963, in order to enable the Colombian authorities to continue this policy, the International Monetary Fund had agreed to increase the amount that Colombia might draw from the Fund in the early months of the stand-by period.

Mr. Maroni stated further that the staff of the Fund continued to believe that the new official exchange rate was a realistic one and to consider it essential that confidence in the viability of the official rate be firmly established in the early weeks of the program. This would require that the spread between the official and free exchange rates remain relatively small and that the extent of the official support of the free rate not become general knowledge. For these reasons, Mr. Maroni said, it was important that the international reserve position at the end of January, the next statement date, not show the deterioration that had occurred. A loan from the Federal Reserve System before the end of January would be entirely consistent with the objectives that the Fund was pursuing in Colombia, and such a loan would appear to fall within the criteria contained in the 1955 policy statement on gold loans. Members of the staff of the Fund and of the State Department had indicated that they would favor a loan to Colombia at this time.

Mr. Young mentioned that Mr. Coombs, Vice President of the Federal Reserve Bank of New York, had expressed the hope that the System could over a period of time withdraw from the business of making gold loans. In circumstances such as this, the New York Bank would have preferred that Colombia work out some other arrangement for securing a loan. For example, there might be the possibility of a gold swap with the Bank for International Settlements. This would be less expensive to Colombia, but it would not meet the window-dressing need of the country at this time.

During the course of discussion, it was pointed out that the financial position of Colombia was stronger now than a year ago, when the System had granted gold loans to the country.

Mr. Young then commented further on the proposed loan, and concluded by saying that in the light of all the circumstances, including advice from the State Department and the Fund that the loan would be regarded with favor, he thought the System would be justified in complying with the loan request.

At the end of the discussion Chairman Martin suggested that Mr. Young be authorized to advise the New York Reserve Bank that, if the Bank's Board of Directors should approve the $30 million loan, the Board of Governors would be prepared to approve it also when the matter was presented formally. No objection being expressed to the suggested procedure, it was understood that Mr. Young would advise the New York Reserve Bank along the lines indicated.

Mr. Maroni then withdrew from the meeting.

Regulation K. Pursuant to the understanding at the meeting of the Board on January 22, 1963, there had been distributed later that day a memorandum from Mr. Goodman transmitting a draft of Regulation K, Corporations Doing Foreign Banking or Other Foreign Financing Under the Federal Reserve Act, which had been revised to reflect suggestions made at that meeting.

Mr. Goodman summarized the revisions that had been made in portions of the regulation considered at the January 22 meeting. During the discussion that ensued, a number of other suggestions for changes were advanced.

In connection with the consideration of appropriate language in the portion of the regulation covering the establishment of foreign branches, Mr. Shay mentioned some of the problems involved in revising a regulation as complicated as Regulation K. It was his impression that in its current consideration of the regulation the Board was thinking in terms of establishing a general format. After that had been done, it was his hope that there would be an opportunity for the Board's legal staff to review carefully the entire regulation before it was approved for publication in the Federal Register for comments.

Along this line, Governor Mitchell expressed the hope that the Legal Division, in making such a review, would bear in mind the attempt that had been made to streamline Regulation K.

Consideration then turned to the section covering investments in stock of other corporations. Following a description by Mr. Goodman of the proposed changes, Governor Mitchell commented on the basic reasons for them. In his remarks he mentioned that an effort had been made to get away from granting general consents to individual corporations to purchase stock. It was proposed instead to include in the regulation the basic provisions of existing general consents, which would then serve as criteria for all Edge Act corporations. Such corporations would not be required to have the Board's approval for stock investments except in those instances where there was doubt as to the desirability or propriety of such investments.

In the ensuing discussion of the proposed revisions in the section, a number of changes were suggested. At one point Governor Mitchell referred to a memorandum that Mr. Furth of the Division of International Finance had prepared on the subject of equity investments of Edge Act corporations and the Board's responsibilities in connection therewith.

At the conclusion of the discussion it was agreed that a clean draft of the section on investment in stock of other corporations would be prepared and distributed, together with the memorandum by Mr. Furth to which Governor Mitchell had referred.

Request of Trans-Nebraska Co. (Item No. 1). Prior to the meeting there had been distributed a memorandum from the Legal Division dated January 23, 1963, regarding a request from Counsel for Trans-Nebraska Co., Lincoln, Nebraska, for a three-day extension of time for filing exceptions to the Report and Recommended Decision of the Hearing Examiner in connection with the October 2-5, 1962, hearing on the application of Trans-Nebraska Co. to acquire shares of three banks. Copies of the Report and Recommended Decision had been served on the parties to the proceeding on January 9, 1963, and under the Board's

Rules of Procedure 15 days were allowed within which exceptions thereto might be filed.

A telegram from Counsel for Trans-Nebraska Co. stated that the exceptions and brief had been mailed to the Board on January 22 and the extension of time was requested in view of the present blizzard conditions in Nebraska, which might prevent delivery of the documents by January 24, the date on which they were due.

It was recommended in the memorandum that the request be granted, and a draft of proposed telegram to that effect was submitted.

There being no objection, the telegram was approved unanimously. A copy is attached as Item No. 1.

The meeting then adjourned.

Secretary

TELEGRAM
BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 1
1/23/63

January 23, 1963

Flavel A. Wright, Esq.,
Suite 300, Lincoln Building,
Lincoln, Nebraska.

Board of Governors has granted your request, filed by telegram dated January 22, 1963, for three-day extension in date for filing Exceptions to Hearing Examiner's Report in Docket No. BHC-66, because of uncertainty of mail delivery due to weather conditions.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.