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Minutes for May 15, 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>AM</u>
Gov. Mills	<u>[Signature]</u>
Gov. Robertson	<u>R</u>
Gov. Balderston	<u>CCB</u>
Gov. Shepardson	<u>[Signature]</u>
Gov. King	<u>[Signature]</u>
Gov. Mitchell	<u>[Signature]</u>

Minutes of the Board of Governors of the Federal Reserve System on Wednesday, May 15, 1963. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Balderston, Vice Chairman
Mr. Mills
Mr. Shepardson
Mr. King

Mr. Sherman, Secretary
Mr. Young, Adviser to the Board and Director, Division of International Finance
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. Johnson, Director, Division of Personnel Administration
Mr. Solomon, Associate Adviser, Division of Research and Statistics
Mr. Daniels, Assistant Director, Division of Bank Operations
Mr. Goodman, Assistant Director, Division of Examinations
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Mattras, General Assistant, Office of the Secretary
Mr. Doyle, Attorney, Legal Division
Mr. Poundstone, Review Examiner, Division of Examinations

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

Letter to Boston Overseas Financial Corporation, Boston, Massachusetts, amending the Board's letter of March 20, 1963, granting consent to purchase shares of the Private Development Corporation of the Philippines, Manila, Philippines.

Item No.

1

5/15/63

-2-

Item No.

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| Letter to Irving International Financing Corporation, New York, New York, amending the Board's letter of March 20, 1963, granting consent to purchase shares of the Private Development Corporation of the Philippines, Manila, Philippines. | 2 |
| Letter to the Federal Reserve Bank of Dallas regarding the classification of member banks in the Eleventh District for the purpose of electing Class A and Class B directors. | 3 |
| Letter to the Federal Reserve Bank of St. Louis approving the retention in active service of Dr. Arthur C. Brooks as the Bank's physician for an additional year. | 4 |
| Letter to Bank of Nutley, Nutley, New Jersey, approving the establishment of a branch at Kingsland Street and Darling Avenue. | 5 |
| Letter to First Bank and Trust Company of South Bend, South Bend, Indiana, approving the establishment of a branch in the vicinity of the intersection of Portage Avenue and King Street. | 6 |
| Letter to The Peoples Bank and Trust Company, Grand Haven, Michigan, approving the establishment of a branch at 1000-1013 Robbins Road. | 7 |
| Letter to Wells Fargo Bank, San Francisco, California, (1) approving the establishment of a branch in the vicinity of the intersection of Calaroga Avenue and Chanslor Boulevard, Hayward, and (2) rescinding approval of the establishment of a branch in the vicinity of West Jackson Street and Calaroga Avenue, Hayward. | 8 |

Messrs. Farrell, Johnson, Daniels, Goodman, Doyle, and Poundstone then withdrew and Mr. Dembitz, Associate Adviser, Division of Research and Statistics entered the room.

5/15/63

-3-

Report on draft legislation. There had been distributed a memorandum from the Legal Division dated May 14, 1963, regarding a request from the Bureau of the Budget for the Board's views on a preliminary draft bill "To provide for an increase in the maximum amount of insurance coverage for bank deposits and savings and loan accounts, to protect further the safety and liquidity of insured institutions, to strengthen safeguards against conflicts of interest, and for other purposes." Attached to the memorandum were copies of the draft bill and a preliminary draft of letter to the Budget Bureau.

It was noted that the Budget Bureau had requested technical assistance from the Board's staff in drafting the proposed bill and that Mr. Solomon of the Division of Examinations and Mr. Hackley attended three inter-agency meetings at the Bureau in accordance with the understanding at the Board meeting on April 26, 1963.

The draft bill would increase the limit on insurance coverage for both insured banks and insured savings and loan associations from \$10,000 to \$15,000 per account.

The present provisions of section 19 of the Federal Reserve Act requiring the Board to limit interest rates payable by member banks on time and savings deposits would be changed to place such authority on a "standby" basis. Setting of maximum rates would also require an affirmative finding that any interest rate limitation would be consistent with the Employment Act of 1946 and "required by general credit conditions or to prevent unsound competitive or other practices

5/15/63

-4-

among member banks that would endanger the safety" of such banks. Such standby authority would permit the fixing of maximum rates on a more flexible basis, including differentiation based on the nature or location of the depositor or the member bank. The Federal Deposit Insurance Corporation and the Federal Home Loan Bank Board would be vested with similar standby authority to prescribe maximum rates with respect to insured nonmember banks and insured savings and loan associations, respectively, and each of the agencies would be requested to consult with the others in reaching a determination that maximum rates should be applied.

The proposed bill would also require nonmember insured banks to maintain with the Federal Reserve Banks cash reserves on their time and savings deposits and would make available to nonmember insured banks the credit facilities of the Reserve Banks. In addition, the Board would be authorized to require both member and nonmember insured banks to maintain a liquidity position.

The bill would also require savings and loan associations and other members of the Home Loan Bank System to maintain reserve balances with the Home Loan Banks and would authorize the Federal Home Loan Bank Board to set a liquidity requirement.

Other provisions of the bill would strengthen and make applicable to all insured banks and members of the Home Loan Bank System certain provisions of present law designed to prevent conflicts of interest in dealings by financial institutions with directors, officers, and employees, public examiners, and affiliates of such institutions.

5/15/63

-5-

Mr. Hackley gave a summary of the draft bill and noted that it had been hastily prepared. The Bureau of the Budget had requested the Board's views by May 16, 1963, and Mr. Reeve of the Budget Bureau had asked Mr. Hackley to advise him as soon as possible of the Board's thinking on the matter.

Mr. Hackley then referred to Governor Balderston's recent testimony on H. R. 5130, a bill providing for an increase in the limit on insurance coverage of bank deposits and savings and loan accounts from \$10,000 to \$25,000. Governor Balderston had indicated that it was the Board's view that the proposed increase would not be in the public interest; that if any increases were appropriate, they should be small and infrequent; and that effective supervision over the institutions covered was an important prerequisite to insurance protection. Therefore, the Legal Division felt that the Board might feel warranted in not opposing the draft bill, in principle, since the bill would increase insurance coverage by \$5,000 instead of \$15,000 as previously proposed and would provide more effective supervision of the financial institutions concerned.

Mr. Hackley stated that certain provisions of the bill, such as the conflict-of-interest provisions, seemed unobjectionable and probably desirable but that the proposed reserve and liquidity requirements were questionable. The Legal Division felt that if nonmember banks were to be subject to reserve requirements only against time and savings deposits and at the same time were given access to Federal Reserve

5/15/63

-6-

discounts and advances, they would have most of the advantages of membership in the Federal Reserve System without being subject to the requirement of maintaining reserves against demand deposits, a situation that might result in the withdrawal of many large State member banks from the System. It was also noted that the President's Committee on Financial Institutions was already on record favoring the extension of reserve requirements against demand deposits to all commercial banks.

The Legal Division therefore recommended that, while adhering to its position that no increase in insurance coverage was necessary, the Board interpose no objection to the increase proposed in the draft bill in view of the small amount involved and the additional provisions for increasing the effectiveness of supervision of insured institutions, but that the Board voice objection to the proposed extension of reserve requirements that would only include the time and savings deposits of nonmember insured banks. On the latter point, the Board might want to take this occasion to urge extension of reserve requirements to demand as well as time and savings deposits of all insured banks, along with a revision of present reserve provisions to provide for a graduated reserve against demand deposits as recommended in the report of the President's Committee on Financial Institutions.

Governor Mills noted that the bill had been hastily improvised and expressed the feeling that many of its provisions were inept and

5/15/63

-7-

ominous. He felt, therefore, that the Board should oppose it in its entirety, and in this connection he read the following statement:

I am strongly of the opinion that the Federal Reserve Board should oppose this bill.

First and foremost, the proposals to increase deposit insurance ceilings for the Federal Deposit Insurance Corporation and the Federal Savings and Loan Insurance Corporation should be kept separate and distinct from the other proposals covered in the bill, and which are not related to insurance.

With respect to specific proposals in the bill, standby authority of the Board of Governors and the FDIC to regulate maximum interest rates on deposits in insured banks and extension of similar authority to the FHLBB should be opposed. The intent of such standby authority is to allow commercial banks and savings and loan associations permission to fix such interest rates on time and savings deposits as they choose except under unusual circumstances. The sorry results stemming from the Board's action in raising the ceiling interest rate to 4 per cent should serve as an example of the improvidence of a standby authority. There should be retention of the present authority in the Federal Reserve Board to fix continuous ceiling rates of interest. The poor commercial bank earning reports for 1962 were largely occasioned by the payment of excessively high interest rates on time and savings deposits, and in some instances a deterioration in the quality of commercial bank assets has been traced to their interest payment practices. These illustrations are sufficient to indicate the inadvisability of recommending a standby authority.

The proposal requiring mandatory consultation by the Federal supervisory agencies regarding interest rate policies on time and savings deposits should be rejected and any consultations held to an informal basis, depending on the "sweet reasonableness" of the agencies to arrive at agreement. The injection of the Department of Justice as a consultant in bank merger cases is an illustration why the proposal should be opposed.

Access by nonmember banks to Federal Reserve Bank discount facilities should be firmly opposed; to accord such a privilege without the obligation of formal membership in the Federal Reserve System with its consequent disciplinary requirements would

5/15/63

-8-

undermine the authority of the Federal Reserve Board over its member banks, assuming that they would wish to continue their membership if they were able to enjoy privileges that presently are available only to member banks.

In my opinion, the proposal that reserves against demand deposits should be computed on a graduated basis has not been thought out and should be opposed. Now that time deposits have assumed so large a proportion of the total deposits of commercial banks, reserve requirement formulas should take total deposits into important consideration, and not solely emphasize demand deposits. The total amount of funds that a commercial bank controls is a measure of its financial and economic importance, and the reason why the larger banks should be subject to higher reserve requirements than the smaller banks be based on their total deposits.

Everything considered, the proposed bill is a hodge podge with many of the proposals hastily improvised and not thought out as to their ultimate effects. In particular, the concept of the bill is wrong in combining proposals to increase insurance coverage on commercial bank deposits and savings and loan associations' shares with a basketful of unrelated financial matters.

Mr. Hackley stated that the proposed bill was drafted in accordance with an outline provided by the Department of the Treasury, although he had made clear to staff attending the drafting sessions that the terms of the bill did not necessarily reflect the views of the Board.

During the extensive discussion that followed, there was a majority feeling that the bill covered too wide an area and there was unanimous agreement that the Board should strongly oppose extension of the Federal Reserve credit facilities to nonmember banks unless such banks were required to maintain with the Federal Reserve Banks reserves on both demand and time deposits. However, the majority of the Board

5/15/63

-9-

expressed a willingness to accept some increase in insurance coverage (preferably \$12,500) on bank deposits and savings and loan shares, if accompanied by additional provisions for increasing the effectiveness of supervision of insured institutions.

Governor Shepardson suggested that it might be good procedure to support a package bill that would include provisions affecting banks as well as other financial institutions, such as extension of reserve requirements to demand and time deposits of all insured banks.

After further discussion, it was generally felt that it would be preferable not to include in this bill provisions dealing with maximum rates of interest on deposits in insured banks or with reserves and liquidity of such banks, and it was understood that the staff would revise the draft letter along these lines.

Mr. Hackley was then authorized to prepare a draft letter to the Bureau of the Budget that would express these views for the consideration of the Board at tomorrow's meeting. Meantime, he could advise Mr. Reeve of the Budget Bureau that the Board had certain substantive objections to the proposed bill and that a report would be submitted promptly.

The meeting then adjourned.

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

Letter to the Federal Reserve Bank of Boston (attached Item No. 9) approving the appointment of Robert Thomas Goodwin as assistant examiner.

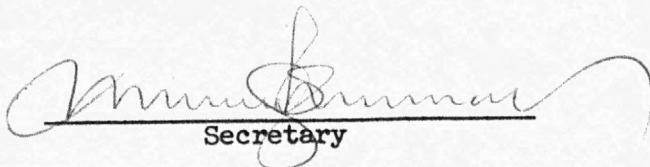
5/15/63

-10-

Memoranda from the Division of Personnel Administration recommending the appointment of the following persons to the staff of that Division, effective the respective dates of entrance upon duty:

Dorothy Erna Kees as Clerk-Stenographer, with basic annual salary at the rate of \$4,110.

Concetta Nobilio as Clerk-Typist, with basic annual salary at the rate of \$3,820.


Secretary

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

Item No. 1
5/15/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 15, 1963

Boston Overseas Financial Corporation,
67 Milk Street,
Boston 6, Massachusetts.

Gentlemen:

This will acknowledge your letter of May 2, 1963, referring to the Board's letter of March 20, 1963, granting consent to Boston Overseas Financial Corporation to purchase and hold approximately 40,000 Class B shares, to purchase and hold approximately 40,000 Class B shares, par value P10 each, of Private Development Corporation of the Philippines, Manila, Philippines, at a cost not to exceed US\$100,000.

In line with your request and on the basis of the information furnished, the Board's consent of March 20, 1963, is amended by changing the wording in the first paragraph from "a cost not to exceed US\$100,000", to "a cost not to exceed 400,000 Philippine pesos."

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
5/15/63



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 15, 1963

Irving International Financing Corporation,
One Wall Street,
New York 15, New York.

Gentlemen:

This will acknowledge your letter of May 2, 1963, referring to the Board's letter of March 20, 1963, granting consent to Irving International Financing Corporation to purchase and hold Class B shares, par value P10 each, of Private Development Corporation of the Philippines, Manila, Philippines, at a cost of approximately US\$100,000.

In line with your request and on the basis of the information furnished, the Board's consent of March 20, 1963, is amended by changing the wording in the first paragraph from "a cost of approximately US\$100,000" to "a cost of approximately US\$150,000."

Very truly yours,

(Signed) Elizabeth L. Carmichael
Elizabeth L. Carmichael,
Assistant Secretary.

Item No. 3
5/15/63

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



May 15, 1963

Mr. Watrous H. Irons, President,
Federal Reserve Bank of Dallas,
Station K,
Dallas 2, Texas.

Dear Mr. Irons:

As recommended in Mr. Murff's letter of April 25, 1963, the Board has changed the classification of member banks in the Eleventh District, for the purpose of electing Class A and Class B Directors, to the following:

<u>Group</u>	<u>Banks with Capital and Surplus of:</u>
1	\$2,000,000 and over
2	\$400,000 and over, but under \$2,000,000
3	Under \$400,000

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 4
5/15/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



May 15, 1963

Mr. Harry A. Shuford, President,
Federal Reserve Bank of St. Louis,
St. Louis 66, Missouri.

Dear Mr. Shuford:

The Board of Governors approves the request made in your letter of May 3, 1963, that Dr. Arthur C. Brooks be retained as physician for the Federal Reserve Bank of St. Louis for an additional year beginning August 1, 1963.

It is noted that the Bank expects to make other arrangements for an examining physician during the next year.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 5
5/15/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 15, 1963



Board of Directors,
Bank of Nutley,
Nutley, New Jersey.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch at the intersection of Kingsland Street and Darling Avenue, Nutley, Essex County, New Jersey, by Bank of Nutley, 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.)

Item No. 6
5/15/63**BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM**

WASHINGTON 25. D. C.

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 15, 1963

Board of Directors,
First Bank and Trust Company
of South Bend,
South Bend, Indiana.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by First Bank and Trust Company of South Bend, of an in-town branch in the vicinity of the intersection of Portage Avenue and King Street, South Bend, Indiana, 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. 7
5/15/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



May 15, 1963

Board of Directors,
The Peoples Bank and Trust Company,
Grand Haven, Michigan.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by The Peoples Bank and Trust Company of an in-town branch at 1000-1013 Robbins Road, Grand Haven, Michigan, 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. 8
5/15/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 15, 1963

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

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by Wells Fargo Bank in the vicinity of the intersection of Calaroga Avenue and Chanslor Boulevard, Hayward, California, provided the branch is established within six months from the date of this letter. The approval of a branch in the vicinity of West Jackson Street and Calaroga Avenue, Hayward, California, granted by the Board on February 28, 1962, is hereby rescinded.

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.)

1594

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

Item No. 9
5/15/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 15, 1963

Mr. Luther M. Hoyle, Jr.,
Vice President,
Federal Reserve Bank of Boston,
Boston 6, Massachusetts.

Dear Mr. Hoyle:

In accordance with the request contained in Mr. Aubrey's letter of May 9, 1963, the Board approves the appointment of Robert Thomas Goodwin as an assistant examiner for the Federal Reserve Bank of Boston. Please advise the effective date of the appointment.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

