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Minutes for February 13, 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     | <u>W</u>   |
| Gov. Mills      | <u></u>    |
| Gov. Robertson  | <u>R</u>   |
| Gov. Balderston | <u>CCB</u> |
| Gov. Shepardson | <u>SS</u>  |
| Gov. King       | <u>JK</u>  |
| Gov. Mitchell   | <u>MM</u>  |

Minutes of the Board of Governors of the Federal Reserve System on Wednesday, February 13, 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  
Mr. Kenyon, Assistant Secretary  
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. Farrell, Director, Division of Bank Operations  
Mr. Solomon, Director, Division of Examinations  
Mr. Connell, Controller  
Mr. Hexter, Assistant General Counsel  
Mr. Shay, Assistant General Counsel  
Mr. Holland, Adviser, Division of Research and Statistics  
Mr. Conkling, Assistant Director, Division of Bank Operations  
Mr. Leavitt, Assistant Director, Division of Examinations  
Mr. Bass, Assistant Controller  
Mr. Langham, Assistant Director, Division of Data Processing  
Mrs. Semia, Technical Assistant, Office of the Secretary  
Miss Hart, Senior Attorney, Legal Division

Branch application of United California Bank (Item No. 1).

There had been distributed a memorandum dated February 11, 1963, from the Division of Examinations in connection with the application of United California Bank, Los Angeles, California, for permission to establish a branch in Huntington Beach, California. Although the

2/13/63

-2-

Division recommended approval, it reviewed in the memorandum the apparent deterioration in the applicant's capital position and concurred in the suggestion of the Federal Reserve Bank of San Francisco that, if the establishment of the branch was approved by the Board, the letter conveying this decision include a comment regarding the bank's capital.

In the discussion at this meeting it was brought out that, after a special staff study based upon the bank's September 28, 1962, report of condition, the Federal Reserve Bank of San Francisco had written to the bank on December 21, 1962, commenting on its unfavorable capital position and asking for comments as to steps to be taken for improvement. On December 26, 1962, the Superintendent of Banks of California had written to United California stating that he was not in agreement with the Federal Reserve Bank's conclusions and expressing the view that an analysis of the February 13, 1962, examination report of United California indicated that capital funds at that date were in satisfactory relationship to total assets. Staff comments noted that information reflecting conditions subsequent to the February 1962 examination report suggested a further weakening of capital position.

The view was expressed that, while the establishment of the particular branch in question would in itself have no significant effect on United California's capital position, it would be undesirable to give the impression that if the Board approved the establishment of the branch it must have considered the bank's capital position satisfactory

2/13/63

at the time of the approval. In this connection, it was understood that three more branch applications by United California had been filed with the Reserve Bank. It was observed that in a letter to the San Francisco Reserve Bank dated January 22, 1963, United California had stated that Western Bancorporation, the major stockholder of United California, had just closed the sale of its majority interest in First Western Bank and Trust Company, and that completion of the transaction would place Western Bancorporation in a better position "to assist in a determination of the form and source most advantageous to the Bank and its shareholders of any capital increase that may be found desirable" as part of United California's long-range plans. It was suggested that a letter informing the bank of the Board's approval of the branch application might use the January 22 letter as a reference point and express the Board's view that a program for substantial capital improvement should be undertaken.

The application of United California Bank was thereupon approved unanimously, subject to the understanding that the letter informing the bank of such action would contain language along the lines suggested. A copy of the letter sent to the bank pursuant to this action is attached as Item No. 1.

Request for reconsideration of Hackensack Trust Company merger (Item No. 2). There had been distributed a draft of letter denying a request by Mr. Charles Ford, Montclair, New Jersey, that the

2/13/63

-4-

Board reconsider its order and statement dated January 30, 1963, approving the merger of Bank of Bogota, Bogota, New Jersey, into The Hackensack Trust Company, Hackensack, New Jersey.

After discussion, the letter was approved unanimously. A copy is attached as Item No. 2.

Mr. Leavitt and Miss Hart then withdrew.

Report of audit (Items 3 and 4). There had been distributed copies of the report by Haskins & Sells dated January 23, 1963, covering its examination of the financial statements of the Board of Governors for the year ended December 31, 1962, together with a report by that firm on the scope of its examination. There also had been distributed a memorandum from the Office of the Controller dated January 30, 1963, relating to the audit report.

There was a discussion of the assignment that might be given Haskins & Sells for reviewing during 1963 the work of the Board's field examining staff, in the light of the steps being taken with a view to consideration of the proposals made by Governor Robertson in his memorandum of December 4, 1962, for reorganization of the Board's work relating to supervision and examination of the Federal Reserve Banks. It was noted that three accounting firms - Price Waterhouse & Co., Haskins & Sells, and Arthur Andersen & Co. - had been asked to review and comment on those proposals, and it was anticipated that their replies would be available in the near future. (Several staff memoranda

2/13/63

-5-

on the subject already had been distributed.) The expectation was that when all of these comments were available for the Board's study, the Board would give further consideration to Governor Robertson's proposals and would decide whether to invite representatives of the respective public accounting firms to meet with the Board. Thereafter, a decision could be reached on what assignment it might be appropriate to give to Haskins & Sells with respect to a review during 1963 of the procedures followed in the examination of Federal Reserve Banks.

The audit report was thereupon accepted, it being understood that copies would be transmitted to Senator Robertson and Congressman Patman, Chairmen of the Senate and House Banking and Currency Committees, respectively. Copies of the transmittal letters are attached as Items 3 and 4.

Messrs. Connell and Bass then withdrew.

Record of Board policy actions. A memorandum dated February 11, 1963, from the Office of the Secretary had been distributed submitting for the Board's consideration drafts of entries for the record of Board policy actions to be published in the Annual Report for 1962.

After discussion, the 1962 policy record entries of the Board, in the form distributed but subject to such minor editorial or technical changes as might be found appropriate by the Secretary, were approved unanimously for inclusion in the Board's Annual Report.

Proposed proclamation (Item No. 5). There had been distributed copies of a letter dated February 11, 1963, from the Bureau of the Budget,

2/13/63

-6-

requesting the Board's comments on a proposed Executive proclamation entitled "Centennial of the Dual Banking System," which, the letter stated, had been prepared in the Treasury Department. The draft proclamation spoke of the approval of the National Currency Act on February 25, 1863, which led to the establishment of a system of national banks, as being "the beginning of the 'Dual Banking System' which for a century has been an important factor in the economic growth and productivity of the United States." The terms of the document provided that President Kennedy would proclaim the period from February 25, 1963, to December 31, 1963, as the Centennial of the Dual Banking System of the United States.

Mr. Hexter commented on the language of the proposed proclamation, noting that the passage of the National Currency Act (National Bank Act) had been intended to facilitate the establishment of a national banking system in place of a system of State banks. The coexistence of the national and the State banking systems was therefore not a development contemplated by the Act, and in the circumstances the proposed proclamation might be regarded as somewhat misleading. He understood that the original thinking had been to celebrate the centennial of the national banking system but, as indicated by the language of the proposed proclamation, certain developments apparently had occurred that shifted the emphasis to the existence of the dual banking system. He had received certain information, incidentally, that tended to raise some question

2/13/63

-7-

as to whether the proposed proclamation forwarded by the Budget Bureau had actually originated in the Treasury Department.

Governor Robertson expressed the opinion, for reasons stated by him, that it would be prudent for the Board not to become involved in the matter. He suggested that in replying to the Budget Bureau's request the Board state that it had no comment.

The tenor of the ensuing discussion was to the effect that, while it would seem well for the Board to avoid taking an official position, it would also seem unfortunate if the Bureau of the Budget was not given the benefit of the information outlined by Mr. Hexter concerning the National Bank Act.

At the conclusion of the discussion it was agreed that a reply would be sent to the Bureau of the Budget stating that the Board had no comment. A copy of the letter sent to the Bureau is attached as Item No. 5. It was understood, however, that Mr. Hackley would communicate informally with the General Counsel of the Bureau to call his attention to the information Mr. Hexter had presented.

Call report forms. Mr. Noyes stated that he had been informed unofficially by Mr. Daane, Deputy Under Secretary of the Treasury for Monetary Affairs, that the Comptroller of the Currency had raised with the Secretary of the Treasury the question of proceeding with the plan the Comptroller had wanted to put into operation in the spring of 1962 to eliminate, on all but year-end call reports, most of the detailed



2/13/63

-8-

information now required on the back of the national bank call report form. It was Mr. Noyes' understanding that both Mr. Daane and Mr. Roosa, Under Secretary of the Treasury for Monetary Affairs, had taken the position that the availability of such information was important to both monetary and debt management policy.

This raised the question whether the Board should reaffirm the position taken in its letter of May 2, 1962, to Mr. Saxon, a copy of which had been sent to the Secretary of the Treasury. The letter had suggested that if the report form for national banks were so condensed as to eliminate the vital information now obtained, the Board might have no alternative but to ask the national banks, pursuant to the provisions of section 11(a) of the Federal Reserve Act, to submit separate reports of condition on the same form as used by State member banks. It was suggested that Chairman Martin might want to discuss the matter informally with the Secretary of the Treasury.

Chairman Martin inquired whether any member of the Board disagreed with the position expressed previously, and Governor Mitchell responded that he believed, for reasons that he outlined, that the data obtained from the reverse side of the call report form could be better obtained by other means. At his request Messrs. Noyes and Holland described steps that were under consideration looking toward a revamping of the collection of banking statistics. A sampling technique was involved, in which was inherent the problem of persuading a relatively

2/13/63

-9-

small number of banks to take on a greater reporting burden than other banks in the interest of lessening the reporting burden on the banking system as a whole. Another problem was the existence of divergent views within the System, which made it difficult to push concertedly for early effectuation of a revised reporting system. Therefore, if the Comptroller of the Currency should persist in his plan, there might be a break in the continuity of banking statistics that were now derived from the call reports.

In further discussion, Governor Robertson asked if information was needed that was not now being obtained from the call reports. Mr. Noyes having indicated that the coverage of the call report was reasonably satisfactory, Governor Robertson questioned the advisability of giving up the information now being obtained until a different reporting system could be put into effect.

Governor Mitchell suggested that if the Comptroller could be prevailed upon to defer putting his plan into effect, that would be helpful in holding the place until the Federal Reserve could work out and announce a revised reporting program, the effect of which would be to ease the total reporting burden on the banking system.

Chairman Martin commented to the effect that he thought the Board's basic position was clear on the record. The Board felt that the information obtained from the call reports should continue to be available, either through that procedure or in some other way. The

2/13/63

-10-

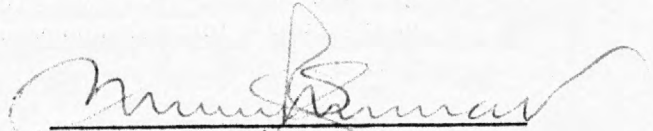
effect of the report at this meeting had been to alert the Board to a possible development that might or might not occur. It suggested, however, that the problem should be borne in mind and work should be continued on the formulation of an alternative reporting program along the lines described by Messrs. Noyes and Holland.

The meeting then adjourned.

Secretary's Note: On February 12, 1963,  
Governor Shepardson approved on behalf  
of the Board the following items:

Letter to Mr. George L. Stevens confirming arrangements for him to conduct a 24-hour course in reading improvement for members of the Board's staff as an activity of the Employee Training and Development Program, with the understanding that the Board would pay him a fee of \$40 for each participant at the completion of the course.

Memorandum from Mr. Landry, Assistant to the Secretary, recommending that a luncheon be included in the program to be arranged for a group consisting of approximately 20 insurance investment officers that was to visit the Board on April 18, 1963.

  
Secretary

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

Item No. 1  
2/13/63

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

February 13, 1963.

AIR MAIL

Board of Directors,  
United California Bank,  
Los Angeles, California.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch in the vicinity of Huntington Beach Boulevard between Edinger and Warner Avenues, Huntington Beach, California, by United California Bank, provided the branch is established within one year from the date of this letter.

In recent years and particularly during 1962 there has been considerable deterioration in the bank's capital position, with percentage increases in deposits and loans having far exceeded comparable increases in capital funds. The Board of Governors feels that capital structure of United California Bank is now considerably lower than desirable.

The letter of January 22, 1963 from Mr. Frank L. King, Chairman of your Board, to Mr. Galvin, Vice President of the Federal Reserve Bank of San Francisco, indicated that a study was being made that would take into consideration the capital requirements of United California Bank over the long range. The Board of Governors urges that the study now being made be completed as promptly as possible and that plans for substantial strengthening of the bank's capital position be expedited.

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. 2  
2/13/63BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON 25, D. C.ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

February 13, 1963



Mr. Charles Ford,  
45 North Fullerton Avenue,  
Montclair, New Jersey.

Dear Mr. Ford:

This refers to your telegram of February 9, 1963, in which you requested the Board to reconsider its Order and Statement approving the merger of Bank of Bogota, Bogota, New Jersey, into The Hackensack Trust Company, Hackensack, New Jersey, dated January 30, 1963.

As you were advised in the Board's letter of October 16, 1962, responding to your letter of October 13 and its enclosure opposing the merger and requesting to be informed when the Board scheduled a public hearing on the merger application, it is within the discretion of the Board whether a public hearing or other form of presentation of views shall be held in connection with an application for the Board's approval under the Bank Merger Act of 1960 (U.S.C., Title 12, Sec. 1828(c)). The statute itself makes no provision for hearings.

The Board's reply to you of October 16 also advised that your submission would be given appropriate attention by the Board in considering the application and in determining whether to conduct a public hearing or oral presentation in connection with the application. The Board gave careful consideration to your letter and its enclosure before determining not to conduct a public hearing or oral presentation and in deciding whether to approve or disapprove the application.

In requesting reconsideration, you referred to some of the matters mentioned in the Board's Statement. It should be understood that the statute requires the Board to weigh all the factors which Congress set forth as properly bearing upon a decision, and to reach a judgment, after balancing all of these factors, as to whether or not the merger is in the public interest.

Mr. Charles Ford

Under section 262.2(f)(6) of the Board's Rules of Procedure:

"After action by the Board on an application, the Board will not grant any request for reconsideration of its action, unless the request presents relevant facts that, for good cause shown, were not previously presented to the Board, or unless it otherwise appears to the Board that reconsideration would be appropriate." (12 CFR 262.2(f)(6))

Upon consideration of your telegram, the Board has concluded that the matters cited therein do not constitute "good cause shown" for granting reconsideration, nor does it otherwise appear to the Board appropriate to re-open the decision in this matter. Accordingly, the Board denies your request for reconsideration.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

Item No. 3  
2/13/63



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

OFFICE OF THE CHAIRMAN

February 13, 1963

The Honorable A. Willis Robertson,  
Chairman,  
Committee on Banking and Currency,  
United States Senate,  
Washington 25, D. C.

Dear Mr. Chairman:

In accordance with the practice followed for the past several years, there are enclosed copies of the reports made by the firm of public accountants that audited the accounts of the Board of Governors of the Federal Reserve System for the year ended December 31, 1962. These include (1) Financial Statements and Accountants' Opinion and (2) Report on Scope of Examination of Financial Statements.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Enclosures



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

549  
Item No. 4  
2/13/63

OFFICE OF THE CHAIRMAN

February 13, 1963

The Honorable Wright Patman,  
Chairman,  
Committee on Banking and Currency,  
House of Representatives,  
Washington 25, D. C.

Dear Mr. Chairman:

In accordance with the practice followed for the past several years, there are enclosed copies of the reports made by the firm of public accountants that audited the accounts of the Board of Governors of the Federal Reserve System for the year ended December 31, 1962. These include (1) Financial Statements and Accountants' Opinion and (2) Report on Scope of Examination of Financial Statements.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Enclosures



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

Item No. 5  
2/13/63

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

February 13, 1963

Mr. Arthur B. Focke, General Counsel,  
Bureau of the Budget,  
Executive Office of the President,  
Washington 25, D. C.

Dear Mr. Focke:

This is in response to your letter of February 11, 1963, to which was attached a copy of a proposed Executive proclamation entitled "Centennial of the Dual Banking System", which was prepared in the Treasury Department and referred to the Director of the Bureau of the Budget in accordance with the provisions of Executive Order No. 11030 of June 19, 1962.

The Board of Governors has no comments to offer regarding this matter.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

