

Minutes for July 3, 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>(M)</u> |
| Gov. Mills | <u>[Signature]</u> |
| Gov. Robertson | <u>R.</u> |
| Gov. Balderston | <u>CB</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, July 3, 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. King

Mr. Sherman, Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Cardon, Legislative Counsel
 Mr. Fauver, Assistant to the Board
 Mr. Solomon, Director, Division of Examinations
 Mr. Hexter, Assistant General Counsel
 Mr. Shay, Assistant General Counsel
 Mr. Goodman, Assistant Director, Division of Examinations
 Mr. Young, Senior Attorney, Legal Division
 Mr. Doyle, Attorney, Legal Division
 Mr. McClintock, Supervisory Review Examiner, Division of Examinations
 Mr. Poundstone, 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:

| | <u>Item No.</u> |
|--|-----------------|
| Letter to Holstein State Bank, Holstein, Iowa, approving the establishment of a branch in Cushing. | 1 |
| Letter to Bank of Idaho, Boise, Idaho, approving the establishment of a branch in Lewiston. | 2 |
| Letter to Manufacturers Hanover International Banking Corporation, New York, New York, granting permission to purchase stock of Commercial Export Credit Company Limited, London, England. | 3 |

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Report on competitive factors (Poughkeepsie-Beacon, New York).

There had been distributed to the Board a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed consolidation of Matteawan National Bank, Beacon, New York, with The Farmers and Manufacturers National Bank of Poughkeepsie, New York, under the charter of the latter and with the title of Farmers-Matteawan National Bank.

The report, in which the conclusion read as follows, was approved unanimously for transmittal to the Comptroller:

The proposed consolidation of Matteawan National Bank and The Farmers and Manufacturers National Bank of Poughkeepsie would not eliminate a substantial amount of existing competition but it would preclude the possibility of potential competition which might be expected to develop upon the establishment of the authorized branches by the merging banks. Combining the two smallest commercial banks in an area dominated by a substantially larger bank should increase competition.

Mr. McClintock then withdrew from the meeting.

Regulation K and Regulation M. Pursuant to the understanding at the meeting on June 26, 1963, there had been distributed to the Board revised drafts of a proposed revision of Regulation K, entitled Corporations Engaged in Foreign Banking and Financing under the Federal Reserve Act, and a proposed revision of Regulation M, entitled Foreign Branches of National Banks.

These revised drafts, which were distributed with a memorandum from the Legal Division and the Division of Examinations dated July 1, 1963, incorporated changes agreed upon during the discussion of the

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proposed regulations at the Board meeting on June 26. The memorandum commented on some of the principal changes and on certain matters that the Board might want to consider further. It was proposed that the revised drafts be transmitted for comment to the Federal Reserve Banks and to supervised institutions and others from whom comments had been received concerning earlier drafts of the proposed revised regulations, such comments to be received not later than July 15, 1963, after which the proposed regulations would be considered further by the Board with a view to final adoption.

In discussion of the revised drafts, Governor Mills commented that the subject had been worn threadbare and that he felt the two regulations in their present draft form might be exposed to comments by the interested parties. He saw no purpose in going back over the serious defects and deficiencies that he found in both of them. Therefore, he would withhold further comments until the proposed regulations were before the Board for final consideration.

Governor Robertson indicated that he would favor sending out the redrafts in their present form to interested parties for comment, with a view to further consideration in the light of such comments as might be received.

Governor Shepardson agreed with such a procedure but raised a question with respect to certain wording in the statement of national purpose in Regulation K, his point being that the language to which he referred should either constitute a positive restriction or else

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be omitted. Alternative wording was suggested to meet the point mentioned by Governor Shepardson, and there was general agreement that such language should be incorporated in the revised regulation when it was distributed for comment. Governor Shepardson also called attention to certain language in the portion of Regulation K relative to reporting requirements that he felt was in need of clarification, and it was understood that this point would be borne in mind with a view to making appropriate changes before Regulation K was issued in final form.

Governor King noted that he had previously given Governor Mitchell his principal thoughts on the matter (as reported by Governor Mitchell at the Board meeting on June 26, 1963). Governor King added that he felt the current drafts represented substantial improvement over previous drafts and that he would favor sending them out for comments.

Governor Balderston referred to a suggestion in the memorandum of July 1, 1963, that the Board might want to consider whether the amount of guarantees that a nonbanking Edge corporation could incur for any one person should be limited to 10 per cent of capital and surplus, in view of the fact that such a corporation could make loans to any one person up to 50 per cent of capital and surplus. The question raised by Governor Balderston was whether there was a case for altering the pertinent provisions of the revised draft of Regulation K at this time or whether it would be preferable to consider the point further after comments had been received from interested parties. This comment likewise extended to the provisions regarding guarantees in the proposed Regulation M.

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In discussion of the point raised by Governor Balderston, Mr. Shay commented that the provisions of Regulation M would be applicable to national banks, which were familiar with the limitations of section 5200 of the Revised Statutes and therefore should not find the Regulation M provisions--which were tied into section 5200--too complex. Mr. Hexter commented that the field of guarantees had been regarded generally as more hazardous for banks than the field of loans. Without using their own funds, banks could guarantee obligations of others. Guarantees had been prohibited for banks operating in this country. Therefore, even a rather strenuous limitation in the proposed regulations was in itself a pioneering step.

Governor Mills agreed with the reasoning of Mr. Hexter, noting that guarantees represented contingent liabilities that could develop a considerable risk exposure. Also, permitting guarantees could project a definite and serious outflow of funds from this country. The same thing was true with respect to acceptances. If national banks and Edge corporations were to be permitted to guarantee and accept in any areas, that should be within definite limitations.

Mr. Goodman commented that when he first read the redraft of these provisions of the proposed regulations, he had reservations. Upon further study, however, he became more satisfied; as had been pointed out, something of a new venture was involved. The provisions might be quite restrictive in some instances, but if so the matter could always be brought back to the Board and some relaxation could be effected if deemed warranted.

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After further discussion, Chairman Martin suggested that the proposed regulations, in form incorporating the change in the draft of Regulation K agreed upon at this meeting, be distributed to the supervised institutions, the Federal Reserve Banks, and other interested parties in order to obtain their reaction.

Mr. Fauver noted that the fact that this procedure was being followed was likely to come to the attention of members of the press. He inquired whether it would be the disposition of the Board to authorize making copies available to the press upon request, or possibly to issue a press statement.

In discussion of this point, Governor Mills expressed the view that while there might be reason, upon inquiry, to make a copy available informally, it seemed doubtful whether a press release would be appropriate at this stage.

Mr. Shay recalled that it had been contemplated that at this juncture the revised drafts of the two regulations, in such form as the Board might decide upon, would be sent out to the respective supervised institutions, the Reserve Banks, and parties from whom comments had been received when the original proposed revisions were published in the Federal Register. In the case of Regulation K, this procedure would be in the nature of an alternative to meeting the requests that had been received from some parties for an opportunity for discussion with the Board. The revised draft would give these parties something to look at that would reflect consideration by the Board of the views previously

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submitted by them. As to Regulation M, representatives of the affected supervised institutions had already met with members of the Board and the Board's staff, and at this point there was an element of urgency in moving along to the issuance of a regulation. If there should be press inquiries, copies of the revised drafts of regulations might be handed to the inquirers, but the issuance of a press release might give the current step more importance than it deserved. Of course, at such time as regulations were finally adopted, they would be published in the Federal Register and made the subject of a press release.

Accordingly, it was agreed that redrafts of the proposed revisions of Regulation K and Regulation M, in form reflecting the discussion at this meeting, would be sent to the affected supervised institutions, the Federal Reserve Banks, and others from whom comments had been received on the drafts previously published in the Federal Register, with the request that any comments on the respective redrafts be submitted to reach the Board by July 15, 1963. It was understood that no press release would be issued in this connection, but that copies might be made available to members of the press or other inquirers upon specific request.

Messrs. Shay, Goodman, Doyle, and Poundstone then withdrew from the meeting.

Draft bill to amend section 5200. The Bureau of the Budget had requested the views of the Board on a draft bill proposed by the Treasury Department "To amend section 5200 of the Revised Statutes, as

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amended (12 U. S. C. 84), to increase the limit on the maximum liability of a single borrower to a national bank." Under existing law the total obligations to any national bank by any single borrower could at no time exceed 10 per cent of the amount of the paid-in and unimpaired capital stock of such bank and 10 per cent of its unimpaired surplus funds. The law, however, included 13 exceptions to this restriction. The proposed bill would raise the 10 per cent limit on loans to a single borrower to 20 per cent, and in addition make certain technical changes in the 13 exceptions in order to conform to the proposed increase in the basic lending limit.

A memorandum from the Legal Division dated July 2, 1963, which had been distributed, discussed the proposal and submitted a draft of reply to the Budget Bureau that would state in essence that although the extent of the proposed increase over the existing statutory limitation might be open to some question, the Board would interpose no objection. It would be noted, however, that following the adoption of such an amendment many State-chartered banks would find themselves operating under stricter limitations in this regard than national banks. Further, there might be some doubt whether the proposed amendment would be the most effective way to strengthen the position of small banks, particularly in their dealings with their correspondents. If it were desired that any liberalizing amendment to section 5200 be directed primarily to the smaller banks, this could be accomplished by an amendment that would prescribe a 20 per cent lending limit on the

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first \$1 million of capital and surplus, without changing the existing 10 per cent limit above that figure. The effect of such a limitation would be to increase the ability of smaller banks to serve exceptional community needs and free them, to this extent, from dependence on the services of correspondent banks. This would be accomplished without increasing the risk of undue concentration of lending resources of larger banks in loans to relatively few borrowers.

Governor Mills expressed the view that the approach taken in the proposed letter was wrong. It was necessary, he said, to go back in history and consider the passage of the National Bank Act, which was intended to correct abuses in banking that then existed, in particular wildcat banking. Since the passage of the Act, the Comptrollers of the Currency had made an example of good banking practices that extended beyond the national banking system to the State banks. The proposal now under consideration would represent a yielding to the protestations of less conservative bankers who desired more liberal loaning provisions. He felt sure it would be borne out by the record that bank failures had been importantly influenced by problems of over-loaning, and that those problems had very often been attributable to an accumulation of large loans. In other words, the banks had had their main difficulties with large loans and not smaller loans, which provided diversification and a spreading of risks. He had been conscious of the fact, in many of the reports that came through, particularly with respect to branch applications, that when there had been some adverse comment regarding the

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position of the bank concerned it had frequently focused on the concentration of large lines and the exposure involved in those large lines, which unfortunately in many instances had been extended to weak credit risks. Endorsement or support of the proposed bill would amount to encouraging the sort of developments that the current statutory limitations were designed to prevent. The Federal Reserve System, through the Board, should in present circumstances stand solidly and unswervingly for sound banking, which would require a reversal of the position taken in the proposed letter to the Budget Bureau.

Governor Robertson expressed the view that the letter should make clear that the Board knew of no widespread inability on the part of national banks to meet the needs of their customers. He added that many national banks voluntarily followed lower loan limitations than provided by statute. The letter also should point out that the current proposal would be likely to lead to a reduction of lending standards and a weakening of the banking system of the country. If a problem existed, it was among the smaller institutions, and the Board might want to include a suggestion along the lines set forth in the final paragraph of the draft letter. He was not sure on that point, but it would be preferable to doubling the limit on loans to single borrowers for all of the national banks in the country.

Governor Shepardson indicated that his views were much the same as those already expressed. As to the possible suggestion with respect to enlarging the lending limit for smaller banks, he felt that there was

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some question about the ability of the management of many of the smaller banks to handle loans twice as large as could currently be extended.

Governor King said his feelings were much the same as those expressed by Governor Mills. He doubted whether the smaller banks should be given much additional leeway for larger loans to single borrowers, and therefore he would not include any suggestion along those lines in the report to the Budget Bureau. Further, he felt that enactment of the current proposal would be likely to lead to increases in lending limitations contained in the statutes of the respective States. If the proposal were to increase the lending limit from 10 per cent to, say, 12 per cent, that might not be too dangerous, but he would not be prepared to go as far as the current proposal. He would favor a letter to the Budget Bureau stating that the Board opposed the proposal, without making alternative suggestions. The Treasury could always submit a revised draft bill if it so desired.

Governor Balderston agreed that the Board should register its opposition to the Treasury proposal. However, while he concurred philosophically with all that had been said, he had some hesitancy about seeing the Federal Reserve charged with continual opposition to change. Therefore, if a proposal could be made that would not endanger the smaller banks, he would rather like to see it put forward. This would indicate that the Federal Reserve had ideas, even though it rightly resisted some of the liberalizations that were proposed. In summary, he would make the first part of the letter one of strong opposition, but he

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would be inclined to put forward the suggestion contained in the last paragraph of the draft letter.

After further discussion, Chairman Martin inquired if it would not be appropriate just to oppose the present draft bill without going further. So far as a general principle was involved, it would seem to apply to the smaller banks as well as the larger ones.

Governor Robertson indicated that he agreed with the Chairman in terms of the principle involved. His only thought had been that if there was an existing problem, it was in the area of the ability of the smaller banks to meet the credit needs of some of their customers. He would not argue strongly against a letter simply opposing the proposed bill.

It was then understood that a revised draft of letter along such lines would be prepared for the Board's consideration.

The meeting then adjourned.

Secretary's Notes: Attached as Item No. 4 is a copy of a letter sent today to Chairman Patman of the House Banking and Currency Committee with further reference to the discussion at the Board meeting on June 25, 1963, and the Board's letter to Chairman Patman dated July 1, 1963, relating to applications filed during 1961 with the Board of Governors under the Bank Merger Act.

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

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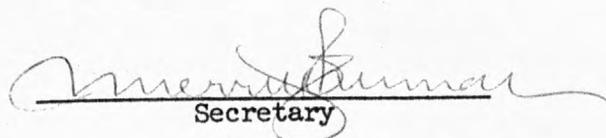
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Appointment

Glenn L. Hogle as Personnel Technician, Division of Personnel Administration, with basic annual salary at the rate of \$5,375, effective the date of entrance upon duty.

Salary increases, effective July 7, 1963Division of Administrative Services

| <u>Name and title</u> | <u>Basic annual salary</u> | |
|--|----------------------------|-----------|
| | <u>From</u> | <u>To</u> |
| William F. Becker, Captain, Guard Force | \$5,545 | \$5,910 |
| Eugene E. Bishop, Guard | 3,875 | 4,135 |
| James R. Carnahan, Guard | 4,580 | 4,950 |
| Lloyd G. Luna, Guard | 3,980 | 4,240 |
| John H. McDonald, Guard | 3,560 | 3,820 |
| C. A. Noell, Guard | 4,400 | 4,705 |
| John M. Pope, Guard | 4,400 | 4,705 |
| Hiram J. Roush, Guard | 4,505 | 4,830 |
| Aubrey L. Simmons, Sergeant, Guard Force | 4,810 | 5,205 |
| David Sullivan, Guard | 4,610 | 4,830 |
| Herman Lee Tobler, Sergeant, Guard Force | 4,950 | 5,365 |
| Hubert G. Weems, Guard | 3,665 | 3,925 |
| Esmond C. Langley, Head Messenger | 4,705 | 4,950 |
| Frank A. Dean, Sr., Assistant Head Messenger | 3,455 | 3,665 |


Secretary

Item No. 1
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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 3, 1963

Board of Directors,
Holstein State Bank,
Holstein, Iowa.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Holstein State Bank, Holstein, Iowa of a branch at Cushing, Iowa, provided the branch is established within six months from the date of this letter.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
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.

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Item No. 2
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ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 3, 1963.



Board of Directors,
Bank of Idaho,
Boise, Idaho.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by Bank of Idaho, Boise, Idaho, in the downtown business district of Lewiston, Idaho, provided the branch is established within six months from the date of this letter.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
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. 3
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ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 3, 1963

Manufacturers Hanover International Banking
Corporation,
44 Wall Street,
New York 15, New York.

Gentlemen:

In accordance with the request contained in your application of May 22, 1963, transmitted through the Federal Reserve Bank of New York, and on the basis of the information furnished, the Board of Governors grants consent for Manufacturers Hanover International Banking Corporation ("MHIBC") to purchase and hold 84,000 ordinary shares, par value \$1 each, of Commercial Export Credit Company Limited ("CECCL"), London, England, at a cost of approximately US\$235,200 (equivalent), provided such stock is acquired within one year from the date of this letter.

The Board's consent is granted upon condition that MHIBC shall dispose of its holding of stock of CECCL, as promptly as practicable, in the event that CECCL should at any time (1) engage in issuing, underwriting, selling or distributing securities in the United States; (2) engage in the general business of buying or selling goods, wares, merchandise, or commodities in the United States or transact any business in the United States except such as is incidental to its international or foreign business; or (3) otherwise conduct its operations in a manner which, in the judgment of the Board of Governors, causes the continued holding of its stock by CECCL to be inappropriate under the provisions of Section 25(a) of the Federal Reserve Act or regulations thereunder.

The Board also grants its approval under Section 25(a) of the Federal Reserve Act and § 211.9(d)(2) of Regulation K to the purchase and holding of such shares.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 4
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OFFICE OF THE CHAIRMAN

July 3, 1963

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

Dear Mr. Chairman:

As you requested in your letter of July 2, copies of all applications filed during 1961 with the Board of Governors under the Bank Merger Act of 1960 have been delivered today to your Committee staff.

Because many of these applications are too voluminous to reproduce at reasonable cost, and because the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Attorney General, as well as the appropriate Federal Reserve Bank, have copies, we have delivered to your staff the only copies in the Board's files. Accordingly, it would be appreciated if you would return these copies to the Board when they have served your purpose.

Sincerely yours,

A handwritten signature in cursive script that reads "Wm. McC. Martin, Jr." with a flourish at the end.

Wm. McC. Martin, Jr.