

Minutes for July 25, 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 proposed to place in the record of policy actions required to be kept under the provisions of section 10 of the Federal Reserve Act an entry covering the item in this set of minutes commencing on the page and dealing with the subject referred to below:

Page 12 Approval of a discount rate of 3-1/2 per cent for the Federal Reserve Bank of Kansas City.

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

WM

Gov. Mills

RM

Gov. Robertson

CRB

Gov. Balderston

CSB

Gov. Shepardson

CSB

Gov. King

JK

Gov. Mitchell

JM

Minutes of the Board of Governors of the Federal Reserve System on Thursday, July 25, 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. Sherman, Secretary
Mr. Molony, Assistant to the Board
Mr. Cardon, Legislative Counsel
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. Connell, Controller
Mr. Koch, Associate Director, Division of Research and Statistics
Mr. Furth, Adviser, Division of International Finance
Mr. Conkling, Assistant Director, Division of Bank Operations
Mr. Daniels, Assistant Director, Division of Bank Operations
Mr. Goodman, Assistant Director, Division of Examinations
Mr. Benner, Assistant Director, Division of Examinations
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Langham, Assistant Director, Division of Data Processing
Mr. Spencer, General Assistant, Office of the Secretary
Mr. Bakke, Senior Attorney, Legal Division
Mr. Veenstra, Chief, Call Report Section, Division of Bank Operations
Mr. Kakalec, Assistant to the Controller, Office of the Controller

7/25/63

-2-

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 State Bank of Albany, Albany, New York, approving the establishment of a branch at 1245 Washington Avenue.	1
Letter to First National City Bank, New York City, authorizing the establishment of a branch in the Vallejo District, Mexico, D. F., Mexico.	2

Inquiry regarding distribution of coins (Item No. 3). There had been distributed under date of July 22, 1963, a draft of letter to Coin World, a numismatic publication, replying to a letter of June 7, 1963, submitting a list of questions about Federal Reserve distribution of coin, particularly silver dollars. The draft of reply included as an attachment a copy of the questions and a draft of proposed responses.

At the Board's request Mr. Farrell commented, pointing out that Coin World had submitted questions typifying those presented by its readers, and that the request seemed to be a sincere attempt on the part of this publication to obtain the position of the System on the distribution of coin, information about which presumably would be helpful to coin dealers and collectors. Mr. Farrell noted that Coin World had addressed its letter of June 7 to Mr. Daniels, Assistant Director of the Division of Bank Operations, and that certain questions called for an expression of individual opinion; however, the proposed responses

7/25/63

-3-

had been drafted in a manner that would not reflect an individual opinion.

In discussion, several questions were raised relating to numismatic publications. Governor Robertson inquired whether a Board reply in the manner proposed might not constitute, in a sense, a contribution toward the profits of Coin World, in reply to which Mr. Farrell stated that this publication was considered to be a reputable magazine in the numismatic field and was widely read. Also, Coin World had made an effort to develop specific questions; and a substantial portion of the information being furnished had been made available in the past in reply to other inquiries on the same subject.

Further discussion of the point raised by Governor Robertson concluded with a consensus that the Board should reply to the questions and that if there were subsequent inquiries for the same information, a copy of the Board's reply to Coin World could be made available.

Discussion then turned to the individual questions and the draft responses.

Governor Balderston called attention to one question that asked whether it was fair for a member bank to allow a coin dealer to pay for the special privilege of acquiring sizable numbers of silver dollars, and yet deny a collector a small number of silver dollars if he was willing to pay the handling charges, the draft response to which indicated that this matter was beyond the area of Federal Reserve responsibility.

7/25/63

-4-

Governor Balderston pointed out that this answer might be taken out of context. He suggested that the answer be changed to state that this was not a matter covered by statute, and that it was believed to be beyond the jurisdiction of supervisory authorities and subject to the discretion of commercial bank management.

There being agreement with the change suggested by Governor Balderston, the letter and proposed responses to the questions submitted by Coin World were approved subject to the change decided upon at this meeting. A copy of the letter is attached as Item No. 3. It was understood that copies of the letter and its enclosure would be sent to the Federal Reserve Banks.

Messrs. Daniels, Goodman, and Bakke withdrew from the meeting at this point and Mr. Holland, Adviser, Division of Research and Statistics, entered the room.

Management succession survey (Item No. 4). At the meeting on July 8, 1963, the Board was informed that a letter dated July 3, 1963, and draft questionnaires had been received from Chairman Patman of the House Banking and Currency Committee regarding a proposed survey of insured commercial banks with respect to (a) compensation and succession of bank management, (b) correspondent banking, and (c) interest rates on business loans. The letter requested suggestions on the form and content of the questionnaires and inquired whether the Board would be willing to handle their collection and tabulation. In discussion at the July 8 meeting, it was pointed out that the draft questionnaires had been sent

7/25/63

-5-

to the Reserve Banks for comment, with advice to Chairman Patman that this procedure was being followed. As to the question whether the Board would be adverse to handling the collection and tabulation of the completed questionnaires, it was understood that this subject would be considered further following the receipt of comments from the Federal Reserve Banks.

There now had been distributed a memorandum dated July 24, 1963, regarding the bank management survey. The memorandum stated that in accordance with an understanding with the staff of the House Banking and Currency Committee, attention had been concentrated first on this questionnaire and that technical comments from the Reserve Banks and the Board's staff had been conveyed to the Committee staff. The memorandum went on to discuss certain features of processing the survey, it being indicated that the total amount of programming that would be needed was still uncertain. It was estimated, however, that a cost of approximately \$7,000-\$8,000 would result. The survey would probably necessitate contracting for outside services since a large part of the workload involved key punching, programming, and tabulation.

The value of the data that the Committee might derive from the information on the bank management survey was then discussed in the memorandum, it being brought out that primary reliance by the Federal Reserve System in this respect was placed on the bank examination process. However, information from that source could not be made available to the public nor was it desirable to draw upon examination reports as an

7/25/63

-6-

alternative source of the information sought by the Committee. Turning to the subject of respondent and Congressional relations, the memorandum indicated that Reserve Bank comments on the questionnaire emphasized that probably there would be a problem of respondent relations, with the possibility of substantial nonresponse, large scale follow-up activity, and need for resort to the subpoena power by the House Banking and Currency Committee. The Reserve Banks had suggested minimum System involvement.

The memorandum pointed out that there was not uniform staff agreement with respect to involvement in the survey. In general, however, the staff concern was that Federal Reserve activity with respect to the questionnaire be limited to technical advice on survey design and routine editing, key punching, and tabulation of results, with supplemental assistance from outside service bureaus to the extent necessary. If the recommended arrangements appeared feasible for the handling of the bank management questionnaire, similar treatment might be accorded the correspondent banking survey. A different treatment might be in order for the proposed interest rate survey, since the System would have greater interest in, and need for, such data.

There was attached to the memorandum of July 24 a draft of letter to Chairman Patman commenting on the management survey and expressing the view that it would be appropriate that the questionnaire be sent to all respondent banks under a covering letter from the Committee, with the replies addressed to the Committee. The letter indicated, however, that

7/25/63

-7-

the Board would be willing to undertake routine editing, processing, and tabulation of the replies as a service to the Committee. The letter also pointed out that processing of the survey would appear to involve a substantial expenditure of both staff time and money. In this respect, inquiry was made whether the Committee's request for assistance with the survey was intended to include the absorption by the Board of such costs.

At the Board's request, Mr. Holland commented, his remarks being based substantially on information presented in the memorandum of July 24.

In discussion, Governor Mills observed that without question any survey of this kind was likely to be resented by a great many bankers. He thought there was much to be said for the view of the Reserve Banks that the questionnaire should be sent out under a covering letter from the House Banking and Currency Committee, and not from the Reserve Banks, and that responses be directed to the Committee rather than the Reserve Banks.

It was noted that the proposed letter to Chairman Patman, as drafted, asked whether the request for Board assistance was intended to include absorption of certain costs connected with the survey. Reference was made, during consideration of this aspect of the matter, to the chain banking survey that had been undertaken in 1962 at the request of the House Select Committee on Small Business, some of the cost of which the Board had assumed. It was brought out that certain information gathered

7/25/63

-8-

in the chain banking survey was felt to be useful to the Federal Reserve System; however, the results of the survey of management succession would be of more doubtful benefit. On the other hand, it might be said that the management survey related to a phase of the banking picture and that it would also be of interest. It was noted that the estimated out-of-pocket expense involved was relatively small; however, if the Board assumed the cost, that might set a precedent for other requests.

Agreement was then indicated with editorial changes in the draft of letter to Chairman Patman, and the letter was approved unanimously with the understanding that it would be changed to reflect such changes. A copy of the letter in the form sent to Chairman Patman is attached as Item No. 4.

Examination reports. Following approval of the letter to Chairman Patman, Governor Robertson directed attention to a statement in that letter which indicated the Federal Reserve followed carefully the quality of bank management and the availability of capable succession in each State member bank through its examination and supervisory contacts. With reference to this statement, Governor Robertson suggested that a particular effort should be made by the bank examiner to bring problems involving bank management and succession to the attention of a bank's board of directors.

In this connection Mr. Benner noted that the confidential section of a report of examination included a question concerned with bank

7/25/63

-9-

management. The examiner was required to render a brief appraisal of management and also of the board of directors. The practice and policy had been for the Federal Reserve Bank to follow up any problems of this kind that were developed in the confidential section of an examination report.

After discussion, it was understood that further consideration would be given by the Division of Examinations to the matter mentioned by Governor Robertson.

Messrs. Farrell, Johnson, Connell, Conkling, Benner, Leavitt, Langham, Veenstra, and Kakalec then withdrew from the meeting.

Questions submitted by House Banking and Currency Committee.

At the invitation of the House Banking and Currency Committee, members of the Board appeared before the Committee on July 22, 1963, in connection with Board approval of the change effective July 17, 1963, in the rates on discounts and advances at Federal Reserve Banks. Subsequently, the Committee submitted a list of supplementary questions for inclusion in the record, a copy of which had been distributed to each member of the Board with a covering memorandum dated July 23 from Messrs. Young (Adviser to the Board) and Noyes.

There also had been distributed in this connection a memorandum from Governor Balderston dated July 24, 1963, discussing the relation of economic growth to money supply, comment on which subject had been invited by Congressman Reuss during the appearance before the Committee.

7/25/63

-10-

In discussion Mr. Noyes called attention to the variety of questions submitted by the Committee, noting that while some questions were addressed to Chairman Martin, others seemed to be addressed to the Board in general with the exception of one question (numbered 11) apparently directed to Governor Mills. The matter now being raised was one of procedure with respect to the preparation of replies to the respective questions.

Following discussion regarding the form of response to be made, it was understood that the staff would prepare draft replies for consideration by the Board, except that Governor Mills would prepare the response to question number 11.

Article by Beryl Sprinkel. Mr. Noyes referred to a recent letter from Senator Proxmire that apparently had been received by each member of the Board requesting an evaluation and views on a study by Mr. Beryl W. Sprinkel, Vice President of Harris Trust and Savings Bank, Chicago, Illinois, entitled Relative Economic Growth Rates and Fiscal-Monetary Policies.

There ensued a brief discussion regarding Senator Proxmire's request and the manner in which it should be handled, during which Governor Mills indicated that he had responded to Senator Proxmire's letter. There was general agreement with a suggestion that the handling of the letter from Senator Proxmire should be left to the discretion of each member of the Board, but that the staff would draft for

7/25/63

-11-

consideration a general reply that might be used by members who wished to do so.

Request for information regarding bank stock owned by Class B directors. Mr. Sherman reported that a request had been received from Professor Harvey C. Mansfield, a member of the staff of the House Banking and Currency Committee, for information on bank stock owned by Class B directors of Federal Reserve Banks. In this connection Mr. Sherman noted that at the time of Chairman Martin's appearance before the House Committee on Government Operations on June 2, 1954, question was raised regarding bank shareholdings by Class B directors. Subsequently, in order that the Board might have current information, it was decided by the Board at a meeting on June 11, 1954, to have each Reserve Bank contact its Class B directors with a view to ascertaining the extent of their bank shareholdings. Similar information was obtained by the Board through the Reserve Banks in 1956 and was furnished in summary form to the House Banking and Currency Committee, at the Committee's request, at that time. Mr. Sherman went on to point out that there is no statutory provision prohibiting Class B directors from owning bank stock.

In the discussion that followed, Chairman Martin noted that it should be made clear to Professor Mansfield that the information obtained several years ago did not reveal any questionable situations and that

7/25/63

-12-

there would appear to be no particular reason to undertake such a survey at this time in the absence of a statutory requirement against holdings of bank stocks by Class B directors.

There being no indication of views different from those expressed by Chairman Martin, it was understood that Mr. Cardon would talk further with Professor Mansfield on that basis.

Mr. Koch then withdrew from the meeting.

Balance of payments. Mr. Furth presented for the information of the Board a brief report on current U. S. balance of payments figures.

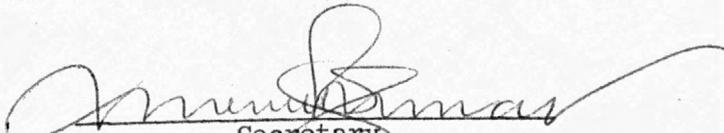
The meeting then adjourned.

Secretary's Notes: A telegram was received today from the Federal Reserve Bank of Kansas City stating that the directors of that Bank had established, subject to review and determination by the Board of Governors, a rate of 3-1/2 per cent (rather than 3 per cent) on discounts for and advances to member banks under sections 13 and 13a of the Federal Reserve Act, a rate of 4 per cent on advances under section 10(b), and a rate of 4-1/2 per cent on advances to individuals, partnerships, and corporations other than member banks under the last paragraph of section 13. Pursuant to the authorization given at the meeting on July 16, 1963, the Secretary informed the Kansas City Reserve Bank by telegram of the Board's approval of the rates established by the Bank's directors, effective July 26, 1963. A press statement was issued at 4:00 p.m. EDT, all Reserve Banks and branches were notified by telegram, and arrangements were made for publication of a notice in the Federal Register.

7/25/63

-13-

Pursuant to the recommendation contained in a memorandum from the Division of Administrative Services, Governor Shepardson today approved on behalf of the Board termination of the employment of Elsie E. Perkins (Anderson), Charwoman in that Division, effective immediately.



Secretary

2447

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

Item No. 1
7/25/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



July 25, 1963

Board of Directors,
State Bank of Albany,
Albany, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by State Bank of Albany, Albany, New York, of an in-town branch at 1245 Washington Avenue, 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 prescribe 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. 2
7/25/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 25, 1963

First National City Bank,
399 Park Avenue,
New York 22, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System authorizes First National City Bank, New York, pursuant to the provisions of Section 25 of the Federal Reserve Act, to establish an additional branch in Mexico, D. F., Mexico, to be located in the Vallejo District; and to operate and maintain such branch subject to the provisions of such Section.

Unless the branch is actually established and opened for business on or before August 1, 1964, all rights granted hereby shall be deemed to have been abandoned and the authority hereby granted will automatically terminate on that date.

Please advise the Board of Governors, in writing, through the Federal Reserve Bank of New York, when the branch is opened for business, furnishing information as to the exact location of the branch.

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. 3
7/25/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 26, 1963.



Mrs. Marion Russell,
Executive Editor,
Coin World,
Sidney News Building,
Sidney, Ohio.

Dear Mrs. Russell:

This refers to your letter of June 7, 1963, submitting a list of questions typifying those posed by readers of Coin World about the Federal Reserve distribution of coin, particularly silver dollars.

Enclosed are answers to your questions, which have been numbered for convenient reference and also rearranged from the order in which they were submitted.

It is hoped the answers will enable Coin World to make satisfactory responses to inquiries from readers. If desired, the answers may be published in their entirety.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Merritt Sherman".

Merritt Sherman,
Secretary.

Enclosure

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



OFFICE OF THE CHAIRMAN

July 26, 1963.

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

Dear Mr. Chairman:

This is in further reply to your letter of July 3, concerning three sample surveys of commercial banks that your Committee is considering undertaking.

In accordance with arrangements made with members of your staff, the Federal Reserve System has concentrated its review of these matters first upon the proposed questionnaire regarding bank personnel and provision for management succession. Numerous technical comments and suggestions have already been conveyed to your staff representatives regarding the content and design of this questionnaire. The aim of these suggestions has been to facilitate editing and tabulation procedures, eliminate duplication of data already available or planned to be available to the Committee, reduce respondent burden, and minimize the problems of nonresponse. Nonetheless, we feel compelled to point out that substantial adverse respondent reaction may be engendered by the survey, partly because it deals with some sensitive subjects and partly because more and more bankers have been objecting to the burdens of reporting in a variety of special surveys as well as regular series.

Attention has also been given to your inquiry as to whether the Board would be adverse to handling the collection and tabulation of these questionnaires. The discharge of its supervisory responsibilities in this field would not ordinarily lead the Board to the distribution of a questionnaire such as that designed by your staff. The Federal Reserve follows carefully the quality of bank management and the availability of capable succession in each State member bank through its examination and supervisory contacts. We understand that broadly similar procedures are followed by the Comptroller of the Currency and the Federal Deposit Insurance Corporation in the exercise of their supervisory authority over national banks and insured nonmember banks respectively.

To: The Honorable Wright Patman -2-

Since the questionnaire under discussion was originally developed by the Committee staff and the analysis and publication of the results of the survey will be undertaken by the Committee and its staff, it seems appropriate that the forwarding of the questionnaire to all respondent banks be done under a covering letter from the Committee and that the replies be addressed to the Committee. This will permit suitable follow-up actions directly by the Committee or its staff in instances of nonresponse to part or all of the questionnaire. The Board will stand ready to undertake the subsequent routine editing, processing, and tabulation of the replies as a service to the Committee, within the limitations upon extent and timing of work to be done that are inevitable because of a need to discharge other assignments. In this connection, it can be expected that Board personnel will refer the more substantive editorial questions to the Committee staff for the exercise of their professional judgment or, if necessary, for the purpose of obtaining clarification from respondents.

While estimates of the size of the task represented by the survey must remain tentative until specifications are complete, it appears to involve a substantial expenditure of both staff time and money. Because of the press of other assignments upon the Board staff, it would be necessary to contract with an outside service bureau for the card punching and preparation of computer programs. The resulting out-of-pocket cost to the Board is likely to be in the neighborhood of \$8,000 at a minimum. The Board assumes that the Committee request for assistance with the survey was intended to include reimbursement by the Committee to the Board for such out-of-pocket costs.

You may rest assured that the Board staff will continue to provide technical advice on questions of survey design, tabulation procedures, and methods of analysis whenever requested by the Committee's representatives. After the first priority accorded to the considerations of the bank management questionnaire, the Federal Reserve Banks and the Board staff have been asked to turn their attention to a similar consideration of the proposed correspondent banking survey and the survey of charges on business loans, in that order. The first informal comments on these surveys have already been exchanged between the Board and Committee staffs. As soon as the focus and content of these surveys have been settled, the Board will write the Committee further concerning possible collection and tabulation arrangements for these later surveys.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.