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Rev. 9/61

Minutes for August 8, 1963

To: Members of the Board

From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, please initial below. If you were present at the meeting, your initials will indicate approval of the minutes. If you were not present, your initials will indicate only that you have seen the minutes.

Chm. Martin	<u>W</u>
Gov. Mills	<u>[Signature]</u>
Gov. Robertson	<u>[Signature]</u>
Gov. Balderston	<u>CCB</u>
Gov. Shepardson	<u>[Signature]</u>
Gov. King	<u>[Signature]</u>
Gov. Mitchell	<u>[Signature]</u>

Minutes of the Board of Governors of the Federal Reserve System
on Thursday, August 8, 1963. The Board met in the Board Room at 10:00 a.m.

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

Mr. Kenyon, Assistant Secretary
Mr. Young, Adviser to the Board and Director,
Division of International Finance
Mr. Cardon, Legislative Counsel
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Noyes, Director, Division of Research
and Statistics
Mr. Shay, Assistant General Counsel
Mr. Brill, Adviser, Division of Research
and Statistics
Mr. Holland, Adviser, Division of Research
and Statistics
Mr. Solomon, Associate Adviser, Division of
Research and Statistics
Mr. Sammons, Adviser, Division of International
Finance
Mr. Conkling, Assistant Director, Division of
Bank Operations
Mr. Goodman, Assistant Director, Division of
Examinations
Mr. Benner, Assistant Director, Division of
Examinations
Mr. Smith, Assistant Director, Division of
Examinations
Mr. Leavitt, Assistant Director, Division of
Examinations
Mrs. Semia, Technical Assistant, Office of
the Secretary
Miss Hart, Senior Attorney, Legal Division
Mr. Hricko, Senior Attorney, Legal Division
Mr. Potter, Senior Attorney, Legal Division
Mr. Young, Senior Attorney, Legal Division
Mr. Porter, Law Clerk, Legal Division
Mr. Collier, Chief, Current Series Section,
Division of Bank Operations
Mr. Veenstra, Chief, Call Report Section,
Division of Bank Operations
Mr. Egertson, Review Examiner, Division of
Examinations

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Circulated 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 Ridgefield Park Trust Company, Ridgefield Park, New Jersey, approving an investment in bank premises.	1
Letter to The First Pennsylvania Banking and Trust Company, Philadelphia, Pennsylvania, approving an extension of time to establish a branch at Grant Avenue and Roosevelt Boulevard.	2
Letter to the Presidents of all Federal Reserve Banks regarding the discontinuance of the Board's annual survey of common trust funds.	3
Letter to The Summit Trust Company, Summit, New Jersey, approving the establishment of a branch at 37 Beechwood Road.	4
Letter to United California Bank, Los Angeles, California, approving the establishment of a branch at 6380 Wilshire Boulevard.	5
Letter to Wells Fargo Bank, San Francisco, California, approving the establishment of a branch in Lafayette.	6
Letter to the Presidents of all Federal Reserve Banks regarding a revision of the form of weekly reporting member bank condition statement to call for information on negotiable time certificates of deposit.	7
Letter to the Presidents of all Federal Reserve Banks regarding a revision of the form of report of changes in commercial and industrial loans by industry to obtain consistent reporting of bankers' acceptances.	8
Memorandum dated August 1, 1963, from the Division of Bank Operations with reference to providing unpublished historical condition and earnings report information for use in a doctoral thesis.	9

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In connection with Items 5 and 6, Governor Balderston expressed interest in having a report on whether the "stockpiling" of branch sites by large banks in California was increasing or decreasing. It was understood that the Division of Examinations would develop information along the lines Governor Balderston had requested.

Report on competitive factors (Jenkintown-Oxford, Pennsylvania).

There had been distributed a draft of report to the Federal Deposit Insurance Corporation on the competitive factors involved in the proposed merger of The National Bank of Oxford, Oxford, Pennsylvania, into Industrial Valley Bank and Trust Company, Jenkintown, Pennsylvania.

During discussion a change was suggested in the conclusion for the purpose of developing a more adverse tone, after which the report was approved unanimously for transmission to the Corporation. The conclusion of the report, as approved, read as follows:

Industrial Bank and Oxford Bank do not appear to compete with each other to a significant extent and little direct competition would be eliminated as a result of the merger. However, the proposed transaction would be the third acquisition of a Chester County bank by Industrial Bank since late 1962. Industrial Bank is by far the largest bank serving Chester County, and consummation of the proposed merger would increase its deposit holdings and branch office representation in Chester County. It might also have adverse competitive effects as it would place Industrial Bank in direct competition in Oxford with one much smaller bank and in service area competition with a number of much smaller banks.

Report on competitive factors (Charleston-Bennettsville, South Carolina). There had been distributed a draft of report to the Comptroller

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of the Currency on the competitive factors involved in the proposed merger of Citizens State Bank, Bennettsville, South Carolina, into The South Carolina National Bank of Charleston, Charleston, South Carolina. The last sentence of the conclusion of the draft report stated that the merger "would also increase slightly concentration of banking resources in South Carolina where the two largest banks hold over one-third of the total banking deposits in the State and where the six largest banks hold over one-half of such deposits."

During discussion Governor Mills indicated that he had reservations about citing percentages such as appeared in the final sentence of the conclusion of the report. The use of such percentages had an appearance of groping toward a definition of the point at which banking concentration became disadvantageous. He doubted that the Board was ready to arrive at such a definition, because what constituted undue concentration might vary from one community or area to another.

Concurrence with Governor Mills' suggestion having been indicated, the latter part of the final sentence of the conclusion was deleted. The report was thereupon approved unanimously, its conclusion reading as follows:

Consummation of the proposed merger would eliminate the moderate amount of competition existing between The South Carolina National Bank of Charleston and the Citizens State Bank. While the proposed merger would not significantly

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alter South Carolina National's competitive position in the areas it currently serves, it would enhance its position as the State's largest bank both with respect to deposits and geographical coverage. It would also increase slightly concentration of banking resources in South Carolina.

Messrs. Sammons, Collier, and Veenstra then withdrew from the meeting.

Quality Stabilization Act. There had been distributed a memorandum dated August 7, 1963, from Mr. Noyes reporting that the Division of Research and Statistics had been represented at a meeting on August 6 at the Budget Bureau concerning S. 774, referred to as the Quality Stabilization Act. The various agencies and executive departments represented at the meeting were invited by the Budget Bureau and the Department of Justice to consider submitting voluntary statements to the Senate Commerce Committee in opposition to this bill, which would amend the Federal Trade Commission Act to permit manufacturers of brand products to establish, maintain, and enforce through the courts retail prices on their products in the manner of the "fair trade" laws.

Discussion of this matter produced a consensus that it would be undesirable to submit a report on the bill in the absence of a formal request from the Budget Bureau or a Congressional Committee. Also, the Board had followed a general practice of expressing views only on proposed legislation affecting areas in which it had a particular expertise, whereas the subject of this bill was somewhat removed from the field of the Board's primary responsibilities.

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At the conclusion of the discussion it was agreed that a voluntary report should not be made.

Compensation of bank officers (Item No. 10). There had been distributed a memorandum dated August 6, 1963, from the Divisions of Examinations and Research and Statistics regarding a letter dated August 5 in which Mr. Patman, Chairman of the House Committee on Banking and Currency, requested the Board to supply aggregate and average information, taken from State member bank examination reports, on compensation of bank officers. (This would be in connection with the Committee's current study of bank management, including succession and compensation.) It was understood that similar requests were being made of the other bank supervisory agencies. The staff of the Committee had indicated that it would be satisfactory to have the data classified by size of bank and geographical location, grouped in such a manner as to avoid any possibility of disclosure of individual bank data. The sample of banks from which information would be compiled would approximate 2,800, of which about 700 would be State member banks. In order to preserve the confidentiality of the data, compilation and tabulation would be done by Federal Reserve personnel. Attached to the memorandum was a draft of letter to Chairman Patman that would indicate the Board's willingness to comply with the request.

During discussion Mr. Brill reported that it was understood that the Comptroller of the Currency had agreed to comply with the

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similar request directed to him by the Committee, and that the Federal Deposit Insurance Corporation was expected also to comply.

The letter to Chairman Patman was approved unanimously, to be sent on receipt of informal advice of favorable action by the Federal Deposit Insurance Corporation. (Such advice was reported later in the day.) A copy of the letter is attached as Item No. 10.

Examination work papers (Item No. 11). There had been distributed copies of a letter dated August 1, 1963, from Mr. Patman, Chairman of the House Committee on Banking and Currency, referring to the review being made by the Committee staff of work papers assembled in the course of recent examinations of Federal Reserve Banks. The letter alleged that the work papers supplied to the Committee suffered from two shortcomings. First, they were arranged in such a manner that supporting schedules or text materials might be removed from the files and the omission not noted. Second, the procedural manuals prepared for the guidance of the field examining force called for a separate memorandum on each Federal Reserve Bank's audit department. None of the work papers reviewed by the Committee staff contained such memoranda, which led to the conclusion that the memoranda had been deliberately removed from the files before the files were made available. The letter concluded with the statement that the Committee's earlier request for the work papers was premised on the idea that all related papers and documents deriving from an examination would be made available.

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It was hoped that the Board would instruct its staff to supply these missing documents so that the Committee staff could get on with its review and complete it in timely fashion.

There had also been distributed a draft of reply to Chairman Patman that would state that the memoranda now requested had not been removed from the work papers, because they were never part of them; that no previous request for such memoranda had been received from the Committee or its staff; but that, to remove any question, the Board would make available the audit department memoranda and also any other Board papers deriving from the examination of the Federal Reserve Banks that the Committee staff felt would be relevant and helpful to its inquiry. The draft letter also contained an explanation of the organization of the work papers.

During discussion general agreement was expressed that it would be important, in replying, to set out clearly that the Committee staff had been given all the materials it requested without anything being removed, and that the materials listed in Chairman Patman's August 1 letter were not part of the work papers and had not been requested previously.

It was brought out that there were only three items in connection with the examination reports that had not already been made available to the staff of the Committee - two confidential sections and an accumulation of miscellaneous papers, such as staff personnel files

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having no connection with the examination itself, that were collected by an examiner who was appointed to perform an administrative function for each examination. The collection of miscellaneous papers, however, included excerpts from the minutes of meetings of boards of directors of the respective Reserve Banks. It had not seemed appropriate to turn them over to the Committee staff without clearance with the Reserve Banks concerned. In any event, it had been thought that the Committee staff would be visiting the Reserve Banks in the course of its review and could examine the minutes of directors' meetings at that time if desired.

To avoid any question, Mr. Cardon suggested that all papers, of whatever nature, arising out of a Reserve Bank examination be furnished to the Committee staff, and there was general agreement on the part of the Board that this would be an appropriate procedure. The question of clearance with the Reserve Banks of releasing the minutes excerpts was discussed, comment being made that there would seem to be no ground for withholding the minutes of directors' meetings when an appropriate request came from a Congressional Committee. However, in the interest of courtesy it was thought advisable to inform the Reserve Banks that the Board felt that, in order to comply fully with the Committee's request, it must include the minutes excerpts in the material that would be made available, and allow the Banks an opportunity to express any views they might care to offer.

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During further discussion a number of editorial changes were agreed upon in the draft of reply to Chairman Patman. Question was raised, for clarification, if it was the Board's intent that the confidential section of each examination report, dealing with management and related matters, should be made available to the Committee staff along with the memorandum on the audit department, and the response was in the affirmative.

The letter to Chairman Patman was then approved unanimously in the form attached as Item No. 11.

Secretary's Note: On August 9, 1963, letters were sent to the Federal Reserve Banks of Boston, Cleveland, Richmond, and Chicago informing them of the Board's intention to furnish the Committee the excerpts from the minutes that were included in the administrative papers associated with the examinations, listing the dates of the meetings involved, and providing an opportunity for the submission of any views or comments.

Mr. Smith then withdrew from the meeting.

Investment powers of Federal savings and loan associations.

There had been distributed a memorandum dated August 6, 1963, from the Legal Division regarding a request from the Bureau of the Budget for a report on a draft bill proposed by the Federal Home Loan Bank Board that would enlarge the investment powers of Federal savings and loan associations. Whereas under existing law the associations may invest any portion of their assets in obligations of the United States, stocks or bonds of a Federal Home Loan Bank, or obligations of the Federal

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National Mortgage Association, the draft legislation would permit investment without limit in obligations of all agencies of the United States, as well as obligations of the several States and local governmental entities. The obligations of States and local governments would include direct obligations, guaranteed obligations, and special obligations as defined by the Federal Home Loan Bank Board. Presumably this latter group could include so-called "revenue" bonds. The associations would also be permitted to use up to 10 per cent of their assets to finance the acquisition of major household durable goods and the payment of expenses of college or university education. The associations would further be permitted to invest up to 5 per cent of their assets in financing the acquisition of mobile dwellings.

Arguments for and against the proposal were set out in the memorandum, followed by views expressed by the Commission on Money and Credit and the President's Committee on Financial Institutions bearing upon the question of broadening the powers of savings and loan associations. Members of the Board's staff had expressed varying views on the current proposal ranging from strong opposition to qualified approval. Attached to the memorandum was a draft report that would oppose the broadened investment powers except as to Government obligations that were supported by the full faith and credit of the issuing governmental entity.

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Following a general discussion of the draft bill, which indicated that some of the members of the Board were generally in accord with the position taken in the proposed letter, Governor Mitchell commented that he was inclined to favor the proposed legislation. As a first point, he felt that revenue bonds were of as good quality as general obligations and believed there was a great deal of evidence to support this view. In many instances revenue bonds were serviced out of general resources; therefore, if one thought of general obligations as being of high quality, so also were such revenue bonds. In his view, quality depended on the circumstances of the particular issue, not whether the issue was a revenue bond or a general obligation.

Governor Mitchell also commented that he believed that the position taken in the draft report, in effect, said that the Board was opposed to competition. As to a passage that would indicate that the many problems attendant on the extension and servicing of the types of credit permitted by the bill required highly specialized and technical competence quite different from that required in the area of mortgage lending, he remarked that when banks first entered the consumer credit field, they did not have much experience and had to learn the hard way; savings and loan associations had the same capacity to learn.

Governor Shepardson, noting Governor Mitchell's reference to an impression of opposing competition, remarked that the Board should not

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allow such an impression to be given. However, there was a broader question involved than the specific lending authorities of savings and loan associations. The basic problem was the continuing expansion of credit agencies outside the structure of the Federal Reserve System's control and responsibility. It seemed evident that organizations such as savings and loan associations should not be given broader authority in the absence of regulatory requirements comparable to those under which banks operated. Recently-proposed legislation to bring such organizations under additional control and supervision would place their competition with banks on a more equitable basis.

Governor Mills expressed concurrence with the principle Governor Shepardson had mentioned. It would be advisable, he suggested, for different types of financial institutions to operate within their own areas and not attempt to invade other fields. Attempts to engage in credit activities other than those for which they were created had been a source of trouble and recrimination. Current discussion gave the impression that mutual savings banks, savings and loan associations, and commercial banks were not prospering, but in fact their business was increasing.

In response to an inquiry as to what approach he believed the report under consideration should take, Governor Mills recommended that the report indicate that decisions on broadened investment powers for savings and loan associations should at least be preceded by legislation that would set standards of liquidity for such associations.

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If such standards were set, there might be more justification, if there was any, for their venturing into new fields.

Governor Mitchell expressed concurrence in the suggestion that emphasis be placed on the need to deal with liquidity problems of savings and loan associations before any broadening of their powers. While he noted again his views with respect to the quality of revenue bonds, he indicated that he would find acceptable a report couched in terms of remaining uncommitted on the provisions of the present draft bill pending the enactment of legislation expanding regulatory controls over savings and loan associations.

Chairman Martin observed that apparently this was the type of report on which the Board would be able to reach agreement. He added that he did not feel that the Board should take a position on the revenue bond question in this particular context, since broader aspects of the problem of revenue bond financing were still under consideration by the Board.

After further discussion it was understood that the report would be redrafted in light of the comments and suggestions made at this meeting for the Board's further consideration.

Mr. Brill then withdrew from the meeting.

Loans by national banks on forest tracts. On June 12, 1963, the Board reported to the Bureau of the Budget on a Treasury draft bill that would authorize national banks to make amortized loans up to

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75 per cent of the appraised fair market value of the "growing timber, lands, and improvements" offered as security, on such terms and conditions as to assure that the loan balance at no time would exceed 75 per cent of the original appraised total value of the property then remaining. Under existing law, loans could be made in an amount not in excess of 40 per cent of the value of the "economically marketable timber." The maximum permissible maturity in the case of loans secured by amortized mortgages would be increased from 10 to 20 years, with the requirement that instalment payments must be sufficient to amortize the principal at the rate of at least 5 per cent per annum. In the case of unamortized loans, the Treasury draft bill would increase the maximum permissible maturity from 2 to 5 years, and the maximum permissible amount of loan would be increased from 40 per cent to 60 per cent of the value of the property.

The Board's report had been in terms that favored granting authority to make loans on "growing timber, lands, and improvements," especially in the case of long-term loans. However, the desirability of increasing the permissible amount of the loan beyond 40 per cent of the appraised value of the property was regarded as questionable. While it was understood that in recent years considerable progress had been made in controlling timber losses resulting from fire, disease, and insects, those hazards still represented serious dangers. Furthermore, if the borrower was required to assume a substantial portion of this

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risk, he might be more inclined to adopt effective procedures for the protection and management of the property. The Board expressed the view that some increase in the permissible maturities of amortized loans might be justified in order to afford a better opportunity for developing more efficient management of timber tracts, which presumably was one of the important objectives of the proposal. The Board, however, questioned the advisability of permitting commercial banks to make such loans with maturities as long as 20 years. Likewise, an increase in the permissible maturities of unamortized loans to 5 years was not recommended. It was suggested that 3-year maturities would provide the flexibility needed to meet adequately the credit needs of applicants for loans of this type.

There had been distributed copies of a memorandum dated August 2, 1963, in which the Comptroller of the Currency commented on the draft bill and the views of the Board and the Federal Insurance Deposit Corporation. The latter had questioned the desirability of an increase to 75 per cent of the appraised value and opposed increasing maturities to 20 years. The Corporation also suggested amendments to the draft bill to provide that guidelines on proper management and appraisals of the fair market value be placed under the authority of the National Forest Service. The Comptroller's memorandum stated that national banks were presently operating at a competitive disadvantage with respect to State banks in the field of loans on forest tracts. Very

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few States had specific provisions concerning lending on forest tracts, but the general restrictions on real estate loans under State law were, as a rule, more liberal than those placed on lending by national banks on forest tracts. The raising of the limitations on forest tract loans to 75 per cent of appraised value in the case of amortized loans and to 60 per cent of appraised value in the case of unamortized loans, the Comptroller of the Currency continued, was justified in view of the increase in forest tracts under management for continuous timber production. Great progress had been made in improving forest-fire protection for stands of merchantable timber. The stability of loans on forest tracts had been increased because of the vigilance exercised by management and governmental authorities, thus significantly reducing the fire hazard. State-chartered banks in the majority of the States were able to lend up to the level to be permitted national banks by the draft bill.

The Comptroller of the Currency also considered the increase in the limitation upon the terms of loans on forest tracts justifiable. More than half of the States had no limitation on the maturities of such loans. Considerable dependence must be placed on long-term credit in this field because of the relative long-range nature of forest-crop production. Short-term credit tended to force the harvesting of forest products at inopportune times. The Department of Agriculture and the National Forest Service supported not only the increase to 75 per cent of appraised value but also the extension in the limitation on the term

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of loans. In fact, the Department of Agriculture urged loans from 40 to 60 years as ultimately desirable because of the long-term nature of timber-growing in this country. The Comptroller considered impractical the proposals of the Federal Deposit Insurance Corporation concerning authorization of development by the Forest Service of guidelines on proper management and appraisals of the fair market of the security involved. The Forest Service, he said, was not equipped for an undertaking of this kind. The Comptroller's memorandum concluded by expressing the view that to properly encourage capital investment in the protection and development of forest resources, it was important to obtain more liberalized loan conditions. Longer terms were necessary because of the nature of the industry and higher percentages of the security were necessary to increase the volume of activity by national banks in forest-tract lending.

Governor Mills noted that he had been a party to a liberalization a number of years ago of the law regarding national bank loans on forest tracts, which was justified in order to allow a logging and lumber organization to mortgage timber that would be liquidated by its operations within a few years. Previously, timber was considered undeveloped land, and national banks could not take a mortgage on it. However, the high percentage of appraisals and the long terms provided in the legislation currently proposed would, in Governor Mills' view, make such loans in effect of a capital character, with no compulsion to liquidate.

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Mr. Noyes commented that the question was essentially whether banks should be allowed to lend on growing timber. Present law limited them to loans on timber that was sufficiently developed to permit cutting. If lending on growing timber was to be allowed, a short-term loan did not make much sense.

Governor Mills observed that the intent of the 1953 change in the law was to assist smaller operators who would buy small tracts of timber but could not finance them because banks could not make a mortgage loan on them. Banks were not encouraged to invest in forest tracts over an indefinite period of time.

Governor Shepardson stated that when the Board's report on the current proposal was made to the Budget Bureau, he had had some questions in his mind. Recently he had attended a meeting in Georgia of people who were interested in reforestation, a great deal of which was going on in that area. He had now checked a number of questions with the Forest Service and it seemed to him, on the basis of these inquiries, that there was a real question in regard to the financing of growing timber. The people in the Forest Service were very much in favor of some program of this kind. The small woodlot man would not be involved as a practical matter, because it would not be profitable for him. However, there was quite a development toward growing timber on land taken out of crops, and there was need for credit to carry the operators until it was possible to get some return from such investments.

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Apparently, the proposed liberalization of the law would be useful largely in the pulpwood areas, where timber-land operators got their first cuttings in about 10 to 15 years; in about 20 years they would begin to make their major harvest. From the standpoint of the collateral, the 75 per cent of appraised market value was based on growing timber which increased in value every day. At the meeting he attended there had been descriptions of present-day methods of control of both disease and fire that had significantly reduced loss hazards.

The Comptroller of the Currency's memorandum had indicated that there was some inequity between State and national banks, Governor Shepardson continued. The Forest Service had said that as far as they had observed, even the State banks had not been going extensively into this kind of financing up to this time. The Federal Land Banks had been handling most of it, and their record was good. They supported this recommendation for enlarging the authority for national banks to enter into such financing. It seemed to Governor Shepardson that the bill would enable national banks to move into an area of needed financing; he saw real merit in providing some opportunity for credit financing of reforestation programs.

Governor Mills stated that in his mind the sole question was whether banks should be in this area, with the risks involved in long-term financing of this kind. The proposal got into the philosophy of what banks, operating with demand deposits, should do with their funds and whether the risk should not be taken by other types of institutions.

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There followed discussion of the salvage value of timber injured by disease or fire, after which Chairman Martin remarked that in his view the basic problem was whether, as Governor Mills had indicated, banks should be in this type of business. He asked whether, if banks did want to enter this field and if the Forest Service and the Department of Agriculture thought it was sound, the matter should not be left to the judgment of the individual bank. This was a permissive operation, not a mandatory one.

Governor Mitchell indicated that he had no strong feeling. He doubted that banks would enter the field to any extent even if they were given a chance. State banks that had had the opportunity previously apparently had not taken advantage of it.

Governor Balderston suggested that the real question before the Board was whether to encourage the Treasury to submit this draft bill or not. In view of the comments made at this meeting, he did not see that anything would be gained by cutting back the maturity very much, although the 20-year maturity had disturbed him at first. Perhaps the Board could encourage the Treasury to set a lower maximum for loans than 75 per cent of appraised value. According to Governor Shepardson's remarks, however, 75 per cent on young, growing timber that gained in value every year was quite different from loaning such a percentage of appraised value on mature timber.

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Governor Shepardson then spoke further about the program of reforestation, noting that in the typical case the person with timber land not only had young plantings but also marketable timber from which he obtained some current income. He needed financing on the new stand. Governor Shepardson considered the 20-year maturity appropriate. In practice, he added, even the State banks that now could engage in such financing were not rushing into it, but there were apparently some national banks that wanted to enter the field, and he did not see why they should not be allowed to do so.

After further discussion, Chairman Martin commented that although there was obviously some question about the proposal within the Board, he gathered that the majority of the Board would not be prepared to oppose the measure vigorously. It was understood that Chairman Martin would convey this general impression informally to the Treasury.

Messrs. Solomon and Benner then withdrew from the meeting.

Advances by Federal Reserve Banks (Items 12 and 13). There had been distributed a memorandum dated August 1, 1963, from Mr. Hackley submitting a draft letter, revised in the light of the discussion of the matter at the meeting of the Board on July 31, 1963, to the Chairmen of Senate and House Committees on Banking and Currency regarding proposed legislation on advances by Federal Reserve Banks.

After a discussion during which certain further changes in the draft were agreed upon, the letter was approved unanimously. A copy

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of the letter addressed to the Chairman of the Senate Committee is attached as Item No. 12.

Mr. Hackley recalled that when the Board on July 24, 1963, decided to submit the proposed legislation to the Congress as soon as possible, it had been agreed that the Reserve Bank Presidents would be furnished copies of the letter transmitting the legislative proposal to the Banking and Currency Committees, the enclosures with the letter, and also copies of a proposed revision of the Board's Regulation A, to be entitled Advances by Federal Reserve Banks, asking the comments of the Presidents on the draft regulation in general and on two questions regarding it in particular. A letter to the Reserve Bank Presidents had been drafted and was approved by the Board on July 31, 1963.

Mr. Hackley suggested that the Bureau of the Budget, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation be furnished copies of the Board's letter to the Banking and Currency Committees and its enclosures. He further suggested that copies might be sent to the American Bankers Association and the Association of Reserve City Bankers for their information.

The members of the Board expressed concurrence with Mr. Hackley's suggestions.

Secretary's Note: It had been understood at the meeting on July 31, 1963, that Chairman Martin would visit the offices of the Chairmen of the Committees on Banking and Currency to present the Board's letter personally. The letter was

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presented under date of August 21, 1963. A copy of the letter to the Reserve Bank Presidents, which was transmitted on August 22, 1963, is attached as Item No. 13.

Messrs. Young (Adviser to the Board), Cardon, Noyes, Holland, Conkling, and Potter then withdrew from the meeting.

Application of Wells Fargo Bank. There had been distributed a memorandum dated August 1, 1963, from the Division of Examinations in connection with the application of Wells Fargo Bank, San Francisco, California, to merge with State Center Bank, Fresno, California. The Division of Examinations recommended that the application be approved.

At the Board's invitation, Mr. Leavitt summarized the circumstances underlying the application, basing his remarks principally on the Division's memorandum. A fact having a special bearing was that the President of State Center Bank, who apparently had been personally responsible for attracting to the bank a number of large accounts, was now 76 years of age and in poor health, and wished to retire. It seemed probable that upon his retirement some of the large accounts would be lost to other banks. The directors of the bank reportedly had made repeated efforts to obtain a qualified successor, but had not been able to find a well-qualified person.

After a discussion of the California banking structure, Governor Mitchell asked a number of questions regarding the recent Supreme Court ruling that the planned merger of The Philadelphia National Bank and Girard Trust Corn Exchange Bank, both of Philadelphia, Pennsylvania, would violate the Clayton Antitrust Act. He also asked if, given the

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present state of the law, the Board would be justified in denying a merger application that would have a definite adverse effect on the value of a bank's stock. If this merger were turned down on the ground that it would contribute, although slightly, toward a larger measure of banking concentration in California, the question was whether a court would be likely to say that the stockholders had been deprived of their property without due process because the denial whittled away part of the value of the bank's stock.

Mr. Hackley noted that in the Brown Shoe Company case the Court had held that there would not be a violation of the Clayton Act, despite a considerable lessening of competition, if an acquisition was for the purpose of taking over a failing company. The Philadelphia case appeared to indicate an attitude on the part of the Court that the failing company doctrine might be applied somewhat more liberally if the institution involved was a bank than if an industrial or commercial institution was involved.

It was also noted that other and more attractive offers reportedly had been made to State Center Bank; it was not clear that the bank's stockholders would lose a large part of the value of their stock if the Board denied this merger. The bank indicated that it had chosen to merge with Wells Fargo because such a merger could do more to benefit the community.

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The members of the Board then expressed their views, beginning with Governor Mills who stated that he regarded this as a borderline and difficult case, but that he would accept the Division's recommendation for approval. Fresno was a large community and, according to the available information, many of the businesses located there required banking accommodations reaching beyond the ability of State Center Bank to supply. State Center Bank was not a typical neighborhood bank catering to individuals and small businesses. It was unusual for its size in that it had catered to larger businesses. Yet the point seemed to have come when it could no longer fully meet those needs. Through the merger, an additional alternative source of banking services for those customers would be provided in Fresno. Nevertheless, the case was a difficult one. The proposal seemed in tune with the banking situation in California, where the larger banks had grown to such size that smaller banks that could not provide equal services found difficulty in establishing and retaining their positions.

Governor Shepardson indicated that he would approve on the basis of the reasoning advanced by the Division of Examinations.

Governor Mitchell commented he was unhappy about the case. He found no basis for approval in the Division's recommendation. While he would approve, he did not think there was any shortage of banking services in Fresno with large banks, such as Bank of America, having branches there. However, he found himself unable to say that banks could not

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merge if one of them wanted to go out of business. In this case the owners would undoubtedly get a handsome capital gain out of the transaction; the merger was greatly in their interest. Further, he considered this merger an unfortunate thing for the community. However, if the bank wanted to go out of business, he was not sure that it should be stopped, even though it disturbed him that a vigorous independent competitor would be eliminated.

Governor Shepardson remarked that if State Center Bank had a managing officer 50 or 55 years old, the situation would be different, but an executive 76 years of age might reasonably be expected to be looking for a way out.

Governor Balderston stated that his reaction was much like that of Governor Mitchell. He did not think that the Board could properly insist that a bank built up and headed by a man now 76 years old must continue in business regardless of the desires of the shareholders. The talent of this particular banker seemed to be intimately connected with the success of the bank; the nature of the bank's accounts was somewhat different from what would be found in many independent banks that catered largely to small businesses. He would vote for approval, but he had some concern as to how a statement could be drafted that would be valid and legally acceptable. Governor Mitchell, he noted, was really espousing the right of the owners of private property to dispose of it, provided the community would not thereby be hurt. Governor Balderston

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did not believe that the proposed transaction in this case would hurt the community of Fresno, though unfortunately the city would lose a sound independent bank.

Chairman Martin stated that he would vote for approval on the basis of the recommendation of the Division of Examinations.

The application of Wells Fargo Bank was thereupon approved unanimously. It was understood that the Legal Division would draft for the Board's consideration an order and statement reflecting this decision.

Application of Asbury Park and Ocean Grove Bank. There had been distributed a memorandum dated August 5, 1963, from the Division of Examinations in connection with the application of Asbury Park and Ocean Grove Bank, Asbury Park, New Jersey, to merge with New Jersey Trust Company of Long Branch, Long Branch, New Jersey. The Division of Examinations recommended that the application be approved.

After comments by Mr. Leavitt, several questions were posed by the Board, to which the staff responded, and the members of the Board then expressed their views regarding the case.

Governor Mills stated that he would approve for the reasons cited by the Division of Examinations, principally because the resulting bank would be a more effective bank to serve the growing community. In no sense, however, should approval be premised on a merger movement in the area, with two banks being permitted to merge so that they would be in a better position to compete with other merged banks. The Board's

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statement should emphasize the factors considered in the case and not give any indication that the merger was brought about by a need to preserve a competitive position in the area. There was always the possibility of a race of mergers, but this was not a valid reason for approving. In this case the basic reason for approval was the needs and requirements of the area to be served, which would be benefited by the services of a larger well-managed bank.

Governors Shepardson, Mitchell, and Balderston and Chairman Martin concurred in approval.

The application of Asbury Park and Ocean Grove Bank was thereupon approved unanimously. It was understood that the Legal Division would prepare for the Board's consideration an order and statement reflecting this decision.

All members of the staff except Mr. Kenyon then withdrew from the meeting.

Lease of additional space. Governor Shepardson referred to the Board's action on June 19, 1963, authorizing him to negotiate with the Federal Deposit Insurance Corporation for additional rental space in that Corporation's building in the amount of approximately 3,000 square feet, on terms similar to those contained in the contract executed between the Board and the Corporation as of August 23, 1962. He reported that these negotiations had resulted in an agreement on the part of the Corporation to amend the original lease to cover an additional

8/8/63

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area comprising 2,276 square feet on the seventh floor of the building, that the agreement to amend the lease had been executed on behalf of the Federal Deposit Insurance Corporation as of August 1, 1963, and that the agreement was now ready for execution on behalf of the Board.

The execution on behalf of the Board of the agreement to amend the original lease was authorized.

Committee on Organization, Compensation, and Building Plans.

Chairman Martin referred to the action taken by the Board on June 27, 1962, in establishing a Committee on Organization and Building Plans (later known as the Committee on Organization, Compensation, and Building Plans), with the understanding that the function of such committee would be to meet once a year with each Federal Reserve Bank President for the purpose of considering officer development and compensation and any contemplated changes in major Reserve Bank programs, including sizable building projects, but with no intention of over-all budget review. (It was understood, however, that if nothing seemed to require a meeting with a particular Reserve Bank President, such meeting need not be scheduled by the Chairman of the Committee.) At the June 27, 1962, meeting the Board had designated Governors Balderston, King, and Mitchell to serve as members of the Committee, with Governor Mitchell as Chairman.

At this meeting Governors Balderston and Mitchell were designated as members of the Committee on Organization, Compensation, and Building Plans, with Governor Mitchell as Chairman, and it was understood that a third member of the Committee would be designated later.

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The meeting then adjourned.

Secretary's Notes: Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson approved on behalf of the Board on August 7, 1963, the following actions relating to the Board's staff:

Transfers

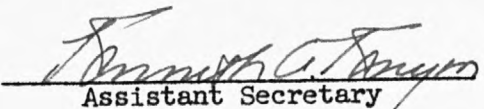
Carmen H. Feliciano, from the position of Clerk-Stenographer in the Division of Personnel Administration to the position of Stenographer in the Legal Division, with no change in basic annual salary at the rate of \$4,110, effective upon assuming her new duties.

Dorothy Ann Gheen, from the position of Clerk-Stenographer in the Division of Personnel Administration to the position of Clerk-Stenographer in the Office of the Secretary, with no change in basic annual salary at the rate of \$4,030, effective upon assuming her new duties.

Acceptance of resignation

Judith E. Locknane, Clerk, Division of Research and Statistics, effective at the close of business August 16, 1963.

Pursuant to the recommendation contained in a memorandum from the Legal Division, Governor Shepardson today approved on behalf of the Board the appointment of Robert F. Sanders as Attorney in that Division, with basic annual salary at the rate of \$6,900, effective the date of entrance upon duty.


Assistant Secretary

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

Item No. 1
8/8/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 8, 1963



Board of Directors,
Ridgefield Park Trust Company,
Ridgefield Park, New Jersey.

Gentlemen:

The Board of Governors of the Federal Reserve System approves, pursuant to Section 24A of the Federal Reserve Act, an additional investment of \$159,500 in bank premises by Ridgefield Park Trust Company for the purpose of enlarging and modernizing its banking quarters.

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
8/8/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 8, 1963



Board of Directors,
The First Pennsylvania Banking
and Trust Company,
Philadelphia, Pennsylvania.

Gentlemen:

The Board of Governors of the Federal Reserve System extends to October 19, 1963,* the time within which The First Pennsylvania Banking and Trust Company may establish a branch at the southeast corner of Grant Avenue and Roosevelt Boulevard, Philadelphia, Pennsylvania.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

*Should have read October 19, 1964.

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

S-1884
Item No. 3
8/8/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 8, 1963.

Dear Sir:

The Board's letter of August 18, 1955 (S-1572, F.R.L.S. #4109), which inaugurated an annual survey of common trust funds, is hereby rescinded.

Since transfer to the Comptroller of the Currency of regulatory authority with respect to these funds, negotiations for the discontinuance of the series have been under way with the Bureau of the Budget. The Bureau has advised that the Comptroller plans an annual survey of common trust funds comparable to that previously conducted by the Board, and that it will be appropriate to discontinue the Board's survey.

Very truly yours,

A handwritten signature in cursive script that reads "Kenneth A. Kenyon".

Kenneth A. Kenyon,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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

Item No. 4
8/8/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 8, 1963



Board of Directors,
The Summit Trust Company,
Summit, New Jersey.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by The Summit Trust Company, Summit, New Jersey, of a branch at 37 Beechwood Road, Summit, New Jersey, 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

Item No. 5
8/8/63

WASHINGTON 25, D. C.

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 8, 1963



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

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by United California Bank at 6380 Wilshire Boulevard, Los Angeles, California, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

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

Item No. 6
8/8/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 8, 1963



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

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by Wells Fargo Bank, San Francisco, California, in the vicinity of the downtown business district of Lafayette, an unincorporated community in Contra Costa County, California, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

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

Item No. 7
8/8/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 8, 1963.

Dear Sir:

The Board has approved the recommendations of the System Research Advisory Committee and its subcommittees to request all weekly reporting member banks to report as a weekly memorandum item on FR 416 the total amount of all negotiable time certificates of deposit outstanding in denominations of \$100,000 or more. Copies of the revised FR 416 are attached. Preliminary negotiations indicate that the Bureau of the Budget will approve the form; the number assigned to the form will be telegraphed to the Reserve Banks.

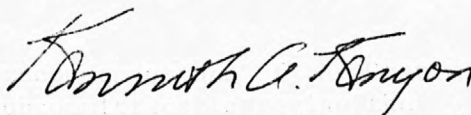
All weekly reporting banks should be informed that, beginning with the first Wednesday in January (January 1, 1964), the total amount of all negotiable time certificates of deposit outstanding in denominations of \$100,000 or more should be reported as a memorandum item on form FR 416, with this exception: the 32 banks that had outstandings of \$50 million or more certificates of deposit on December 5, 1962 (list of banks attached) should be requested to begin their reporting of these certificates of deposit with the first Wednesday in September (September 4, 1963). It would be appreciated if the Reserve Bank personnel, when consulting these large respondents regarding the new series, would obtain an estimate of the total volume of each bank's certificates that mature during the September tax and dividend period, and forward the information to the Division of Research and Statistics.

For the purpose of this report, "negotiable" time certificates are defined as those certificates issued in a form which legally permits sale by the holder with no restrictions imposed by the issuing bank on resale of such certificates. The intention of the issuer to sell a certificate or to hold to maturity is not to be considered in determining whether a certificate is negotiable.



Those reporting banks which indicate in their memorandum report an outstanding total of \$50 million or more of certificates of deposit in denominations of \$100,000 or more should be asked to submit a special confidential report FR 416b, copy attached, every six months on the amount of such certificates of deposit maturing in each of the succeeding 12 months and the total amount maturing after one year. Your Bank will be informed later as to the timing of these semiannual surveys.

Very truly yours,



Kenneth A. Kenyon,
Assistant Secretary.

Enclosures

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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

Item No. 8
8/8/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 8, 1963.

Dear Sir:

The Board has approved the recommendations of the System Research Advisory Committee and its subcommittees to revise the reporting of bankers' acceptances by weekly reporting member banks and by those banks in the series of commercial and industrial loans by industry. Copies of the revised form FR 416a are attached; form FR 416 is not affected by this revision. Preliminary negotiations indicate that the Budget Bureau will approve the revised form; the new number will be telegraphed to the Reserve Banks when it is received.

Although the new form is not to be used until the first Wednesday in January (January 1, 1964--actually December 31 because of holiday), all weekly reporting banks should be given as much advance notice as practicable that, beginning then, bankers' acceptances for the creation of dollar exchange should be excluded from commercial and industrial loans and should be reported as "loans to foreign banks" if they represent accommodation to private banks abroad and as "all other loans" if they are credits for foreign central banks; and that all other acceptances, i.e., those related to commercial transactions, should continue to be reported as commercial and industrial loans on the 416 report, and should be reported in a separate category (item VII - 1) in the 416a report. An exception may be made for acceptances purchased but not in the physical possession of the reporting bank. In such instances, the reporting bank may assume that these acceptances relate to commercial transactions and report them as commercial and industrial loans.

Weekly reporting banks that have reported bankers' acceptances for the creation of dollar exchange as commercial and industrial loans, and those in the 416a series that have classified bankers' acceptances according to the industry of the borrower, should be asked to report on both the old and new basis for the week ending January 1, 1964, in order that appropriate footnotes may indicate the volume involved in the break in the series.

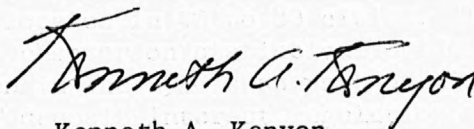


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So that all changes in reporting on this form will take place on the same date, the changeover from "net changes" to "outstandings," described in the enclosure with the Board's letter of July 25, 1961, is also set for January 1, 1964. Banks still reporting on a "net change" basis should be asked to report on both bases for that week, and the summary report to the Board for that week should be on both bases.

Assurances have been received from the other Federal bank supervisory agencies that the revision in the reporting of bankers' acceptances for the creation of dollar exchange will be included in the Instructions for the Preparation of Reports of Condition when they are reprinted.

Very truly yours,



Kenneth A. Kenyon,
Assistant Secretary.

Enclosure.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 9
8/8/63

Date August 1, 1963

Office Correspondence

To Board of Governors

From Division of Bank Operations

Subject: Provision of unpublished, historical condition and earnings report information outside the System.

Amc

Mr. Albert Cox, Jr., Secretary, Research Committee, American Bankers Association, has requested that the Board provide access to historical microfilm records of member bank condition and earnings reports for use in preparing his doctoral thesis under Professor Paul McCracken at the University of Michigan School of Business Administration. As explained in the attached letter from Mr. Cox, the data to be abstracted will be 1929 figures for member banks located in 40 to 80 cities. This information is to be used in a chapter on statistical evidence of destructive rate competition in the 1920's as part of his thesis on the general topic of deposit interest regulation.

We have written assurance that figures for individual banks will not be disclosed and that presentation of the data in the thesis will be in the form of groupings of banks or of differentials in ratios for individual unnamed banks. Mr. Cox has also stated that a member of the ABA research staff will be available to abstract the data from microfilm records but that members of the Division's clerical staff may be requested to assist on a time available basis.

It is recommended that the information requested be made available to Mr. Cox with the usual understanding that no figures for individual banks will be published or disclosed in any way.

T. A. Veenstra, Jr.

T. A. Veenstra, Jr.,
Chief, Call Report Section.

Attachment



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 10
8/8/63

OFFICE OF THE CHAIRMAN

August 9, 1963

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

Dear Mr. Chairman:

This is in response to your letter of August 5, 1963, requesting information on the compensation of bank officers as reported on bank examination reports. The Board has agreed to supply the information needed in such form as would obviate any possibility of disclosure or identification of the information for any individual bank, and will arrange to tabulate the figures according to the classification agreed on by members of the staff of the Committee and the Board.

As soon as the tabulations have been made, they will be forwarded to the Committee.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 11
8/8/63

OFFICE OF THE CHAIRMAN

August 8, 1963

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

Dear Mr. Chairman:

This refers to your letter of August 1 concerning your staff's review of the reports of examination of the Federal Reserve Banks and the working papers developed in the course of such examinations. Both of us want to see your review completed promptly, and I would add the hope that the project will support my own belief that the System has a thorough and efficient examination program.

The Board's staff has cooperated fully with your staff in this review, and has furnished all material requested, complete and unexpurgated. Your letter indicates you now wish to see certain memoranda, which are referred to in the working papers furnished your staff, but which are not included in these papers. The fact that they were not included leads you to the conclusion that they "were deliberately removed from the files before the files were made available to us." These memoranda were not removed from the material given to your staff, because they were never part of it. Your staff did not ask to see the memoranda, nor did they give us any grounds for believing they wanted to see them. In fact, I had every reason to believe, on the basis of our last previous discussion of this matter (in 1960), that you were no longer interested in seeing these memoranda.

We will make available to your staff the memoranda to which your letter refers, and have authorized our staff to make available to your staff any other Board papers deriving from the examination of the Federal Reserve Banks that your staff feels would be relevant and helpful to their inquiry. In return, I request that you treat these papers as confidential, or, if you should feel that any of them should be made public, you consult with me before doing so.

You expressed concern because the work papers previously made available to your staff "are arranged in such a manner that supporting schedules or text materials may be removed from the file and the omission not noted. Pages are not numbered, and facts and figures noted thereon are not cross-referenced to other pertinent worksheets or schedules." The papers for each segment of an examination are bound in a separate cover which bears the title of the bank department or function to which

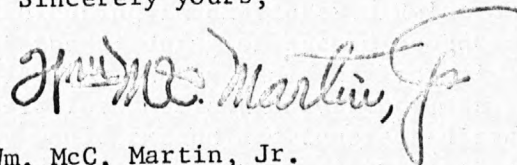
they relate. Within the binder, the papers are contained in separate folios, each folio bearing a subtitle and number corresponding to the table of contents--usually the first page within the binder. Where relevant, the table of contents is followed by a summary of control balances reflecting the accountability of the department or function to which the binder relates, and the following pages are in a sequence which follows the order in which the control balances are listed on the summary sheet.

The work papers comprise a systematically organized record of the examination work performed, and a compilation of the material underlying the formal report. They serve as a means for the examiner on an assignment to control his work, and as a reference and guide for the examiner in a succeeding examination to enable him to know what was previously done and to have a starting point for his current examination review. They are reviewed by a senior examiner before an examination is concluded, rather than being sent to the Board's office for review by persons who might not be as familiar with the matter as the senior examiner in the field. In the circumstances, it would not seem to be economical of examiner time to require more elaborate cross-referencing or identifying of the material.

The papers reviewed by your staff were obtained from their places of storage and made available to your staff intact, just as they were prepared in the field.

The Board shares your desire that the investigation of your Committee proceed with all possible dispatch. Indeed, until we received your recent letter, we thought all was going well with the project. On the basis of our observations since the members of your staff have been conducting their studies in the Board's office, there would appear to be no reason why the project cannot go forward expeditiously with mutual cooperation and understanding on the part of the Board's staff and the staff of your Committee.

Sincerely yours,



Wm. McC. Martin, Jr.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 12
8/8/63

OFFICE OF THE CHAIRMAN

August 21, 1963

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

Dear Mr. Chairman:

The Board of Governors recommends the introduction and enactment of legislation that would, in effect, substitute for the present technical and restrictive requirements of the Federal Reserve Act relating to the "eligibility" of paper for discount or as security for advances by the Federal Reserve Banks, a new provision broadly authorizing the Reserve Banks to make advances to their member banks on any security satisfactory to the Reserve Banks, subject to limitations, restrictions, and regulations prescribed by the Board of Governors. A draft of a bill that would accomplish this objective is enclosed.

The original Federal Reserve Act authorized the Reserve Banks to discount only certain types of paper arising out of "actual" commercial or agricultural transactions, subject to specified maturity limitations. The concept underlying this limited authority was that the liquidity of commercial banks could be assured only if the loans made by them were short-term and self-liquidating in character. Related to this concept was the assumption that the pledging of such discounted paper by the Reserve Banks as security for the issuance of Federal Reserve notes would serve as the basis for an elastic currency; it was expected that the volume of currency would expand and contract directly in response to the varying credit needs of the economy, as reflected by the volume of short-term borrowing by commercial and agricultural enterprises.

The principle that Federal Reserve credit should be extended only on the basis of short-term, self-liquidating paper was departed from as early as 1916, during the First World War, when the law was amended to authorize the Reserve Banks to make 15-day advances to member banks, not only on the security of "eligible paper" but also on the security of direct obligations of the United States. A more significant departure occurred in 1932, when Congress authorized the Reserve

The Honorable A. Willis Robertson -2-

Banks to make advances to member banks in exceptional and unusual circumstances on any security satisfactory to the Reserve Banks, although at a penalty rate of interest. This authority, at first temporary, was made permanent in 1935, and it is no longer limited to exceptional and unusual circumstances, although such advances continue to carry a penalty rate of interest.

The concept that limitation of discounts to short-term, self-liquidating paper would serve automatically to regulate the volume of Federal Reserve notes in circulation has also been breached by amendments to the law and has been refuted by experience. In 1932, Congress authorized the issuance of Federal Reserve notes on the security of Government obligations in addition to eligible paper and gold. This authority was originally of a temporary nature, but it was made permanent in 1945. The volume of Federal Reserve notes today fluctuates with the changing demands of the economy without regard to the nature of the paper offered as collateral for Federal Reserve credit or pledged as security for Federal Reserve notes.

Each of these legislative changes took place during a period of economic stress that served to make clear the inadequacy of the original framework for Federal Reserve credit extension. The credit needs of American businessmen, farmers, and consumers were evolving in many ways that could not be adequately handled by the old instrument of short-term, commercial-type paper; and the rapid growth of both private and Governmental economic activity generated credit requirements far in excess of those that could be supported by the relatively small volume of "eligible paper".

Despite changes in the character of paper held by commercial banks and the repeated and necessary departures from the original concept that discounts should be based only on short-term, self-liquidating paper, the law continues to impose unduly restrictive requirements as to the nature and maturity of the paper that may be discounted by the Reserve Banks or offered as security for advances by the Reserve Banks.

For many years, it has been generally recognized that the concept of an elastic currency based on short-term, self-liquidating paper is no longer in consonance with banking practice and the needs of the economy. It has long been apparent that the narrow requirements of the law regarding "eligible paper" serve no useful purpose and that it would be preferable to place emphasis on the soundness of the paper offered as security for advances and the appropriateness of the purposes for which member banks borrow. The one-year paper of many bank customers that is not now eligible for discount may be as satisfactory collateral as the 90-day notes of other customers. Moreover,

The Honorable A. Willis Robertson -3-

the nature of the collateral provides no assurance that the borrowing bank will use the proceeds for an appropriate purpose.

As long as member banks hold a large enough volume of Government securities, they need not, of course, be particularly concerned as to the eligibility for discount with the Reserve Banks of customers' paper held by them. Since World War II, however, there has been a sharp net decline in the aggregate holdings of Government securities by member banks. If any substantial increase in economic activity should cause banks to reduce their holdings of Government securities in order to meet increased credit demands, many banks would be obliged to tender other kinds of collateral if they should seek to obtain Federal Reserve credit.

If such a situation should develop, the Reserve Banks could accept technically "ineligible" paper as collateral for advances to their member banks only under section 10(b) of the Federal Reserve Act at a rate of interest one-half of one per cent above the regular discount rate. However, the necessity for distinguishing between "eligible" and "ineligible" paper would give rise to cumbersome administrative procedures that are not warranted by the exigencies of current banking conditions. In order to avoid these problems, it would clearly be preferable to move in advance and to revise and up-date the law so as to eliminate the existing restrictions with respect to "eligible paper".

The Board of Governors and the Federal Reserve Banks believe that such a revision of the law would be desirable so that the Reserve Banks will always be in a position to perform promptly and efficiently one of their principal responsibilities - the extension of appropriate credit assistance to member banks to enable the latter to meet the legitimate credit needs of the economy.

Accordingly, the Board urges that legislation of the kind here proposed be given favorable consideration by your Committee and by the Congress. In addition to the draft bill, there are enclosed a section-by-section explanation of the bill and a document showing the changes that would be made by the bill in provisions of present law.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Enclosures

DRAFT OF PROPOSED BILL REGARDING
ADVANCES BY FEDERAL RESERVE BANKS

A B I L L

To amend the Federal Reserve Act in order to enable the Federal Reserve Banks to extend credit to member banks and others in accordance with current economic conditions, and for other purposes.

Be it enacted by the Senate and House of Representatives in Congress assembled, That the following new section is inserted in the Federal Reserve Act immediately preceding section 14:

"Sec. 13A. (a) Any Federal Reserve Bank may make advances to any of its member banks on the time or demand notes of such banks secured to the satisfaction of such Federal Reserve Bank, subject to such limitations, restrictions, and regulations as the Board of Governors of the Federal Reserve System may prescribe.

"(b) In making advances pursuant to this section, each Federal Reserve Bank shall give due regard to the maintenance of sound credit conditions and the accommodation of commerce, industry, and agriculture. Each Federal Reserve Bank shall keep itself informed of the general character and amount of the loans and investments of its member banks with a view to ascertaining whether undue or inappropriate use is being made of bank credit for the speculative carrying of or trading in securities, real estate, or commodities, or for any other purpose inconsistent with the maintenance of sound credit conditions; and, in determining whether to grant or refuse advances, the Federal Reserve

Bank shall give consideration to such information. Whenever the Board of Governors of the Federal Reserve System, in the light of any reports made to it by a Federal Reserve Bank, determines that any member bank is making such undue or inappropriate use of bank credit, the Board may, in its discretion, after reasonable notice and an opportunity for a hearing, suspend such bank from the use of the credit facilities of the Federal Reserve System and may terminate such suspension or may renew it from time to time.

"(c) Any Federal Reserve Bank may make advances to any individual, partnership, or corporation, on its promissory notes, secured by direct obligations of the United States, subject to such limitations, restrictions, and regulations as the Board of Governors of the Federal Reserve System may prescribe."

SEC. 2. The following provisions of the Federal Reserve Act are hereby repealed: section 10(a) (12 U.S.C. 347a); section 10(b) (12 U.S.C. 347b); section 11(b) (12 U.S.C. 248(b)); the second, third, fourth, fifth, sixth, eighth, tenth, and thirteenth paragraphs of section 13 (12 U.S.C. 343, 344, 345, 346, 347, 361, 347c); section 13a (12 U.S.C. 348-352); and the last sentence of the third paragraph of section 24 (12 U.S.C. 371).

SEC. 3. The eighth paragraph of section 4 of the Federal Reserve Act (12 U.S.C. 301) is amended to read as follows:

"Said board of directors shall administer the affairs of said bank fairly and impartially and without discrimination in favor of or against any member bank or banks."

SEC. 4. The thirteenth paragraph of section 9 of the Federal Reserve Act (12 U.S.C. 330) is amended by changing the colon after the words "member banks" in the second sentence to a period and by striking out, commencing with the words "Provided, however,", the remainder of the paragraph.

SEC. 5. In the last sentence of section 11(c) of the Federal Reserve Act (12 U.S.C. 248(c)) the words "and discount fixed by the Board of Governors of the Federal Reserve System" are changed to read "charged by the Reserve Bank on advances under section 13A(a) of this Act".

SEC. 6. In the last sentence of section 11(m) of the Federal Reserve Act (12 U.S.C. 248(m)) the words "of all rediscount privileges at Federal reserve banks" are changed to read "from the use of the credit facilities of the Federal Reserve Banks."

SEC. 7. In the second paragraph of section 12 of the Federal Reserve Act (12 U.S.C. 262) the words "discount rates, rediscount business" are changed to read "advances under section 13A of this Act, rates of interest charged by the Federal Reserve Banks on such advances".

SEC. 8. The first paragraph of section 14 of the Federal Reserve Act (12 U.S.C. 353) is amended to read as follows:

"Any Federal Reserve Bank may, subject to the regulations of the Federal Open Market Committee, purchase and sell in the open market, at home or abroad, either from or to domestic or foreign banks, firms, corporations, or individuals, cable transfers, bankers' acceptances, and bills of exchange, with or without the indorsement of a member bank."

SEC. 9. Section 14(c) of the Federal Reserve Act (12 U.S.C. 356) is amended by striking out the words "arising out of commercial transactions, as hereinbefore defined".

SEC. 10. Section 14(d) of the Federal Reserve Act (12 U.S.C. 357) is amended to read as follows:

"(d) To establish from time to time, subject to review and determination of the Board of Governors of the Federal Reserve System, (1) rates of interest to be charged by the Federal Reserve Bank on advances under section 13A(a) of this Act, which shall be fixed with a view of accommodating commerce, business, and agriculture, and of maintaining sound credit conditions; and different rates may be fixed for different classes of paper or according to such other basis or bases as may be deemed necessary in order to accomplish such purposes; but each such bank shall establish such rates every fourteen days, or oftener if deemed necessary by the Board; and (2) rates of interest to be charged by the Federal Reserve Bank on advances under section 13A(c) of this Act;"

SEC. 11. The second paragraph of section 16 of the Federal Reserve Act (12 U.S.C. 412) is amended by striking out the third sentence and substituting therefor the following: "The collateral security thus offered shall be notes of member banks or others acquired under the provisions of section 13A of this Act, or bills of exchange or bankers' acceptances purchased under section 14 of this Act, or gold certificates, or direct obligations of the United States."

SEC. 12. The second sentence of the ninth paragraph of section 19 of the Federal Reserve Act (12 U.S.C. 463) is amended by changing the word "discounts" in such sentence to read "advances".

SEC. 13. The second paragraph of section 23A of the Federal Reserve Act (12 U.S.C. 371c) is amended by striking out the words "drafts," and "for rediscount or" from the clause beginning with the word "Provided,".

SEC. 14. Section 201(e) of the Act of July 21, 1932, as amended (12 U.S.C. 1148) is amended by striking out the words "various Federal reserve banks and" from that section.

EXPLANATION OF PROPOSED BILL REGARDING

ADVANCES BY FEDERAL RESERVE BANKS

In general, the first section of this bill would confer upon the Federal Reserve Banks broad authority to make advances on any satisfactory security; and the remaining sections of the bill are largely of a conforming nature.

Section 1. - A new section 13A would be inserted in the Federal Reserve Act. It would authorize any Federal Reserve Bank to make advances to any of its member banks on the note of the member bank secured to the satisfaction of the Reserve Bank, subject to such limitations, restrictions, and regulations as the Board of Governors of the Federal Reserve System may prescribe. In making such advances, the Reserve Bank would be required to give due regard to the "maintenance of sound credit conditions and the accommodation of commerce, industry, and agriculture" and to keep itself informed as to the character and amount of the loans and investments of its member banks, with a view to determining whether undue or inappropriate use is being made of bank credit for speculative purposes or for purposes inconsistent with the maintenance of sound credit conditions. These requirements are substantially the same as those now prescribed by the eighth paragraph of section 4 of the Federal Reserve Act.

In addition to advances to member banks, the Reserve Banks would be authorized to make advances to individuals, partnerships, and corporations on the security of obligations of the United States, an authority similar to that now contained in the last paragraph of section 13 of the Federal Reserve Act, although the new authority, like that with respect to advances to member banks, would not specify any maturity limitation. As under present law, the authority to make advances to "corporations" would cover advances to nonmember banks.

Section 2. - Because they would be superseded or rendered obsolete by the authority conferred by the new section 13A, the provisions of the Federal Reserve Act hereafter described would be repealed.

Section 10(a) of the Act (12 U.S.C. 347a), enacted in 1932, authorizes advances to groups of five or more member banks. This authority has never been utilized and would be unnecessary in the light of the new authority.

Section 10(b) (12 U.S.C. 347b), containing authority for advances to member banks on any satisfactory security but at a one-half of one per cent penalty interest rate, would likewise be rendered unnecessary by the new legislation.

Section 11(b) of the Act (12 U.S.C. 248(b)), authorizing the Board of Governors to permit or require a Federal Reserve Bank to rediscount the discounted paper of other Reserve Banks, has not been used since 1933 and is of no practical importance today.

The second, third, fourth, fifth, sixth, eighth, tenth, and thirteenth paragraphs of section 13 of the Act (12 U.S.C. 343, 344, 345, 346, 347, 361, and 347c, respectively), contain the basic provisions of present law regarding discounts and advances by the Federal Reserve Banks. These provisions limit "eligible paper" to paper "issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used, or are to be used, for such purposes"; provide emergency authority (never used) for the discounting of "eligible paper" for individuals, partnerships, and corporations; authorize the discounting of "sight" drafts in certain limited circumstances; authorize the discounting of bankers' acceptances and "dollar exchange" acceptances of the kinds described in paragraphs 7 and 12 of section 13; limit the amount of paper of one obligor that may be discounted for a member bank; authorize advances (as distinguished from "discounts") to member banks secured by Government obligations or "eligible paper"; provide for the regulation of discounts by the Board; authorize advances to individuals, partnerships, and corporations on the security of Government obligations; authorize the discounting of agricultural paper, paper held by Federal intermediate credit banks, and paper of cooperative marketing associations; and provide that certain types of real estate loans by national banks shall be regarded as "commercial" paper for discount purposes. All of these provisions would either be superseded or covered by the new section 13A added by section 1 of the present bill.

Section 3. - The eighth paragraph of section 4 of the Act (12 U.S.C. 301) presently requires each Federal Reserve Bank to consider the maintenance of sound credit conditions and the accommodation of commerce, industry, and agriculture in extending credit to member banks, and to keep itself informed regarding undue uses of bank credit for speculative purposes; and the Board of Governors is authorized to suspend any member bank from access to Federal Reserve credit for any such undue use of bank credit. These provisions would be retained in substance in the new section 13A. Accordingly,

the similar provisions of section 4 would be repealed, so that the eighth paragraph of that section would provide only - as it does now - that the board of directors of each Federal Reserve Bank shall administer its affairs "fairly and impartially and without discrimination in favor of or against any member bank or banks."

Section 4. - The thirteenth paragraph of section 9 of the Act (12 U.S.C. 330) would be amended to repeal the proviso limiting the amount of paper of one obligor that may be discounted for any member bank. This limitation, like the similar limitation in section 9 of the Act, appears unnecessary in view of the fact that most State laws limit the amount of loans that may be made to one borrower by State banks, in terms similar to those applicable to national banks under section 5200 of the Revised Statutes.

Section 5. - The last sentence of section 11(c) of the Act (12 U.S.C. 248(c)), regarding the addition to the "discount" rate of any tax paid by the Reserve Banks on deficiencies in their reserves against Federal Reserve notes, would be modified to refer to the "interest" rate charged on advances under the new section 13A.

Section 6. - The language of the last sentence of section 11(m) of the Act (12 U.S.C. 248(m)), regarding suspension of "rediscount privileges" for certain increases in loans secured by stock or bond collateral, would be conformed to refer to suspension of "use of the credit facilities" of the Federal Reserve Banks.

Section 7. - The provision of section 12 of the Act (12 U.S.C. 262), authorizing the Federal Advisory Council to make recommendations in regard to "discount rates" and "rediscount business", would be changed to refer to advances under the new section 13A and interest rates on such advances.

Section 8. - The First paragraph of section 14 of the Act (12 U.S.C. 353) would be amended to eliminate a reference to paper "eligible for rediscount" and, at the same time, to omit a reference to regulation of Federal Reserve Bank open market operations by the Board of Governors, a function that has been subject to regulation since 1935 by the Federal Open Market Committee.

Section 9. - A conforming change would be made in section 14(c) of the Act (12 U.S.C. 356) to eliminate a reference to paper "arising out of commercial transactions, as hereinbefore defined".

Section 10. - Section 14(d) of the Act (12 U.S.C. 357), relating to the fixing of "discount" rates, would be amended to refer to "interest" rates under the new section 13A. At the same time, this provision would be broadened to authorize the fixing of different rates, not only for different classes of paper, but also "according to such other basis or bases as may be deemed necessary" to accomplish the purposes of this provision. The amended provision would also include separate authority as to rates on advances to individuals, partnerships, and corporations under subsection (c) of the new section 13A.

Section 11. - The provision of section 16 of the Act (12 U.S.C. 412) authorizing the use of paper acquired under section 13 as security for Federal Reserve notes would be modified to refer to "notes of member banks or others acquired under the provisions of [the new] section 13A of this Act."

Section 12. - The provision of section 19 of the Act (12 U.S.C. 463), prohibiting member banks from acting as agents for nonmember banks in obtaining Federal Reserve "discounts", without the Board's permission, would be conformed to refer to "advances" instead of discounts.

Section 13. - A provision of section 23A of the Act, relating to security for loans to affiliates of member banks, would be conformed to eliminate a reference to drafts "eligible for rediscount".

Section 14. - A provision of the Act of July 21, 1932 (12 U.S.C. 1148), authorizing agricultural credit corporations to rediscount "eligible paper" with the Federal Reserve Banks, would be repealed.

July 29, 1963.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 13
8/8/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 22, 1963.



Dear Sir:

As you will recall, 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 of the Committee 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.

The Board of Governors has concluded that it is desirable at this time to recommend such legislation to the Banking and Currency Committees of Congress. It was the Board's feeling that it was unnecessary to obtain the comments of banking groups, such as the American Bankers Association and the Reserve City Bankers Association, before submitting the legislation to Congress. Such groups, as well as others interested, will of course have an opportunity to express their views if and when the legislation is introduced in Congress.

For your information, there is enclosed a copy of a letter that is being sent to the Chairmen of the Senate and House Banking and Currency Committees recommending favorable consideration of a draft bill on this subject. The draft bill enclosed with the letter is in the form submitted by the Subcommittee on Legislation except for two minor changes in language.

If and when the proposed legislation is considered by the Committees of Congress, it is reasonable to anticipate that questions will be raised as to the nature of any regulations that might be issued by the Board of Governors on this subject if the proposal should be enacted. With this likelihood in mind, the Board has considered, but has not reached any conclusion with respect to, a draft of a possible revision of Regulation A in the form enclosed with this letter. This revision would eliminate all provisions of the present Regulation A relating to "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.

A major question with respect to any such revised Regulation that might be issued under the proposed legislation relates to the extent to which the Regulation should set forth standards or guides as to the nature and amount of paper offered as collateral for advances in order to encourage the holding of liquid paper by member banks. Section 201.3 of the enclosed draft of Regulation would retain the substance of provisions of the present Regulation A with respect to amount of security and financial statements and would include certain new language regarding consideration of the nature and quality of the paper offered as collateral. Question has been raised, however, whether any such revision of the Regulation should be couched in general language of this kind, leaving broad discretion and latitude of judgment as to the nature and amount of collateral to be exercised by the discount officers of the Federal Reserve Banks, or whether, on the other hand, more specific standards or guides in this respect should be set forth either in the Regulation itself or in statements of operating policy that might be issued from time to time.

One suggested approach to this problem would be to include in the proposed legislation provisions somewhat like those of the present section 10(b), expressly requiring that advances secured by long-term paper, such as paper with a maturity of more than 18 months, shall bear a rate of interest higher than advances on other types of paper. If such a provision is not included in the statute itself, question arises whether the Regulation should contemplate the fixing of different rates for different types of paper or whether, in any event, advances secured by obligations of the United States should be given preferential rate treatment.

The Board will appreciate the comments of your Bank regarding the proposed draft of revision of Regulation A and particularly your comments regarding the specific questions above mentioned.

Very truly yours,

Kenneth A. Kenyon
 Kenneth A. Kenyon,
 Assistant Secretary.

Enclosures

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.