

Minutes for February 7, 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

Gov. Mills

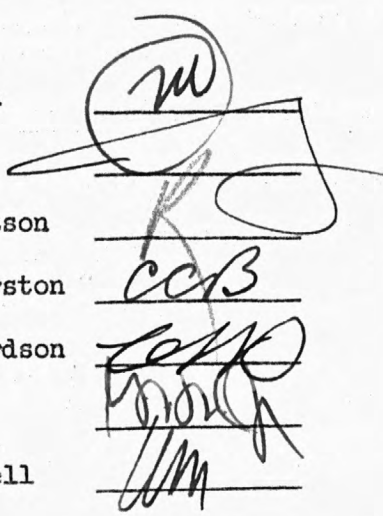
Gov. Robertson

Gov. Balderston

Gov. Shepardson

Gov. King

Gov. Mitchell

Handwritten initials and signatures corresponding to the list of board members. The initials are: a circled 'M' for Martin, a signature for Mills, a signature for Robertson, 'CCB' for Balderston, a signature for Shepardson, a signature for King, and a signature for Mitchell.

Minutes of the Board of Governors of the Federal Reserve System on Thursday, February 7, 1963. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Fauver, Assistant to the Board
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Hexter, Assistant General Counsel
Mr. Shay, Assistant General Counsel
Mr. Daniels, Assistant Director, Division of Bank Operations
Mr. Kiley, Assistant Director, Division of Bank Operations
Mr. Leavitt, Assistant Director, Division of Examinations
Miss Hart, Senior Attorney, Legal Division
Mr. Ring, Technical Assistant, Division of Bank Operations
Mr. Sanford, Review Examiner, Division of Examinations

Circulated or distributed 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 Federal Reserve Bank of New York interposing no objection to the Bank's foreign travel program for 1963.

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Item No.

Telegram to the Federal Reserve Bank of New York interposing no objection to a proposal to acquire electronic check processing equipment for the Buffalo Branch.

2

Letter to The Peoples Savings Bank, New Knoxville, Ohio, approving an extension of time to withdraw from membership in the Federal Reserve System.

3

Letter to Dupo State Savings Bank, Dupo, Illinois, approving an investment in bank premises.

4

Letter to the Federal Deposit Insurance Corporation regarding the application of The First State Bank of Bremond, Bremond, Texas, for continuation of deposit insurance after withdrawal from membership in the Federal Reserve System.

5

Letter to The First State Bank of Bremond, Bremond, Texas, waiving the requirement of six-months' notice of withdrawal from membership in the Federal Reserve System.

6

Letter to The Chase Manhattan Bank, New York, New York, approving the establishment of a branch at 75 West Merrick Road, Freeport.

7

Letter to Jasper County Savings Bank, Newton, Iowa, approving the establishment of a branch in the Newton Shopping Center.

8

Letters to Wells Fargo Bank, San Francisco, California, approving the establishment of branches (1) in an unincorporated area of Sacramento County, and (2) in Oakdale.

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Letter to the Presidents of all Federal Reserve Banks and to all Federal Reserve Agents regarding a proposed amendment of the "Plan for Securing Federal Reserve Notes by Pledge of Participations (Undivided Interests) in Direct Obligations of the United States in System Open Market Account."

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Report on competitive factors (Smithfield-Asheville, North Carolina). There had been distributed a draft of report to the Federal Deposit Insurance Corporation regarding the competitive factors involved in the proposed merger of Carolina Industrial Bank, Asheville, North Carolina, into First-Citizens Bank & Trust Company, Smithfield, North Carolina.

In discussion, a minor change in the proposed conclusion was suggested and agreed upon. The remaining question involved whether to include in the body of the report a paragraph pointing out that about half of First-Citizens' branches were nonpar outlets; that through the collection of exchange charges at such branches the bank had available to it a source of income that was not available to three of the Asheville banks; and that First-Citizens thus would have a competitive advantage. The views of the Board members on this point were mixed. Governor Mills expressed doubt as to the wisdom of including such a paragraph, pointing out that the conclusion of the report would not be changed and that the effect of referring to the nonpar situation would be principally to raise with the Federal Deposit Insurance Corporation an issue that had over the years been a subject of debate between that Corporation and the Board. Governor Shepardson also expressed some reservations, on the basis that it seemed doubtful whether anything would be accomplished and that the subject of nonpar banking deserved more vigorous treatment on a broader scale. Other members of the Board, though indicating that they had no

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particularly strong feeling on the question, expressed the view that reference to the subject on occasions of this kind might have some advantage. They also felt that the inclusion of a paragraph along the lines suggested would not be inappropriate within the context of the discussion in the report concerning the effects of the proposed merger on other banking institutions. At the conclusion of the discussion, it was the consensus that the proposed paragraph should be included in the report, subject to certain editorial changes that were mentioned.

Thereupon, the report was approved for transmittal to the Federal Deposit Insurance Corporation in a form in which the conclusion read as follows:

First-Citizens Bank & Trust Company and Carolina Industrial Bank serve different areas, and there is virtually no competition between these two banks. This proposed merger would not significantly alter First-Citizens competitive capacity in relation to other large banks in the State; however, the one remaining local bank in Asheville might be adversely affected as it would be exposed to the direct competitive capabilities of an additional large bank. Also, the proposed merger represents the continuance of a trend toward concentration of banking resources in North Carolina.

Reserve Bank budgetary procedure (Item No. 12). Pursuant to the discussion at the meeting of the Board on December 19, 1962, there had been distributed a memorandum from Mr. Farrell dated February 6, 1963, submitting a proposed letter to the Federal Reserve Banks that would allow the Banks at their option to follow a revised procedure in the preparation of their budgets. The Board's letter of July 13, 1962, had contained a provision that the six-month budget estimates of

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the Reserve Banks were to be compared with the similar period of the previous year. However, experience with the budgets for the first half of 1963 revealed that much of the material submitted pertained to changes that had already occurred or were expected to occur between the close of the base period and the beginning of the budget period. This suggested that the budgets could be made less complicated and more indicative of prospective developments if they were compared with the current rate of expenditures. Informal discussions with the Reserve Banks showed that some were favorable to making a change at this time while others had reservations. Also, there were various ideas as to how to determine the current rate of expenditures for the purpose of budget comparisons. The proposed letter would state that if any Reserve Bank desired to experiment with current rate comparisons the Board would be pleased to receive its budget for the second half of 1963 on such basis, with the current rate of expenditures determined by whatever method the Bank considered most appropriate. If this was done, however, the Bank was requested to show, in addition, actual expenses for the second half of 1962 in order that comparative figures might be obtained for the System as a whole on a uniform basis.

After Mr. Farrell had commented on the background of the matter and the reasons why the proposed letter had been drafted in the form in which it was submitted to the Board, there followed a period of discussion during which Mr. Farrell responded to a series of questions by Governor Shepardson with respect to whether the procedure

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whereby the Reserve Banks were required to submit their budgets on a six-month basis resulted in sufficient advantages to justify the procedure. In raising these questions, Governor Shepardson indicated that he was not recommending immediate reversion to the preparation of Reserve Bank budgets on an annual basis; the procedure for preparation of the budgets semiannually had only recently been placed in effect. He felt, however, that the matter should receive continued study with a view to determining whether the current procedure was warranted.

There was general agreement that the requirement for preparation of the budgets on a semiannual basis should continue to be studied in the light of experience. In this connection, Governor Mitchell expressed the view, for reasons stated, that preparation of the budgets on a semiannual basis not only produced more realistic projections but also resulted in a net saving of cost to the Reserve Banks.

At the conclusion of the discussion, the proposed letter to the Federal Reserve Banks was approved unanimously. A copy is attached as Item No. 12.

Messrs. Farrell, Daniels, and Kiley then withdrew from the meeting.

Application of Warren Bank (Item No. 13). At the meeting of the Board on February 5, 1963, consideration had been given to an application by Warren Bank, Warren, Michigan, to establish a branch at Twelve Mile and Dequindre Roads. It had been understood, after consideration of the matter, that representatives of the Division of Examinations

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would talk by telephone with the Michigan State Bank Commissioner concerning this application in the light of the applicant bank's condition, management, and capital structure. The results of the telephone conversation were reported in a memorandum from the Division dated February 6, 1963, which indicated in substance that although Commissioner Slay entertained some reservations about Warren Bank's management and condition, he had approved the establishment of the proposed branch because of certain corrective steps that were being taken, including a moderate capital improvement program, and principally because of the need of the town of Warren for additional banking facilities. In this connection, it was noted that under Michigan law the applicant was the only bank that could establish additional offices in the rapidly growing town of Warren, which contained an area of about 36 square miles. The Commissioner also advised that he was opposing the granting of a national bank charter to a group seeking to establish a new bank outside the town of Warren but close to the site of Warren Bank's proposed branch.

At the request of the Board, Mr. Solomon reviewed the information that had been developed in the telephone conversation with Commissioner Slay, indicating that the Commissioner recognized the applicant bank's deficiencies and probably would not be too greatly distressed if the Board should deny the application. The Commissioner's approval reflected basically his concern about the need for additional banking facilities in the area, on which point there was general agreement.

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Mr. Solomon then reviewed alternatives that appeared to be available to the Board, including denial of the application, approval of the application, approval with an admonition concerning the need for additional capital, or approval subject to a condition that the branch would not be opened until a specified amount of additional capital had been provided. He indicated that the Division of Examinations, which originally recommended denial, now leaned more toward a qualified approval.

As the discussion proceeded, the circumstances surrounding the application were explored in some detail and reasons were given for and against the several alternative courses of action that Mr. Solomon had outlined. Governor Robertson suggested, as an additional possibility, denying the application with an indication to the applicant bank that the Board would be willing to reconsider the matter if and when the bank furnished evidence that a program to provide adequate capital had been instituted.

Mr. Leavitt then mentioned that Commissioner Slay had suggested that the Board, before reaching a final decision on the application, might want to arrange for representatives of Warren Bank to come to Washington for a full discussion of the factors that were involved in consideration of the application, including the bank's capital position. There was general agreement on the part of the Board members that such a procedure would be advisable. Accordingly, it was understood that arrangements would be made for representatives of the applicant bank

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to meet with representatives of the Division of Examinations, following which the branch application would be considered further by the Board.

Unanimous approval then was given to a letter to Warren Bank, which had been circulated to the Board, approving an investment in bank premises. A copy of the letter is attached as Item No. 13.

Application of Peoples Trust Company of Bergen County. There had been distributed to the Board memoranda from the Division of Examinations and the Legal Division dated January 30 and February 6, 1963, respectively, together with other pertinent papers relating to an application by Peoples Trust Company of Bergen County, Hackensack, New Jersey, for permission to merge with The First National Bank of Wyckoff, Wyckoff, New Jersey. The recommendation of the Division of Examinations was favorable. The memorandum of the Legal Division dealt with a complaint from an individual who stated that she was a stockholder in the Hackensack bank. It was the Division's conclusion that the allegations did not indicate a need for the Board to order a hearing or an oral presentation regarding the merger proposal.

The basis for approval of the proposed merger, as suggested in the memorandum from the Division of Examinations, was as follows:

The growing Wyckoff area would benefit by the proposed merger as needed broader banking services would be made available. A relatively small loan portfolio composed preponderantly of real estate mortgage loans, the absence of construction loans, trust powers with no trust accounts, and the admitted inability to deal with changing conditions indicate that the management of First National does not possess sufficient depth to properly service

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a growing community. In this instance, added services cannot be extended to Wyckoff by de novo branches as First National has "office protection" under New Jersey law.

The amount of competition which would be eliminated is negligible. Currently, there are six banking offices encompassing Wyckoff and all are within 5 miles of First National. Four of these offices are branches of two Ridgewood banks with combined IPC deposits in excess of \$80 million. These offices afford Wyckoff residents with ample banking alternatives. Although Peoples Trust is the largest bank in Bergen County, its relative size, both as to deposits and number of banking offices, is not sufficiently large to place it in a dominant position. Also, banking resources in Bergen County are less concentrated than those in contiguous counties, and in which there are a number of banks larger than Peoples Trust which actively solicit business in its area.

At the request of the Board, Mr. Leavitt commented on the application, his remarks being based on the memorandum from the Division of Examinations. Mr. Leavitt also responded to a number of questions, relating principally to the provisions of New Jersey law that afforded "office protection" to First National Bank of Wyckoff. This meant, in effect, that de novo branches could not be established by other banks in that town.

The members of the Board then expressed their views beginning with Governor Mills, who stated that he would approve the application for the reasons cited by the Division of Examinations. Although one alternative source of banking services would be eliminated, the northern New Jersey area had always appeared to him to present special circumstances. Large borrowers had access to New York City banks; smaller borrowers had access also to numerous New Jersey banks, including banks of substantial size in some cities.

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Governor Robertson stated that he would deny the application. Turning to the factors cited in the basis for approval suggested by the Division of Examinations, he suggested that they were not well substantiated. He saw nothing in the file that in his opinion provided a basis for stating that there was a need for broader banking services in Wyckoff; in fact, such a statement seemed at odds with other statements found in the second paragraph of the basis for approval. As to the management of the Wyckoff bank, it appeared from comments in the most recent examination report of the bank that management was presently satisfactory and that it had been strengthened for the future by the employment in 1961 of an additional experienced officer. He did not agree with the statement that there would be no significant elimination of competition by virtue of the merger, for it appeared that Peoples Trust Company had been obtaining a substantial volume of loans and deposits from the Wyckoff area. As to earnings, the experience of the Wyckoff bank had been favorable. Peoples Trust Company was the largest bank in the area, and after the merger would hold 20 per cent of total deposits in Bergen County; a substantial premium was being offered by it for the stock of the Wyckoff bank. In summary, Governor Robertson found no basis for approval that was sufficient in his judgment to outweigh the elimination of competition between the two institutions.

Governor Shepardson referred to certain types of business that First National of Wyckoff reportedly was not prepared to accommodate. He saw this as an indication that an office of the larger bank in

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Wyckoff would at least contribute to the convenience, if not the needs, of the community. In terms of the broader area under consideration, he did not see that the proposed merger would reduce competition. Although there might be some elimination of competition between the two institutions, there were a large number of accessible sources of banking facilities.

Governor Mitchell indicated that although he was not particularly impressed by the arguments advanced in favor of the proposed merger, neither did he feel that the reasons for rejecting the application were too persuasive. It appeared that the owners of the Wyckoff bank wanted to get out of the banking business, and on balance he would approve the application.

Governor Balderston indicated that his reaction was similar to that of Governor Mitchell. In evaluating the size of the Wyckoff bank, he thought that consideration must be given to the territory in which it was located. A bank of this size in the New York-Northern New Jersey area was smaller in a relative sense than it would be in other parts of the country. This would seem to have a bearing on its ability to attract and hold competent management.

Chairman Martin stated that he concurred in the recommendation of the Division of Examinations.

Accordingly, the application was approved, Governor Robertson dissenting, with the understanding that an order and majority statement would be prepared for the Board's consideration and that a statement supporting the dissenting vote of Governor Robertson also would be prepared.

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Travel by Mr. Reynolds. The Board authorized John E. Reynolds, Chief, Special Studies and Operations Section, Division of International Finance, to travel to Paris at Board expense to attend the meeting of Working Party 2 of the Economic Policy Committee of the Organization for Economic Cooperation and Development to be held on February 19 and 20, 1963.

The meeting then adjourned.

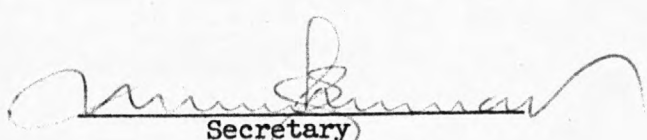
Secretary's Note: Governor Shepardson today approved on behalf of the Board the following items:

Telegram to the Federal Reserve Bank of Minneapolis (attached Item No. 14) approving the appointment of Marion D. Ellis as assistant examiner.

Memoranda from appropriate individuals concerned recommending increases in the basic annual salaries of the following persons on the Board's staff, effective February 17, 1963:

Carol Lee Jones, Secretary, Office of the Secretary, from \$4,565 to \$4,725 per annum.

Jeanne A. Chambers, Secretary, Division of Research and Statistics, from \$4,725 to \$4,885 per annum.


Secretary

Item No. 1
2/7/63

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



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 7, 1963

Mr. Alfred Hayes,
President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Hayes:

The memorandum dated January 24, 1963 outlining the foreign travel program of the Federal Reserve Bank of New York for the year 1963 has been brought to the attention of the Board of Governors.

The Board has no objection to your proceeding with the necessary plans and understands that the proposed trips are subject to change as to country and timing according to circumstances.

Sincerely yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

T E L E G R A M
LEASED WIRE SERVICEBOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTONItem No. 2
2/7/63

February 7, 1963.

Treiber - New York

The Board interposes no objection to the proposal contained in your January 22 letter for the Buffalo Branch to rent IBM 11401 check processing equipment and an IBM 11420 system when it becomes available as a replacement, with the understanding that a purchase option clause will be included in lease arrangements for the 11420 system.

(Signed) Merritt Sherman

SHERMAN

Item No. 3

2/7/63

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



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 7, 1963

Board of Directors,
The Peoples Savings Bank,
New Knoxville, Ohio.

Gentlemen:

The Board of Governors of the Federal Reserve System extends to May 6, 1963, the time within which The Peoples Savings Bank, New Knoxville, Ohio, may withdraw from membership in the Federal Reserve System.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

Item No. 4
2/7/63

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



February 7, 1963

Board of Directors,
Dupo State Savings Bank,
Dupo, Illinois.

Gentlemen:

The Board of Governors of the Federal Reserve System approves, under the provisions of Section 24A of the Federal Reserve Act, an additional investment of \$3,500 in bank premises by Dupo State Savings Bank, Dupo, Illinois, for the purpose of improving a previously acquired lot for customer parking.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

Item No. 5
2/7/63

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



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 7, 1963

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

Dear Mr. Cocke:

Reference is made to your letter of January 15, 1963, concerning the application of The First State Bank of Bremond, Bremond, Texas, 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. 6
2/7/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 7, 1963

AIR MAIL

Board of Directors,
The First State Bank of Bremond,
Bremond, Texas.

Gentlemen:

The Federal Reserve Bank of Dallas has forwarded to the Board of Governors your letter dated January 9, 1963, together with the accompanying resolution signifying your intention to withdraw from membership in the Federal Reserve System and requesting waiver of the six months' notice of such withdrawal.

In accordance with your request, the Board of Governors waives the requirement of six-months' notice of withdrawal. Upon surrender to the Federal Reserve Bank of Dallas of the Federal Reserve Bank stock issued to your institution, such stock will be canceled and appropriate refund will be made thereon. 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 the notice of intention to withdraw from membership was given.

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

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

Item No. 7
2/7/63

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



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 7, 1963

Board of Directors,
The Chase Manhattan Bank,
New York, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch at 75 West Merrick Road, Freeport, Nassau County, New York, by The Chase Manhattan Bank, provided the branch is established within six months from the date of this letter.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

Item No. 8
2/7/63



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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 7, 1963

Board of Directors,
Jasper County Savings Bank,
Newton, Iowa.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Jasper County Savings Bank, Newton, Iowa, of a branch in the Newton Shopping Center at the southwest corner of the intersection of First Avenue East and East 17th Street, provided the branch is established within six months from the date of this letter.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

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

Item No. 9
2/7/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



February 7, 1963.

Board of Directors,
Wells Fargo Bank,
San Francisco, California.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Wells Fargo Bank, San Francisco, California, of a branch in or in the vicinity of Arden Fair Shopping Center which is at the intersection of Arden Way and Freeway #40 in an unincorporated area of Sacramento County, California, 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.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

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

Item No. 10
2/7/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 7, 1963.

Board of Directors,
Wells Fargo Bank,
San Francisco, California.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Wells Fargo Bank, San Francisco, California, of a branch in the downtown section of Oakdale, Stanislaus County, California, 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.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)



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

500
Item No. 11
2/7/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 7, 1963.

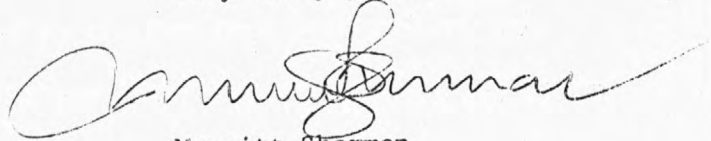
Dear Sir:

Enclosed is a draft of letter that would amend the "Plan for Securing Federal Reserve Notes by Pledge of Participations (Undivided Interests) in Direct Obligations of the United States in System Open Market Account" (Board's letter of September 4, 1943, S-683; F.R.L.S. #5827.1). The amendment would bring up to date a provision for maintaining unpledged participation. Because of growth in the System Open Market Account, the present 5 per cent margin is excessive, and, with the declining gold certificate reserves, conforming to the provision has resulted in inconvenience to several of the Banks.

The Board would appreciate receiving your views regarding the proposed change, including an indication of whether you approve.

Copies of this letter are being sent to all Federal Reserve Bank Presidents and Federal Reserve Agents.

Very truly yours,



Merritt Sherman,
Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS AND THE FEDERAL RESERVE AGENTS.

DRAFT OF LETTER TO RESERVE BANKS THAT WOULD AMEND
"PLAN FOR SECURING FEDERAL RESERVE NOTES, ETC."

The "Plan for Securing Federal Reserve Notes by Pledge of Participations (Undivided Interests) in Direct Obligations of the United States in System Open Market Account" (S-683; F.R.L.S. #5827.1) contains a provision in paragraph (2) that each Reserve Bank shall "whenever practicable" leave unpledged at least 5 per cent of its participation and "take such steps as may be practicable" to restore this margin when the unpledged portion becomes less than 5 per cent.

This provision was designed to allow for ease of transactions in securities, and the Board's files indicate that the 5 per cent margin would, at the time of its adoption, have permitted net sales from the System Account of approximately \$225 million in the course of a day's operations without resort by the New York Reserve Bank to Paragraph (7) of the Plan. At the present time, a margin of 2 per cent (in lieu of the 5 per cent prescribed by the Plan) would allow for approximately \$600 million in net sales of securities on any day, which would make it unlikely that a Reserve Bank's pledge of System Open Market Account securities would have to be disturbed by a day's transactions in the System Account (including any reallocation of the securities).

Recently, one of the Reserve Banks has had particular difficulty in conforming to the provision in paragraph (2) of the Plan and at the same time avoiding a deficiency in its reserves against

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deposits. In doing so, transfers from the Federal Reserve Agents' Fund to the Interdistrict Settlement Fund "as of" the preceding day, made to avoid a deficiency in reserves against deposits, have been followed later the same day by transfers in the opposite direction, in order to release Government securities pledged as collateral and restore the 5 per cent margin of unpledged participation.

The Board, the Presidents of the Reserve Banks, and the Federal Reserve Agents have approved amending the Plan for pledging participations in the System Open Market Account as collateral for Federal Reserve notes by substitution of the figure "2" for the figure "5" where it appears in paragraph (2) of the Plan. The change is effective on the date of this letter.

February 7, 1963.

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



Item No. 12

2/7/63

S-1863

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 7, 1963.

Dear Sir:

Among the changes in the Reserve Bank budgetary procedure set forth in the Board's letter of July 13, 1962 (S-1837), was the provision that the six-month budget estimates were to be compared with the same period one year ago. Experience with the budgets for the first half of 1963 has revealed that this procedure was not as effective as was hoped. Much of the material submitted with these budgets related to changes that had already occurred, or were expected to occur, between the close of the base period (first half of 1962) and the beginning of the budget period. Accordingly, the Board believes that budgets could be made less complicated and more revealing of prospective developments if they were compared with the current rate of expenditures, rather than with the same period of the previous year.

As you probably know, the possibility of this change in procedure was discussed informally with the various Reserve Banks and it appears that some of the Banks are in favor of making the change at this time while others have reservations. The informal discussions also indicated that there are various ideas as to how to determine the current rate of expenditures for the purpose of budget comparisons.

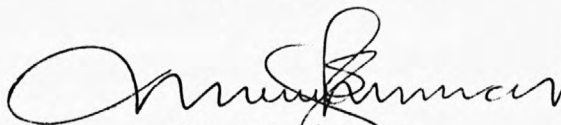
Under these circumstances, the Board is of the opinion that possibly experimentation with current rate comparisons on a voluntary basis would be helpful. Therefore, if your Bank is interested in comparing its budget with the current rate of expenditures, the Board would be pleased to receive your budget for the second half of 1963 on this basis. If you adopt this procedure--

- (1) Your current rate of expenditures may be determined by whatever method your Bank considers to be most appropriate. Please explain briefly in a statement accompanying the budget the method used for this determination.

- (2) In order that comparative figures on a uniform basis may be obtained for the System as a whole, please show in addition to the current rate of expenditures the actual expenses (by departments or functions) for the second half of 1962. However, explanations should be confined to the differences between the current rate of expenditures and the budget estimates, and should not take into account differences between actual expenses for the second half of 1962 and the budget estimates.

If for one reason or another your Bank would prefer not to adopt the current rate of expenditures comparison procedure at this time, your budget for the second half of 1963 may be prepared in the same manner as that submitted for the first half of the year.

Very truly yours,



Merritt Sherman,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Item No. 13
2/7/63

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



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 7, 1963

Board of Directors,
Warren Bank,
Warren, Michigan.

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 Warren Bank of not to exceed \$95,000 for the purpose of remodeling branch quarters. This amount includes \$75,000 representing loans to the contractor who remodeled the branch office secured by accounts receivable for work performed on the branch.

It is understood that capital stock of the bank is to be increased by the sale of not less than \$350,000 par value preferred stock and that branch premises are to be sold for approximately \$150,000 under a lease-back agreement. Proceeds of this sale are to be applied to the contractor's loan and to the book value of bank premises.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

Item No. 14
2/7/63

TELEGRAM
LEASED WIRE SERVICE

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

February 8, 1963.

MC CONNELL - MINNEAPOLIS

Relet Deming February 5, 1963, Board approves appointment of
Marion D. Ellis as assistant examiner for Federal Reserve Bank of
Minneapolis. Please advise effective date and salary rate.

It is noted Ellis is indebted to Brooklyn Center State Bank, Brooklyn
Center, Minnesota (nonmember). Accordingly, Board's approval of
appointment is given with understanding Ellis will not participate
in any examination of that bank until his indebtedness has been
liquidated.

(Signed) Elizabeth L. Carmichael

CARMICHAEL