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Minutes for August 23, 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

W

Gov. Mills

[Signature]

Gov. Robertson

R.

Gov. Balderston

CCB

Gov. Shepardson

[Signature]

Gov. King

✓ [Signature]

Gov. Mitchell

[Signature]

Minutes of the Board of Governors of the Federal Reserve System on Friday, August 23, 1963. The Board met in the Board Room at 10:00 a.m.

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

Mr. Kenyon, Assistant Secretary
Mr. Cardon, Legislative Counsel
Mr. Brill, Adviser, Division of Research and Statistics
Mr. Furth, Adviser, Division of International Finance
Mr. Yager, Chief, Government Finance Section, Division of Research and Statistics
Mr. Axilrod, Senior Economist, Division of Research and Statistics
Miss Dingle, Senior Economist, Division of Research and Statistics
Mr. Keir, Senior Economist, Division of Research and Statistics
Mr. Gemmill, Economist, Division of International Finance

Money market review. Mr. Keir reported on developments in the Government securities market, including prospective Treasury financing operations, Miss Dingle commented on bank reserves and bank credit, and Mr. Gemmill reviewed foreign exchange market developments. Distributed materials included a table showing recent changes in yields on U. S. Government securities, a table on member bank reserve positions, and a summary of monetary developments in the four-week period ended August 21, 1963.

All of the members of the staff except Messrs. Kenyon, Cardon, and Brill then withdrew and the following entered the room:

Mr. Hackley, General Counsel
Mr. Johnson, Director, Division of Personnel Administration

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Mr. Leavitt, Assistant Director, Division of
Examinations
Mr. Thompson, Assistant Director, Division of
Examinations
Mr. Bakke, Senior Attorney, Legal Division

Proposed legislation (Item No. 1). On August 21, 1963, Chairman Martin and Vice Chairman Balderston, accompanied by Messrs. Cardon and Hackley, had visited Senator Robertson and Congressman Patman, Chairmen of the Senate and House Banking and Currency Committees, respectively, to present letters recommending the introduction and enactment of legislation that would, in effect, substitute for the present requirements of the Federal Reserve Act relating to the eligibility of paper for discount or as security for advances by Federal Reserve Banks, a new provision authorizing the Reserve Banks to make advances to member banks on any security satisfactory to the Reserve Banks, subject to limitations, restrictions, and regulations prescribed by the Board of Governors. (The letters, dated August 21, 1963, were in form approved by the Board on August 8, 1963.)

At the Chairman's request, Mr. Cardon reported briefly on these visits and on a subsequent indication by a member of the staff of the House Banking and Currency Committee that there were certain aspects of the proposed legislation concerning which Chairman Patman reportedly had reservations. It was understood that the Board's staff would give further study to the phases of the proposal as to which such reservations reportedly had been expressed.

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It was noted that, as previously agreed upon by the Board, copies of the letters and enclosures delivered to Messrs. Robertson and Patman had been sent (under date of August 22) to the Reserve Bank Presidents, and that copies also were being sent to the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Budget Bureau, along with the American Bankers Association and the Association of Reserve City Bankers. The letter to the Reserve Bank Presidents had also requested comments on an enclosed draft of a revision of Regulation A, Advances and Discounts by Federal Reserve Banks, that might be considered for adoption if the proposed legislation should be enacted. It was suggested by Governor Mills that information concerning the proposed legislation also be sent to the Independent Bankers Association, the National Association of Mutual Savings Banks, and the U. S. Chamber of Commerce.

Chairman Martin suggested that the legislative proposal be made the subject of a press release, to be issued today, and it was understood that this would be done. A copy of the press release is attached as Item No. 1.

Mr. Cardon reported, in this connection, that there was some indication that the proposed bill would be introduced in the Senate today by Senator Robertson.

Discount rates. The establishment without change by the Federal Reserve Banks of New York, Philadelphia, Cleveland, Richmond, St. Louis, Minneapolis, Kansas City, and Dallas on August 22, 1963,

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of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

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

	<u>Item No.</u>
Letter to United California Bank, Los Angeles, California, approving the establishment of a branch in Calexico in temporary quarters pending the completion of permanent quarters.	2
Telegram to the Federal Reserve Agent at the Federal Reserve Bank of Kansas City authorizing the issuance of a general voting permit to First Oklahoma Bancorporation, Inc., Oklahoma City, Oklahoma, covering its stock in The First National Bank and Trust Company of Oklahoma City, but indicating that a general voting permit with reference to stock of The Idabel National Bank, Idabel, Oklahoma, would be withheld pending improvement in the condition of that bank, and that in the meantime the Board would consider the issuance of limited voting permits when needed, if requested.	3

Messrs. Cardon, Thompson, and Bakke then withdrew from the meeting and Mr. Sprecher, Assistant Director, Division of Personnel Administration, entered the room.

Employment of consultants by Reserve Banks. In a letter dated August 9, 1963, President Bryan of the Federal Reserve Bank of Atlanta advised the Board of Governors that in the absence of objection

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he proposed to recommend to the Bank's Board of Directors the appointment of Dr. David McCord Wright, Professor of Economics at the University of Georgia, as economic adviser to the Reserve Bank in a part-time, consultant capacity, with compensation at the rate of \$75 per day for time actually spent in the service of the Bank, plus actual travel and other out-of-pocket expenses. It would not be the intent to use Dr. Wright on Federal Open Market Committee matters or to release Open Market Committee materials to him. It was estimated that 30-60 days of service per year might be involved, and the arrangement would be terminable at any time.

In a letter dated August 14, 1963, President Deming of the Federal Reserve Bank of Minneapolis advised that the Bank's Board of Directors had authorized him to enter into an arrangement under which Professor John H. Kareken of the University of Minnesota would be engaged as an economic consultant to the Bank, effective October 1, 1963, at an annual fee of \$7,000 payable for the nine months of the academic year at \$500 per month, with the balance payable in three instalments during the summer months. No fringe benefits would be involved and no deductions for Federal or State taxes would be made. It was expected that Professor Kareken would devote to this assignment an average of approximately 1-1/2 days per week during the academic year, and approximately seven weeks full time equivalent during the summer. The arrangement would continue as long as it was mutually

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agreeable. It was anticipated that Professor Kareken would devote the major share of his time to analysis of monetary, fiscal, and banking problems, that he would have access to Federal Open Market Committee minutes and other confidential material, that he would visit the Federal Reserve Bank of New York on occasion to observe open market operations, and that he would attend Open Market Committee meetings from time to time.

Copies of these letters had been distributed to the members of the Board along with a memorandum dated August 21, 1963, from the Division of Personnel Administration in which it was stated that there appeared to be no instructions outstanding requiring approval by the Board of the employment of consultants by Reserve Banks. The Division leaned toward not requiring such approval, though recognizing that certain procedures such as security clearance should be observed when a consultant was to have access to confidential System material or engage in Open Market Committee activities. It was felt, however, that it might be desirable for the Board's views on the subject to be communicated to the Reserve Banks, by letter or otherwise.

In discussion, a general view became apparent that it would be desirable for the Board to be adequately informed by the Reserve Banks concerning the retention of consultants, even though specific Board approval was not to be required, perhaps through initial advice upon entering into such an arrangement followed by periodic reports.

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Governor Mills suggested that there was a budget aspect involved, and that some control should be maintained. He added that the research area was one in which presumably the Reserve Banks might be considered to be self-sufficient. The Presidents of the Reserve Banks were for the most part economists, and they had research staffs. This raised a question as to the necessity to go outside the System for part-time assistance on a consultant basis. This was also a matter that needed to be watched from the expense angle. The arrangements could grow out of bounds in various ways, such as the farming out of work periodically, and he was of the opinion that adequate information would not be provided under the current Reserve Bank budget procedures.

Mr. Brill discussed difficulties sometimes encountered in attracting top-flight economic talent on a full-time basis, following which Chairman Martin expressed the view that it was desirable to encourage the engagement of outstanding persons by the Federal Reserve wherever possible and Governor Balderston outlined circumstances at the Federal Reserve Bank of Minneapolis that had presented a need for the services of a person with Professor Kareken's qualifications.

The question of sending a letter to all Federal Reserve Banks covering some of the points that had been made at this meeting was then discussed. There was substantial agreement that it would be desirable to have such a letter drafted for the Board's consideration, with the focus on keeping the Board adequately informed. In this connection, Chairman Martin commented that, as he understood it, the main point

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decided upon today was that it was not considered necessary for a Reserve Bank to obtain advance approval from the Board before going ahead with such an arrangement.

The discussion concluded with an understanding that a general letter to the Reserve Banks along the lines suggested would be prepared for the Board's consideration, that there would be no objection to the Federal Reserve Banks of Atlanta and Minneapolis entering into the proposed arrangements with Professors Wright and Kareken, respectively, and that Presidents Bryan and Deming would be advised to such effect.

Messrs. Johnson and Sprecher then withdrew from the meeting.

Letters from Banking and Currency Committee. Reference was made to letters that had been received by the members of the Board from Chairman Patman of the House Banking and Currency Committee presenting some 24 questions dealing with the general area of monetary policy and related matters.

There was agreement that it would be appropriate to request the staff to undertake the drafting of material responsive to the questions, with the understanding that upon consideration of the draft material members of the Board could decide whether to join in the transmittal of a single reply. It was also suggested that Chairman Martin might want to discuss the subject with Mr. Irons, Chairman of the Presidents' Conference, since it was understood that similar letters had been sent to the Presidents of the respective Federal Reserve Banks.

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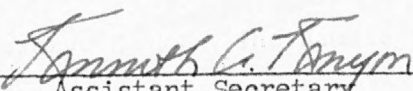
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The meeting then adjourned.

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

Letter to the Federal Reserve Bank of San Francisco (attached Item No. 4) approving the appointment of Harold D. Palmer as assistant examiner.

Memorandum from the Division of Personnel Administration and the Office of the Controller (attached Item No. 5) recommending formal Board approval of existing practices in respect to overtime of Board employees.


Assistant Secretary

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August 23, 1963.

For immediate release

In identical letters to the Chairmen of the Banking and Currency Committees of the Congress the Board of Governors has recommended legislation to broaden substantially the kinds of security on which credit can be advanced by the Federal Reserve Banks.

This action follows an extensive two-year review within the Federal Reserve System of the law, regulation, and practices governing member bank borrowing from the Federal Reserve Banks. The new legislation, if enacted, would do away with technical requirements regarding "eligibility" of collateral for such borrowings that have become outmoded since the enactment of the Federal Reserve Act in 1913. Subject to regulation by the Board of Governors, the Reserve Banks would be authorized to make loans to member banks primarily based on the soundness of the paper offered as security and the appropriateness of the purpose for which credit is sought.

A copy of the Board's letter to the Chairman of each Banking and Currency Committee, explaining the desirability of this new legislation, is attached.

Attachment

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

Item No. 2
8/23/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



August 23, 1963

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

Gentlemen:

The Board of Governors of the Federal Reserve System will interpose no objection to United California Bank's establishing in temporary quarters a branch at the southwest corner of Second Street and Heber Avenue, Calexico, California. At such time as the permanent quarters are occupied at the intersection of Fourth Street and Heffernan Avenue, Calexico, California operations at the temporary site should be discontinued.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

TELEGRAM
LEASED WIRE SERVICE

Item No. 2915
8/23/63

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

August 23, 1963

SCOTT -- KANSAS CITY

KEBJE

- A. First Oklahoma Bancorporation, Inc.,
Oklahoma City, Oklahoma.
- B. The First National Bank and Trust Company of Oklahoma City,
Oklahoma City, Oklahoma.
- C. Prior to issuance of permit authorized herein, Applicant shall
execute and deliver to you, in duplicate, an agreement in form
accompanying Board's letter S-964 (F.R.L.S. #7190). STOP
Please advise Applicant that with reference to The Idabel
National Bank, a general voting permit is being withheld
until subsequent reports of examination indicate a marked
improvement in the condition of that bank. In the meantime,
the Board will consider the issuance of limited voting permits,
when needed, if First Oklahoma Bancorporation requests such
permits pursuant to section 216.6(d) of Regulation P.

(Signed) Elizabeth L. Carmichael

CARMICHAEL

Definition of KEBJE

The Board authorizes the issuance of a general voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to the holding company affiliate named below after the letter "A", entitling such organization to vote the stock which it owns or controls of the bank(s) named below after the letter "B" at all meetings of shareholders of such bank(s), subject to the condition(s) stated below after the letter "C". The period within which a permit may be issued pursuant to this authorization is limited to thirty days from the date of this telegram unless an extension of time is granted by the Board. Please proceed in accordance with the instructions contained in the Board's letter of March 10, 1947, (S-964).



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

Item No. 4 **2916**
8/23/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 23, 1963

Mr. E. H. Galvin, Vice President,
Federal Reserve Bank of San Francisco,
San Francisco 20, California.

Dear Mr. Galvin:

In accordance with the request contained in
Mr. Cavan's letter of August 9, 1963, the Board approves the
appointment of Harold D. Palmer as an assistant examiner for
the Federal Reserve Bank of San Francisco. Please advise the
effective date of the appointment.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 5
8/23/63

Office Correspondence

Date August 22, 1963

To Governor Shepardson
Division of Personnel Administration
From and Office of the Controller

Subject: Board Approval for Existing
Practices in Overtime Pay

The Division of Personnel Administration and the Office of the Controller believe the current overtime policy, as described below, should have formal Board approval, and it will, therefore, be appreciated if you will give consideration to approving it on behalf of the Board.

Employees on the Regular Salary Schedule

Employees in Grades FR-1 through FR-9 are eligible for overtime pay or compensatory leave for all hours worked in excess of 40 hours in a basic work week. Employees in grades above FR-9 are entitled to compensatory leave only. No employees above Grade FR-15 shall be eligible for compensatory leave.

The overtime hourly rate of compensation shall be an amount equal to one and one-half times the hourly rate of basic compensation not to exceed one and one-half times the minimum hourly rate for Grade FR-9. Compensatory leave is granted for a period equal to the overtime worked.

Overtime may be paid only to the extent that the aggregate compensation in any biweekly pay period shall not exceed the maximum rate of basic compensation provided for Grade FR-15. (This was previously approved by the Board on July 2, 1962, but is included here for completeness.)

Employees on Wage Board Salary Schedules

All employees are eligible for overtime pay for hours worked in excess of 8 hours per day or in excess of 40 hours per week, whichever is the greater number of overtime hours. The overtime hourly rate of compensation shall be time and one-half, without restriction. All employees in these salary schedules are entitled to compensatory leave in lieu of overtime pay.

General

Overtime pay or compensatory leave of supervisors, regardless of salary schedule, should be requested by a designated superior of the supervisor and approved by an official or his designated representative. Divisions should carefully scrutinize situations where supervisors are paid overtime pay or granted compensatory leave for overtime that they decide is required.

For reasons of health and efficiency, an employee who performs substantial (over 4 hours) overtime work on a Saturday or Sunday is required to take a lunch period of at least one-half hour.

