Minutes for July 24, 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

Minutes of the Board of Governors of the Federal Reserve System on Wednesday, July 24, 1963. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman 1/
Mr. Balderston, Vice Chairman
Mr. Mills
Mr. Robertson
Mr. Shepardson

Mr. Sherman, Secretary
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Johnson, Director, Division of Personnel Administration
Mr. Hexter, Assistant General Counsel
Mr. Conkling, Assistant Director, Division of Bank Operations
Mr. Daniels, Assistant Director, Division of Bank Operations
Mr. Benner, Assistant Director, Division of Examinations
Mr. Smith, Assistant Director, Division of Examinations
Mrs. Semia, Technical Assistant, Office of the Secretary
Mr. Potter, Senior Attorney, Legal Division

Circulated 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 Chemical Bank New York Trust Company, New York, New York, approving an extension of time to establish a branch at 277 Park Avenue, Borough of Manhattan.	1
Letter to the Federal Reserve Bank of Atlanta approving the appointment of Edward E. Smith as Federal Reserve Agent's Representative at the New Orleans Branch.	2

1/ Joined meeting at point indicated in minutes.

	Item No.
Letter to Northeast Colorado National Bank of Denver, Denver, Colorado, granting its request for permission to maintain reduced reserves.	3
Letter to The Chase Manhattan Bank, New York, New York, approving the establishment of a branch at 208 Amsterdam Avenue, Borough of Manhattan.	4
Letter to United Home Bank & Trust Co., Mason City, Iowa, approving the establishment of a branch at 1329 North Federal Street.	5

Proposed amendment to Regulation T. There had been distributed a memorandum dated July 16, 1963, from the Legal Division regarding a proposal received through the Federal Reserve Bank of New York for an amendment to Regulation T, Credit by Brokers, Dealers, and Members of National Securities Exchanges, to adapt the special account provisions to purchases of refunding securities, for the purpose of facilitating the acquisition by institutional investors of securities issued in a refunding operation where payment was to be made from the proceeds of redemption of the outstanding issue. The problem arose from the fact that the outstanding securities ordinarily were not redeemed for some time, perhaps 30 days, from the time of the purchase of the refunding securities, and thus the proceeds were not available within the time allowed by existing provisions of the regulation for payment for the new securities. So far as most investors were concerned, the Board had removed the problem by a 1940 ruling that, if the necessary requirements of good faith were met and there was every reasonable probability

that the called security actually would be paid according to the call for redemption, payment for the purchased security might be considered to have been made for the purposes of the regulation at the time when the called security was deposited with the dealer for the indicated purpose. The difficulty in the case of institutional investors was that many large investors such as pension funds were not only not authorized to sell the maturing securities, but were also unable to meet the requirement for timely deposit because they were prevented by legal regulations or procedural rules and practices from depositing the securities as payment. The institution requesting the amendment had suggested that it provide, in effect, that the seven-day period after which a purchase transaction in a special cash account must be liquidated for nonpayment should run from the date set for redemption of the outstanding security pursuant to the call, rather than from the date of the purchase as required by the general rule. The Legal Division observed that an amendment in that form would not be limited to purchases of the new issue that were to be paid for from redemption proceeds, but would also give additional time to purchasers who did not hold any of the old issue and for whom the time of redemption was therefore immaterial. The Division believed that the allowance of the extended time for payment should be limited to holders of the called issue. The text of an amendment that would accomplish that purpose was set out in the memorandum, to take the form of a paragraph to be added to section 220.4(c)(3) of Regulation T. The

Legal Division recommended that the amendment be adopted, and that the portion of the 1940 interpretation that would be superseded by the amendment be explicitly withdrawn.

At the Board's request, Mr. Potter commented on the Legal Division's memorandum, observing that the proposed amendment would have some benefit in tightening up the regulation.

Governor Balderston noted that the suggested text of the amendment referred to securities "which mature, or are to be redeemed, within 35 days of the date on which the security is so purchased," and asked the significance of the specified 35 days. Mr. Potter replied that, while in a sense that was an arbitrary period, the intent had been to limit the proposed amendment to the typical situation, in which redemption followed the purchase relatively promptly. There were cases in which there was a continuing call, which made the redeemed securities similar to convertible obligations; it was not the intention to allow the extended time for payment in such situations. Mr. Hexter added that in the absence of such a limitation, if a corporation announced that it would redeem an outstanding issue six months after the issuance of the new (refunding) securities, holders of the outstanding issue could in effect obtain an extension of credit for six months on the purchase of the new securities.

After further discussion during which a minor change in language was agreed upon, the publication of the amendment in the Federal Register as a notice of proposed rule making was approved unanimously.

Revenue bond underwriting. Mr. Hexter referred to the fact that a group of bankers was expected to meet with the Board this afternoon to explain their reasons for advocating proposed legislation that would authorize commercial banks to underwrite certain kinds of revenue bonds. In anticipation of that meeting, the Board might like to know that the Federal Reserve Bank of Chicago had sent the Board a copy of a letter written to the Comptroller of the Currency by Harris Trust and Savings Bank, of Chicago, an officer of which was one of the principal spokesmen of the group that was expected this afternoon. The letter commented on the proposed revision of the Comptroller of the Currency's Investment Securities Regulation, and took much the same position that the Board had taken in its letter to Comptroller Saxon of July 19, 1963, namely, that the Comptroller had no authority under present law to permit national banks to underwrite revenue bonds. Harris Trust and Savings Bank had suggested that the regulation be amended by deleting all reference to underwriting and dealing in securities, and restricting the subject matter of the regulation to investment in securities for income, and that the matter of underwriting be dealt with in an interpretation that would limit underwriting activities by commercial banks to those as to which underwriting was allowed under present law, namely, general obligations. The bank expressed the hope that the other bank supervisory authorities would join in such an interpretation, and stressed the importance of uniformity of viewpoint on this subject among the supervisory agencies.

Mr. Young, Adviser to the Board and Director, Division of International Finance, and Messrs. Noyes, Director, and Holland, Adviser, Division of Research and Statistics, entered the room at this point.

Proposed revision of Regulation A. The ad hoc System Committee on Eligible Paper, in its report of May 25, 1962, recommended that the System recommend to Congress a bill that would repeal provisions of present law regarding eligibility of paper for discount by the Reserve Banks and authorize the Reserve Banks to make advances to member banks on their notes secured to the satisfaction of the Reserve Banks, subject to regulations of the Board. The Conference of Presidents on June 18, 1962, concurred in the basic principles set forth in the System Committee's report and referred the matter to the Committee on Legislation for study as to implementation of the System Committee's recommendation; the Subcommittee on Legislation in its report of August 28, 1962, concurred in the System Committee's recommendation and submitted a draft of proposed legislation on this subject; and on September 10, 1962, the Conference of Presidents approved generally the draft bill submitted by the Subcommittee on Legislation. There were preliminary discussions of the need for legislation at the meetings of the Board on September 27 and 28, 1962, and April 24, 1963. It had been the feeling that, before the proposed legislation was submitted to the Congressional Banking and Currency Committees, it would be well for the Board to have in mind what sort of regulation it would be prepared to issue under such a liberalization of the law.

There had been distributed a memorandum dated June 12, 1963, from Mr. Hackley, attaching a preliminary draft of a possible revision of Regulation A, Advances and Discounts by Federal Reserve Banks, that might be appropriate if the recommended legislation should be enacted. The draft would eliminate all provisions of the present Regulation A relating to the "eligibility" of paper; it would retain the substance of present provisions setting forth "general principles" regarding appropriate uses of Federal Reserve credit, provisions relating to negotiability of paper, and provisions regarding paper acquired from nonmember banks; and it would include new provisions with respect to advances to nonmember banks, corporations, partnerships, and individuals.

Mr. Hackley's memorandum reviewed the problems that had been encountered in developing the draft regulation, and discussed points of philosophy of Federal Reserve credit that would enter into the Board's decision as to the nature of any regulation that would be adopted.

In a memorandum dated June 14, 1963, to Mr. Hackley, Governor Mills commented that the draft of a proposed revision of the regulation had the advantage of simplicity but, in his opinion, would force the simple approach into undesirable results. His point was illustrated by section 201.3, Security for Advances, and its subparagraphs (a) and (b) of the draft regulation. Those paragraphs imposed on the discount officers of the Federal Reserve Banks the duty of determining the character of collateral that might be offered by member banks as security for advances. The criticisms that had been raised in past years regarding

the lack of uniformity by Federal Reserve Banks in deciding policy actions would be magnified greatly under the proposed regulation. Uniformity in handling advances to member banks was not something to be desired per se, but rules that would automatically obtain rough uniformity would be desirable.

Governor Mills had suggested such an approach in a previous memorandum dated November 20, 1962, which suggested that relatively short maturities on paper offered as security for advances would serve not only to relieve discount officers from having to debate with member banks as to what security would be acceptable for advances, but would also be a means of compelling banks to carry a substantial volume of short-term paper and thereby help to preserve an appropriate degree of liquidity. The liquidity reserve requirements that had appeared in one of the drafts of a recently proposed bill on Federal banking legislation at least contained a liquidity concept. A revised Regulation A appropriately could carry a liquidity concept such as Governor Mills had proposed, but it did not appear in the draft regulation that had been developed.

It had not been Governor Mills' thought that interest rate differentials should be applied broadly in the handling of advances by Federal Reserve Banks to member banks in order to encourage the member banks to take on better quality paper. What he had in mind was that the ruling discount rate should apply to all advances against paper, other than United States Government securities, having maturities of 18 months or

less, but that also the principle of section 10(b) of the Federal Reserve Act would be retained and would be applicable to all other advances, and at an interest rate one half of one per cent higher than the discount rate. In other words, member banks under this procedure would be discouraged from borrowing on other than acceptable paper, except under emergency circumstances. Obviously, discount officers at the Federal Reserve Banks could not automatically approve securities for advances solely because a maturity of 18 months or less was involved, but would be obliged also to give consideration to the quality of the security tendered.

Subsection (d), Amount of Collateral, in the present Regulation A's section 201.4 appealed to Governor Mills as being preferable to subsection (b), Amount of Security, in the proposed revision. He saw no reason for expanding into any question about possible loss and protection to the Federal Reserve Banks or as to the creditworthiness of the obligor on collateral offered. It was implicit in the discount function that a Federal Reserve Bank would look to its own protection when making advances as a factor essential to any sound lending practice and, therefore, no broader mention of that factor was required.

Governor Mills concluded his memorandum by expressing opposition to discussing the proposed revision of Regulation A with the banking fraternity. It was so lax, he thought, that it would be welcomed with open arms, and even further liberalization would be requested. A

regulation with some degree of restrictiveness specifically provided for should be drafted.

At the Board's request, Mr. Hackley commented on the need for legislation, first reviewing the changes in concept of the discount function that had occurred over the years. It had long been agreed that the "real bills" concept embodied in the eligibility requirements written into the Federal Reserve Act, which contemplated that the Federal Reserve Banks would discount only short-term, self-liquidating paper arising out of actual commercial or agricultural transactions, was outmoded, and the law should be amended to make it consistent with present-day banking practices. After comparing the content of the present Regulation A with that of the draft that was presented for the Board's consideration, he stated that the staff needed guidance on the controversial question as to whether the new regulation should be in general terms in regard to the nature and the amount of collateral to be required for advances, leaving almost complete discretion to the discount officers of the Federal Reserve Banks, or whether the regulation should include guidelines as to the standards to be observed. One alternative, which would provide a general standard and yet leave a fairly wide area of discretion to the discount officers, would be to include in the regulation provisions similar to the present section 10(b) of the Federal Reserve Act, requiring a penalty rate on paper with relatively long maturity - for example, longer than 18 months. Mr. Hackley

expressed the view that the matter should not be allowed to remain dormant; it would be desirable that the Board make a recommendation to Congress for a revision in the law relatively soon. He suggested that it might be advisable that a proposed revision of Regulation A somewhat along the lines of the one that had been developed be sent to the Presidents of the Federal Reserve Banks for comment, asking in particular for their views as to the need for standards to be written into the regulation as to the amount and maturity of collateral to be required for advances, and also as to the merits of providing a penalty rate for advances on collateral with relatively long maturity. After the comments of the Presidents had been received, it might then be appropriate for the Board to submit the proposed legislation to the Senate and House Committees on Banking and Currency with a relatively brief statement of the reasons for the proposal, without at that time indicating the nature of the regulation the Board proposed to issue if the law was liberalized. However, before submitting the proposed legislation the Board presumably should have in mind the kind of regulation it intended to issue.

During Mr. Hackley's concluding remarks, Chairman Martin joined the meeting.

Mr. Holland then commented, stating, as had Mr. Hackley, that it was essential that the staff have the Board's guidance as to what the regulation should contain in regard to the nature and amount of

collateral to be required for advances; there were still differences of view among the Board's staff as to what would be the ideal approach - whether the regulation should allow full discretion to the discount officers, with no standards specified except the common sense requirements of sound banking practices, or whether that needed to be backed up by specific guidelines. The question whether there should be a penalty rate for advances according to maturity of collateral also was controversial. He anticipated that comments of the Reserve Bank Presidents would fairly uniformly favor a maximum of flexibility in the legislation, and perhaps also in the regulation.

Mr. Hackley added that those questions must be viewed, of course, in the light of the fact that the discount officers would be judging acceptability of collateral rather than eligibility, since the specifications for the latter would no longer be part of the law.

Governor Mills stated that he agreed completely that remedial legislation was essential and that the Board should move as promptly as practicable to obtain it, and also that the Federal Reserve Banks should have an opportunity to review the proposed regulation in its present tentative form. He also believed that the Reserve Bank Presidents should have brought directly and fully to their attention the question whether there should be broad flexibility or whether standards of acceptability of collateral, rather than eligibility, should be woven into the regulation. His personal view fell on the side of having some

measure of guidelines, especially since so much concern had been expressed within the Board and by the Board to the public that there had been a deterioration of bank credit. If the Board issued a regulation that in effect required banks to maintain an adequate volume of paper that was acceptable as collateral for any advances they might need, they would be encouraged not only to work toward better quality of credit but toward improving their general liquidity, which also had been the subject of concern. He believed that the Federal Reserve Banks should be fully exposed to those considerations and that their reasoning should be given careful consideration by the Board. As an illustration to emphasize the kind of problem that could arise if the regulation did not include standards of acceptability, Governor Mills cited recent newspaper accounts of the plans of a large national bank, with the approval of the Comptroller of the Currency, to purchase various types of equipment for lease to users. That sort of financial engagement, in Governor Mills' view, if accepted in a broad way and expanded, would further lessen liquidity of banks and hasten the freezing that he saw coming piecemeal and eventually reaching a climax. He believed that the Board had a direct responsibility to give guidance toward sound banking practices, which could be done partly through an appropriate Regulation A.

Governor Robertson stated that he would approach the matter differently, because he believed that time was getting short. He felt that the law should be broad and flexible, as the proposed legislation had

been drafted; he favored sending the proposal to Congress in its present form, and following up by sending the draft of regulation to the Federal Reserve Banks, asking for their comments within 30 days. The draft regulation was not completely as he thought it should be, but he did not believe that it must be perfected before the Board asked to have the legislation introduced. There was general agreement that the law needed to be changed, and he was of the opinion that the point would soon be reached where it would be important to have the eligibility provisions out of the law. As for the regulation, he would think it proper to have a differential rate for advances on Government securities, which could be justified on the basis of cost of handling because it was a bigger job to appraise other types of collateral. Such a differential rate would also promote bank liquidity by encouraging banks to hold a fair volume of Government obligations. He favored giving the Federal Reserve Bank discount officers as much flexibility as possible, but he believed standards should be specified as to the amount of collateral to be required and the purpose of member bank borrowing.

Mr. Hackley commented that he agreed that it would be desirable to submit the proposed legislation to Congress without waiting for final determination as to the nature of the regulation. The System might be vulnerable to criticism if a situation should occur in which member banks did not have adequate holdings of Government securities to offer as collateral and were forced to rely on eligible paper when they had a large volume of sound paper that would not be eligible.

Governor Mills said that he also would be in favor of submitting the proposed legislation without final action on the regulation. The regulation would be at the heart of the matter, however, because the law would specifically attach the operation of the Federal Reserve credit function to the regulation issued by the Board.

Mr. Hackley drew attention to the recommendation of the Presidents' Conference Committee on Legislation that before submitting the proposed legislation to Congress, the comments of the American Bankers Association, the Association of Reserve City Bankers, and perhaps the Farm Credit Administration be obtained. He suggested that the views of those organizations might be requested after the proposal was submitted.

Governor Robertson expressed the view that it would be undesirable to ask the views of the banking community before submitting the proposed legislation.

Governor Shepardson concurred with the idea that the matter should be expedited. The legislative proposal was in broad terms, which he considered the right approach. He hoped that the regulation also could be kept on a fairly broad basis, with substantial flexibility, although perhaps there should be written into it some safeguard against the sort of situation Governor Mills had cited.

Governor Robertson expressed the view that there were dangers in having too much flexibility without guidelines, because it could be a source of irritation to the banking community if one of the Federal

Reserve Banks accepted a type of paper that another Federal Reserve Bank refused.

Governor Shepardson expressed the opinion that there should be some guidelines, but they should be broad. The examining force could keep watch as to whether questionable paper was being accepted by Reserve Banks.

Governor Robertson remarked that he believed there should be uniformity among the districts to a fairly close degree, but not in fine detail. If the Board had no guidelines, it would not be able to instruct the examining force as to what might be subject to criticism. Yet he did not want to take discretion away from the discount officers, who were on the firing line. As he saw it, the standards to be developed should be general guides to assure reasonably uniform treatment of banks in different districts.

Governor Shepardson commented that there was a difference in his mind between a guideline, from which one could deviate when circumstances warranted, and a regulation, which to him was not to be deviated from and which set a line one side of which was right and the other side wrong.

Governor Balderston expressed the view that legislation was needed and should be sought without delay, although he was not too sanguine that the effort would be successful. He asked several questions about the terms of the draft legislation, to which Mr. Hackley responded.

After further discussion, the staff was requested to draft letters to the Senate and House Committees on Banking and Currency explaining

the need for legislation and submitting the draft legislation, and to the Federal Reserve Bank Presidents informing them that the proposed legislation had been submitted and asking their comments on the proposed revision of Regulation A, especially on the desirability of writing standards of acceptability into the regulation and of providing a penalty rate for advances on collateral of longer maturity. It was understood, however, that such letters would not be sent until it could be ascertained that the course of action the Board proposed to take was agreeable to Governors King and Mitchell, who were unable to be present at today's meeting but were expected to return to their offices next week.

Messrs. Young, Noyes, Holland, Conkling, Daniels, Benner, and Potter then withdrew from the meeting and Mr. Kiley, Assistant Director, Division of Bank Operations, entered the room.

Officer salaries at Cleveland Reserve Bank (Item No. 6). There had been distributed a memorandum dated July 19, 1963, from the Division of Personnel Administration recommending that the Board approve salaries, at rates fixed by the Board of Directors of the Federal Reserve Bank of Cleveland, for Clifford G. Miller as Vice President, James H. Campbell as Assistant General Auditor, Fred S. Kelly as Vice President and Cashier, Elmer F. Fricek as Vice President, and J. Robert Aufderheide as Assistant Cashier (assigned to the Pittsburgh Branch). The memorandum contained comments on the proposed appointments individually and, in particular,

pointed out that Mr. Miller had been selected, for reasons indicated, to head the check collection operation at Cleveland, difficulties in the conduct of which had been the subject of discussion at the meeting of the Board on June 25, 1963. Attached to the memorandum was a draft of letter to the Cleveland Reserve Bank that would express the Board's approval of the payment of salaries at the rates indicated.

In response to an inquiry, Mr. Smith stated that there had been a substantial improvement in the check collection function at Cleveland, and that prospects for further improvement would seem favorable through supervision by an officer such as Mr. Miller.

The letter to the Cleveland Reserve Bank was thereupon approved unanimously; a copy is attached as Item No. 6.

Messrs. Johnson, Kiley, and Smith then withdrew from the meeting.

Exchange of certificates of deposit (Item No. 7). There had been distributed a telegram from the Federal Reserve Bank of Chicago stating that member banks were asking whether outstanding certificates of deposit having maturities of twelve months or more and paying interest at the rate of 4 per cent might now be exchanged for new certificates having maturities of 90 days or more and bearing interest at the 4 per cent rate now permitted on deposits of such maturities. There had also been distributed a draft of telegram replying to the Chicago Reserve Bank's inquiry, expressing the opinion that such exchange of outstanding time certificates for others with shorter maturities would constitute payment

of time deposits before maturity in violation of law and the Board's Regulation Q, Payment of Interest on Deposits.

After discussion during which it was noted that the question was an outgrowth of the Board's recent action in increasing to 4 per cent the maximum rate of interest payable on time deposits with maturities from 90 days to one year, the telegram to the Federal Reserve Bank of Chicago was approved unanimously. A copy is attached as Item No. 7.

The meeting then recessed and reconvened at 2:30 p.m. with the following in attendance:

Mr. Martin, Chairman
Mr. Balderston, Vice Chairman
Mr. Mills
Mr. Robertson
Mr. Shepardson

Mr. Sherman, Secretary
Mr. Hexter, Assistant General Counsel
Mr. Benner, Assistant Director, Division of Examinations
Mrs. Semia, Technical Assistant, Office of the Secretary

Pursuant to the arrangement agreed upon at the Board meeting on July 19, 1963, the following were also present:

Hardin Hawes, Senior Vice President,
Harris Trust and Savings Bank,
Chicago, Illinois

John H. Perkins, Vice President,
Continental Illinois National Bank and Trust Company
Chicago, Illinois

Ralph F. Leach, Senior Vice President and Treasurer,
Morgan Guaranty Trust Company,
New York, New York

Delmont Pfeffer, Senior Vice President,
First National City Bank,
New York, New York

Revenue bond underwriting. The group of bankers had requested an opportunity to meet with the Board to present their views in favor of S. 828, a bill that would, among other things, grant national and State member banks limited authority to underwrite revenue bonds. On February 20, 1963, Chairman Robertson of the Senate Banking and Currency Committee had asked that the Board submit a report on the bill, but no report had as yet been made. (On October 31, 1962, the Board met with representatives of the Committee for Study of Revenue Bond Financing, who opposed proposals, which were then becoming active, such as contained in S. 828.)

Mr. Hawes, who headed the group of bankers, noted that the members of the Board had been furnished copies of a pamphlet entitled "Commercial Bank Underwriting of Public Revenue Bonds," by John K. Langum, in which was set out the case of the proponents of the proposal. Mr. Hawes and each of the other visitors in turn then spoke on various aspects of the proposal, after which they responded to several questions asked by members of the Board. A memorandum of the discussion has been placed in the Board's files.

Briefly stated, the principal points advanced by the group of bankers were that, as underwriting of general obligations has increased in volume and developed, improvement in the standards observed has been

especially notable in those issues in which commercial banks have participated with investment dealers. That improvement has been attributable to bank leadership because, in the light of the public service nature of their business, there is too great a risk to the reputation of their primary activities for bankers to afford to follow anything but the highest standards. There is a great volume of revenue bond financing by small communities that is not reflected in most statistics, which are usually based on larger issues than the typical flotation of a small community. If a needed improvement represents a large project to a small community, an extensive period of preparation is necessary, involving expenses such as for engineering services, for which the community usually does not have an appropriation. To meet that need, the practice has arisen for investment dealers to finance these preliminary services, in return for receiving the contract for underwriting the forthcoming bond issue. However, typically their price for the contract allows them a greater margin of profit for their services than is justified, the high cost of this financing falling upon the residents of the community.

The bankers believed that the proposed legislation represented an up-dating process rather than something new. The Congress had long accepted the idea that banks could participate in public finance, as witness its specific provision for bank participation in underwriting the issues of the Tennessee Valley Authority, the Federal National

Mortgage Association, and other organizations. Revenue bond financing really represented public finance; if a State wished to build schools but, instead of issuing general obligations for the construction expense, set up a school building authority to finance the project through revenue bonds, that authority was really the agency of the State. Yet through the technicality of the law that precluded banks from underwriting any State and municipal issues except those backed by the taxing authority of the State, namely, general obligations, banks were foreclosed from underwriting the issues of the various authorities that States and cities had increasingly established to finance local improvements. At the time the law was framed in its present terms, in 1933, revenue bonds were virtually unknown; the banker group contended that what Congress had really intended to deny to banks was underwriting the special assessment type of obligation, in which the cost of an improvement is levied directly upon the individuals and businesses that benefit from it.

The bankers sought to underwrite and deal only in quality issues, despite claims of their opponents that banks would be tempted to participate in underwriting poor issues. There seemed to have been some tendency to condemn revenue bonds as being of lower quality than general obligations; but the group presented various information to support their view that there were high, medium, and low quality bonds of both classes, and that in many cases revenue bonds were actually of higher quality than general obligations. The relatively high cost to the community of revenue bond

financing, plus the fact that banks were precluded from competing for those issues, made the return on revenue bonds notably higher than that on general obligations. There was an important element of public interest involved in reducing the cost of revenue bond financing. In October 1962, when the Comptroller of the Currency ruled that commercial banks could underwrite the issues of certain authorities of the State of Georgia, the immediate effect was an upward revision of the bids, thus lowering the cost to the authorities. Moreover, the high cost to the community of revenue bond financing caused pressure to be put on the Federal Government to subsidize local projects.

The opponents of the proposal had alleged the danger of conflicts of interest for depositors, stockholders, and trust funds of banks. However, the bankers contended that no bank officer managing an underwriting department would think of doing anything that would impair depositor relationships, which were the primary concern of his bank's management. Banks were not seeking to do anything that would risk capital funds, and informal surveys bankers had taken had brought to light no embarrassment arising in the administration of trusts because of banks' underwriting of general obligations. The number of issues was so great that even a large bank would participate in only a small percentage of them, leaving an ample selection for investment by its trust accounts in the remaining issues. Moreover, the evidence was that in any event trust accounts relied more on the secondary market, in which better prices could usually be obtained.

It was contended that banks could finance more economically the preliminary services now performed for municipalities through the assistance of dealers; banks would underwrite an issue at a lower interest cost.

Chairman Martin having withdrawn from the meeting near the end of the discussion, Governor Balderston thanked the banker group for giving the Board the benefit of its thinking.

The meeting then adjourned.

Secretary's Notes: The Board members proceeded to Room 1202 in the Board's building to view a showing of a new System motion picture, entitled "Money on the Move--The Federal Reserve Today." Messrs. Sherman, Molony, Fauver, and Hackley of the Board's staff were also present at the showing. Following the presentation of the film, the members of the Board noted without objection the plans for use of the film in public and private showings. It was understood that Chairman Martin would send a copy of the film to the Governor of the Bank of England, who earlier had furnished the Board with a copy of the motion picture relating to the operations of that Bank. It was also understood that appropriate advice regarding the use of the film would be furnished to the Chairman of the Conference of Presidents. A copy of the letter sent pursuant to this understanding is attached as Item No. 8.

Pursuant to the recommendation contained in a memorandum from the Division of Research and Statistics, Governor Shepardson today approved on behalf of the Board the appointment of Elizabeth Carol Rose as Draftsman-Trainee in that Division, with basic annual salary at the rate of $3,820, effective the date of entrance upon duty.

Secretary

2426

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

Item No. 1
7/24/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 24, 1963

Board of Directors,
Chemical Bank New York Trust Company,
New York, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System extends to August 3, 1964, the time within which Chemical Bank New York Trust Company may establish a branch at 277 Park Avenue, Borough of Manhattan, New York, New York.

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
7/24/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 24, 1963

Mr. Jack Tarver,
Federal Reserve Agent,
Federal Reserve Bank of Atlanta,
Atlanta 3, Georgia.

Dear Mr. Tarver:

As requested in your letter of July 12, 1963, the Board of Governors approves the appointment of Mr. Edward E. Smith as Federal Reserve Agent's Representative at the New Orleans Branch to succeed Mr. James A. Charbonnet who will retire at the end of the year.

This approval is given with the understanding that Mr. Smith will be solely responsible to the Federal Reserve Agent and the Board of Governors for the proper performance of his duties, except that, during the absence or disability of the Federal Reserve Agent or a vacancy in that office, his responsibility will be to the Assistant Federal Reserve Agent and the Board of Governors.

When not engaged in the performance of his duties as Federal Reserve Agent's Representative, Mr. Smith may, with the approval of the Federal Reserve Agent and the Vice President in charge of the New Orleans Branch, perform such work for the Branch as will not be inconsistent with the duties as Federal Reserve Agent's Representative.

It will be appreciated if Mr. Smith is fully informed of the importance of his responsibilities as a member of the staff of the Federal Reserve Agent and the need for maintenance of independence from the operations of the Bank in the discharge of these responsibilities.

Please have Mr. Smith execute the usual Oath of Office which should then be forwarded to the Board of Governors along with notification of the effective date of his appointment.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 3
7/24/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 24, 1963

Board of Directors,
Northeast Colorado National Bank of Denver,
Denver, Colorado.

Gentlemen:

With reference to your request submitted through the Federal Reserve Bank of Kansas City, the Board of Governors, acting under the provisions of Section 19 of the Federal Reserve Act, grants permission to the Northeast Colorado National Bank of Denver to maintain the same reserves against deposits as are required to be maintained by nonreserve city banks, effective with the first biweekly reserve computation period beginning after the date of this letter.

Your attention is called to the fact that such permission is subject to revocation by the Board of Governors.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 4
7/24/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 24, 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 by The Chase Manhattan Bank, New York, New York, of a branch at 208 Amsterdam Avenue, Borough of Manhattan, New York, New York, 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.)

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

Item No. 5
7/24/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 24, 1963

Board of Directors,
United Home Bank & Trust Co.,
Mason City, Iowa.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by United Home Bank & Trust Co., Mason City, Iowa, of an in-town branch (Parking Lot Office) at 1329 North Federal 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. 6
7/24/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 24, 1963

CONFIDENTIAL (FR)

Mr. W. Braddock Hickman, President,
Federal Reserve Bank of Cleveland,
Cleveland 1, Ohio.

Dear Mr. Hickman:

The Board of Governors approves the payment of salaries at the rates indicated, to the officers of the Federal Reserve Bank of Cleveland listed below, from the effective date shown through December 31, 1963.

Name	Title	Annual Salary	Effective Date
	Head Office		
Clifford G. Miller	Vice President	$15,000	August 1
James H. Campbell	Assistant General Auditor	11,000	September 1
Fred S. Kelly	Vice President and Cashier	16,500	October 1
Elmer F. Fricek	Vice President	16,500	October 1
	Pittsburgh Branch		
J. Robert Aufderheide	Assistant Cashier	11,000	October 1

The salary rates approved are those fixed by your Board of Directors, as reported in your letter of July 11. The Board has noted the change in assignments of Vice Presidents Fink and Clouse.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

TELEGRAM
LEASED WIRE SERVICE

Item No. 7
7/24/63

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

July 24, 1963.

Hodge - Chicago

This refers your telegram July 23 regarding question whether outstanding certificates of deposit with maturities of 12 months or more may be exchanged for new certificates having maturities of 90 days or more and bearing maximum permissible interest rate. In opinion of Board such exchange of outstanding time certificates with maturities of 12 months or more for certificates having maturity of 90 days or more that would mature prior to maturity date of original certificate would constitute payment of time deposits before maturity in violation of law and Regulation Q unless, of course, circumstances are such as to permit payment before maturity in accordance with section 217.4(d) of Regulation Q.

(Signed) Merritt Sherman

Sherman

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

Item No. 8
7/24/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 25, 1963.

Mr. W. H. Irons, Chairman,
Conference of Presidents of the
Federal Reserve Banks,
c/o Federal Reserve Bank of Dallas,
Dallas 2, Texas.

Dear Mr. Irons:

The summary of topics considered by the Conference of Presidents of the Federal Reserve Banks at its meeting on June 17, 1963 included a statement that the new System motion picture had been accepted as satisfactory and that the Conference had authorized completion of payment of the costs.

The Board of Governors reviewed the film yesterday and notes without objection the plans for its use in public or private showings. Chairman Martin is sending a copy of the film to the Governor of the Bank of England, who earlier had furnished the Board with a copy of the motion picture relating to the operations of that Bank.

A copy of this letter is being sent to the Presidents of all Federal Reserve Banks for their information.

Very truly yours,

(Signed) Merritt Sherman,

Merritt Sherman,
Secretary.