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Minutes for August 27, 1963

To: Members of the Board

From: Office of the Secretary

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

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

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

Chm. Martin _____

Gov. Mills _____

Gov. Robertson _____

Gov. Balderston _____

Gov. Shepardson _____

Gov. King _____

Gov. Mitchell _____

Minutes of the Board of Governors of the Federal Reserve System on Tuesday, August 27, 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. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Connell, Controller
Mr. Conkling, Assistant Director, Division of Bank Operations
Mr. Goodman, Assistant Director, Division of Examinations
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Thompson, Assistant Director, Division of Examinations
Mr. Langham, Assistant Director, Division of Data Processing
Mr. Mattras, General Assistant, Office of the Secretary
Mr. Young, Senior Attorney, Legal Division
Mr. Sanders, Attorney, Legal Division

Discount rates. The establishment without change by the Federal Reserve Bank of Atlanta on August 26, 1963, of the rates on discounts and advances in its existing schedule was approved unanimously, with the understanding that appropriate advice would be sent to that Bank.

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

	Item No.
Letter to Chase Manhattan Overseas Banking Corporation, New York, New York, granting consent to a change in the location of a branch of Banco Mercantil y Agricola in Caracas, Venezuela.	1
Letter to Bloomsburg Bank-Columbia Trust Company, Bloomsburg, Pennsylvania, approving the establishment of a branch in the 1000 block of South Market Street.	2
Letter to The First Pennsylvania Banking and Trust Company, Philadelphia, Pennsylvania, approving the establishment of a branch on Sumneytown Pike, Upper Gwynedd Township.	3
Telegram to the Federal Reserve Agent at the Federal Reserve Bank of Richmond authorizing the issuance of a general voting permit to Virginia Commonwealth Corporation, Richmond, Virginia, covering its stock in Bank of Warwick, Newport News; The Bank of Virginia, Richmond; and The Bank of Salem, Salem, Virginia.	4
Letter to County Bank of Santa Cruz, Santa Cruz, California, approving an extension of time to establish a branch in the vicinity of Front and Cooper Streets.	5
Letter to the Federal Reserve Bank of Dallas concerning the status under Regulation O, Loans to Executive Officers of Member Banks, of a program of split-dollar life insurance for bank managerial employees. (With copies to all Federal Reserve Banks.)	6
Letter to the Bureau of the Budget reporting on a draft bill proposed by the Department of Agriculture to regulate speculation in sugar futures.	7

Report on competitive factors (Buffalo-Newfane, New York). There had been distributed a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of State Bank of Newfane, Newfane, New York, into Liberty National Bank and Trust Company, Buffalo, New York.

The report was approved unanimously for transmission to the Comptroller; the conclusion read as follows:

> There is virtually no competition between the two banks involved in this merger proposal.
>
> The substitution of a branch of Liberty for the relatively small independent Bank of Newfane might stimulate competition in the Newfane area with branches of the two largest banks serving the Ninth Banking District of New York State. The over-all effect of this merger on competition would not be adverse.

Report on competitive factors (Charlotte-Lumberton, North Carolina). There had been distributed a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of The Scottish Bank, Lumberton, North Carolina, into First Union National Bank of North Carolina, Charlotte, North Carolina.

Governor Robertson stated, with respect to the suggested conclusion, that he regarded the effect of the proposed merger on banking competition in North Carolina as adverse. He would not regard "moderately adverse" as a sufficiently strong expression.

Governor Mills expressed reservations with regard to the liberal use of the word "adverse," which involved a value judgment. His question went essentially to the meaning of the word in relation to appraising the effect on competition of a proposed merger. The basic point required to be discussed in competitive factor reports was whether there would be a loss of competition detrimental to the public interest, yet a proposed merger that would change the existing competitive picture might be said

to have an adverse effect for any one of several reasons. Actually, the introduction of a stronger competitive force into an area would not necessarily affect the public interest adversely. While he was not prepared to offer a substitute at this point, he would be concerned about using the word "adverse" too freely, either alone or in combination with modifying adjectives. In the present case, he would be willing to let the report go forward, but the question came up repeatedly and he did not think the Board had found the answer to it.

After discussion, it was agreed that the conclusion of the instant report would be modified to indicate that the over-all effect on competition would be adverse, without attempting to qualify the expression further. There was general agreement, however, that in drafting competitive factor reports in the future, the problem referred to by Governor Mills should be borne in mind.

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

> While First Union National Bank of North Carolina and The Scottish Bank have outlets in different localities in two counties, generally they serve different areas of the State and are not directly competitive. There is, however, potential for considerably more competition as Scottish Bank has received permission to establish de novo branches in Charlotte and Greensboro where First Union operates numerous offices. Also, First Union, as a large organization operating throughout the State, solicits business from large corporations and business concerns in the service areas of both banks.
>
> Consummation of this proposal would extend the geographical coverage of First Union into seven additional counties in the central section of the State and increase significantly concentration of banking resources in North Carolina.

The over-all effect of this proposed merger on banking competition in North Carolina would be adverse.

Messrs. Thompson and Young then withdrew from the meeting and the following members of the staff entered the room:

Mr. Sprecher, Assistant Director, Division of Personnel Administration
Mr. Veenstra, Chief, Call Report Section, Division of Bank Operations
Mr. Ring, Technical Assistant, Division of Bank Operations
Miss Omohundro, Analyst, Division of Bank Operations

Grace National Bank (Item No. 8). There had been distributed a memorandum from the Division of Bank Operations dated August 26, 1963, in connection with an application by Grace National Bank, New York, New York, for permission to maintain the same reserves against deposits as are required to be maintained by nonreserve city banks. Attached to the memorandum was a draft letter denying the request.

The New York Reserve Bank favored approval, but the Division of Bank Operations recommended denial of the application. The Division memorandum reviewed Grace National's interbank deposits (including foreign activity); the character of its loans; its activity in the bankers acceptance market; its clearing house membership; and its location, size, and other characteristics.

Factors favoring approval of the application included the bank's modest size, which was comparable to that of certain other New York City banks that had been granted nonreserve city status. Grace National was smaller than any of the group of New York banks generally recognized as

money market banks. In addition, Grace National had few large accounts and a relatively low rate of activity in its demand deposits.

Factors weighing against approval of the application included the nature of certain of the applicant's activities, particularly the amount of its loans to brokers and dealers in securities, to other banks, and to nonbank financial institutions. Grace National had a substantial clearance department business with over-the-counter securities dealers, stemming mainly from its location in the financial district, and it also had a fair amount of foreign account activity. Such business was not typical of country banks.

Mr. Conkling, in commenting on the matter, said the Division regarded this as a close case. On balance, however, it was felt that the application should be denied.

Governor Mills expressed agreement with the recommendation of the Division. The bank was relatively small in terms of total deposits, but the general character of its business would seem to justify its classification as a reserve city bank.

There was general agreement with the views expressed by Governor Mills; some of the members of the Board emphasized that they regarded this as a close case.

The proposed letter was then approved unanimously; a copy is attached to these minutes as Item No. 8.

Mr. Ring and Miss Omohundro then withdrew from the meeting and Messrs. Cardon, Legislative Counsel, Kern, Assistant Director, Division

of Administrative Services, and Morgan, Editorial Specialist, Board Members' Offices, entered the room.

Call report form (Items 9 and 10). There had been distributed a memorandum from the Division of Bank Operations dated August 23, 1963, with regard to changes that the Comptroller of the Currency planned to make in the call report of condition form for national banks. In a letter dated August 20, 1963, the Comptroller stated that he was obliged to make most of the changes in order to conform with rulings published in the Comptroller's Manual for National Banks and that the revised form would apply to the fall call of 1963.

The memorandum noted that most of the changes had been discussed at a meeting of representatives of the Board, the Comptroller's Office, and the Federal Deposit Insurance Corporation on August 19, 1963. Practically all of the changes would require re-programming for computer editing and tabulating purposes (both at the Board and at the Reserve Banks), and conforming changes in the instructions pamphlet, which had been reprinted in 1961. The acute problem posed by the changes was timing, particularly in light of the Board's practice of submitting proposed changes in the call report form to the Bureau of the Budget, which ordinarily referred them to its Advisory Committee.

The Division of Bank Operations recommended that the Board print and deliver the State member bank forms on the old basis for the third call, and that an effort be made to have uniform reporting by all insured

commercial banks in the December call. A letter to the Comptroller along the lines of the Division's recommendation was attached to the memorandum.

Approval of the recommendations would break a long tradition of uniformity in these reports among the Federal banking agencies, and it was the staff's opinion that tabulation of the fall call data on a combined member bank basis would be extremely difficult. Nevertheless, the Division of Bank Operations felt that the procedure it recommended would be the best procedure under the circumstances.

Following comments by Mr. Conkling, there was an extended discussion with regard to the difficulties involved in the Comptroller's action, particularly from the standpoint of obtaining desired all-bank statistical information. In reply to a question, Mr. Conkling stated that the demand for such information from the fall call was not likely to be as extensive as in connection with the fourth call of the year.

Governor Robertson then suggested that in the circumstances, State member banks be required, at the forthcoming call, to supply only the information called for on the face of the report and such other information as the Federal Deposit Insurance Corporation might need in connection with deposit insurance assessment purposes. This would mean that the fall call data would not be tabulated.

Mr. Conkling expressed the view that the procedure suggested by Governor Robertson would not violate any rule or understanding and would seem to be a practical way of handling the matter. He felt that the Budget Bureau would concur.

After further discussion, the Board agreed to the suggestion made by Governor Robertson with regard to the fall call for 1963, with the understanding that the staff would bring back for Board consideration any unanticipated problems that might develop. It was also agreed that the staff would continue to try to cooperate with the staff of the Office of the Comptroller and the Federal Deposit Insurance Corporation in formulating uniform reports of condition for the December call, along with uniform reports of income and dividends. If this could not be arranged, the Board could consider sending its own form to all member banks.

At the conclusion of the discussion, it was understood that letters reflecting the Board's position would be sent to the Bureau of the Budget and the Office of the Comptroller. Copies of the letters, as sent, are attached to these minutes as Items 9 and 10.

Messrs. Noyes, Director, and Koch, Associate Director, Division of Research and Statistics, entered the room at this point.

Federal funds transactions. There had been distributed a memorandum from the Legal Division dated August 26, 1963, submitting a draft of letter to the Federal Reserve Banks on the subject of Federal funds transactions.

As stated in the memorandum, the Comptroller of the Currency, in his recently issued Manual for National Banks, had taken the position that "when a bank purchases Federal Reserve funds from another bank, the transaction....does not create on the part of the buyer an obligation

subject to the lending limit or a borrowing subject to 12 U.S.C. 82, but is to be considered a purchase and sale of such funds." The ruling reversed the previous position of the Comptroller's Office (which was also the position of the Board) under which "sales" of Federal funds were regarded as loans and "purchases" were regarded as borrowings.

The Legal Division expressed the opinion that the Board's position was the correct interpretation, even though State member banks would be placed at a competitive disadvantage in relation to national banks.

There was also the possibility that although the new ruling related only to lending and borrowing limitations under the National Bank Act, it might be extended to other provisions of law applicable to national banks, including provisions of the Federal Reserve Act. At least one national bank reportedly had received a verbal ruling from the Comptroller's Office to the effect that the requirements of section 23A of the Federal Reserve Act as to security for loans to affiliates of member banks would not apply to "sales" of Federal funds by national banks.

To avoid misunderstanding and to provide an answer to questions that had been raised by several Reserve Banks, the Legal Division recommended that a letter be sent to all Federal Reserve Banks expressly reiterating the Board's position, particularly as to the interpretation of section 6 of the Bank Holding Company Act and section 23A of the Federal Reserve Act. It was suggested that the letter also be published,

with necessary editorial changes, in the Federal Register and the Federal Reserve Bulletin.

Following comments by Mr. Hackley, Governor Robertson said that he had no doubt about the correctness of the position taken by the Legal Division. However, he was not sure about the wisdom of taking the position publicly at this time. The effect would be to create a clear-cut issue as between the Comptroller and the Board on a technical basis. At the moment there was a discrimination in favor of national as against State member banks concerning the use of Federal funds. This would create problems, and the Board must try to find some way to eliminate the greater burden on State member banks, even possibly through backing down from a legally correct position so as to allow State member banks to utilize Federal funds to the same extent as national banks. This raised in his mind the possibility that the Board should explore the extent to which any member bank could use Federal funds rather than go to the discount window. He was not sure that anything could be done by way of saying that a member bank could not use Federal funds to supplement its reserves, but he would counsel waiting a little before the issue was joined with the Comptroller on a technical point and exploring further the question of what to do in respect to State member banks, whether by way of seeking legislation, changing the Board's present interpretation, or taking some action to limit the use of Federal funds by member banks in lieu of their going to the discount window. He would let the staff explore the matter for a few days to see whether it could come up with any ideas.

Mr. Hackley stated that the staff had explored the possibility of regulating the use of Federal funds. Thus far, however, as far as the staff could see, there was no sound legal basis for doing so. Transactions in Federal funds are premised on the provision of the Federal Reserve Act that in effect permits a member bank to check against its reserve balance. Specifically, the Act provides that any checking against a required reserve balance shall be subject to penalties prescribed by the Board. In any case in which a member bank selling Federal funds actually checks against its required reserve balance as of a particular day, it might be argued that this should be subject to penalty. However, reserve requirements and deficiencies are computed on a daily average basis over a period of time, so it was not clear that any device for regulating the use of Federal funds on this basis could be worked out without introducing many complications.

Governor Mills said he could understand Governor Robertson's reasoning about the desirability of going slow. Turning to the Comptroller's interpretation, however, he noted that it would permit debts in the form of Federal funds to be assumed by national banks without limitation, and there was some risk involved in lending Federal funds. A bank conceivably could find itself holding an indebtedness that was only partially collectible, with possible serious consequences, particularly in the case of a smaller bank. From the point of view of bank supervision, therefore, it would appear that the Board should use its influence to prevent that sort

of practice. Also, from the standpoint of monetary and credit policy, the existence of Federal funds provided a kind of buffer that could support a vast amount of credit. This tended to remove the effectiveness of credit policy by two or three steps, especially under conditions of policy restraint. In order to make a restrictive policy effective, the System might have to be so severe, in order to squeeze out the water represented by Federal funds, as to reduce the availability of credit substantially.

A member of the staff noted that the operation of the Federal funds market depends essentially on the availability of the wire transfer system of the Federal Reserve Banks. Governor Robertson commented that he regarded the wire transfer system as, generally speaking, a desirable feature of the Federal Reserve System. That being so, he would hesitate to move through that device to inhibit the use of Federal funds, although this was perhaps something that should be considered.

In further discussion, it was noted that Mr. Riefler, former Assistant to the Chairman, had observed that the existence of the Federal funds market tends to make the restrictiveness of any given discount window policy less effective than it otherwise would be. In other words, if the System wished to rely heavily on the discipline of the discount window to achieve restrictiveness, the Federal funds market could be used to frustrate that objective. There was also the question whether it was not better for banks to make adjustments to monetary policy by selling assets rather than increasing liabilities.

Chairman Martin then suggested that a decision on sending the proposed letter be deferred for a few days in order to permit further exploration of the subject in light of the points raised at this meeting, and agreement was expressed with this suggestion.

Messrs. Conkling, Leavitt, Langham, and Veenstra then withdrew from the meeting and Mr. Hexter, Assistant General Counsel, and Mr. Kiley, Assistant Director, Division of Bank Operations, entered the room.

Arrangements in connection with convention of American Bankers Association. There had been distributed a staff memorandum dated August 23, 1963, suggesting a program of events that might be carried out in the Federal Reserve Building in connection with the annual convention of the American Bankers Association to be held in Washington from October 6-9, 1963. The program had been formulated in accordance with a request at the meeting of the Board on May 1, 1963. Out-of-pocket expenses were estimated in an attachment to the memorandum.

After discussion, the proposed program was approved unanimously. The payment of the estimated out-of-pocket expenses was authorized, along with such overtime compensation as might be involved.

Messrs. Hackley, Farrell, Connell, Hexter, Kiley, Goodman, Sprecher, Kern, Morgan, and Sanders then withdrew from the meeting.

Letters from Banking and Currency Committee (Item No. 11). Mr. Noyes distributed a draft of interim reply to Chairman Patman of the House Banking and Currency Committee with regard to similar letters and

questionnaires that the Committee had sent to all members of the Board and to all Federal Reserve Bank Presidents requesting their views on a number of questions in the general area of monetary policy and related fields. The Committee's letters, dated August 21, 1963, requested a reply to the questions by September 9, 1963, if possible.

At the meeting on August 23, it was understood that the staff would 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. (The Chairman of the Presidents' Conference had assigned a committee to prepare draft answers for consideration by the Reserve Bank Presidents.)

After discussion, the proposed letter was approved unanimously in the form attached to these minutes as Item No. 11. It was understood that the staff would attempt to make the draft answers available to the members of the Board early in September.

All members of the staff then withdrew and the Board went into executive session.

The Secretary's Office was advised later that during the executive session the following actions were taken:

Committee on Organization, Compensation, and Building Plans. Governor Shepardson was designated as a member of the Board's Committee on Organization, Compensation, and Building Plans to serve with Governors

Balderston and Mitchell, who had been designated at the meeting on August 8, 1963, with Governor Mitchell as Chairman of the Committee.

Leave without pay. As recommended in a memorandum dated August 22, 1963, from Mr. Noyes, Director, Division of Research and Statistics, the Board approved a leave of absence without pay for Mona E. Dingle, Senior Economist in that Division, for a period of approximately one year beginning at the end of September 1963.

The meeting then adjourned.

Secretary's Notes: On August 26, 1963, Governor Shepardson approved on behalf of the Board the following items:

Letter to the Federal Reserve Bank of Dallas (attached Item No. 12) canceling the designation of William E. Cheshier as special assistant examiner.

Memoranda from appropriate individuals concerned recommending the following actions relating to the Board's staff:

Additional leave without pay

Michael A. Gomez, Economist, Division of International Finance, for the further period from September 14, 1963, through not later than October 1, 1963, in order to participate in a technical assistance mission to Brazil sponsored by the Agency for International Development.

Acceptance of resignation

Cheryl Stanley, Statistical Clerk, Division of Research and Statistics, effective at the close of business September 6, 1963.

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

Salary increase

P. D. Maddox, General Mechanic-Operating Engineer, Division of Administrative Services, from $4,950 to $5,158 per annum, effective September 1, 1963.

Transfer

Betty Ann Browning, from the position of Clerk-Stenographer in the Division of Personnel Administration to the position of Stenographer in the Division of Examinations, with no change in basic annual salary at the rate of $4,030, effective September 8, 1963.

Kenneth A. Toyon
Assistant Secretary

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

Item No. 1
8/27/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 27, 1963.

Mr. Charles Cain, Jr., President,
Chase Manhattan Overseas Banking Corporation,
1 Chase Manhattan Plaza,
New York 5, New York.

Dear Mr. Cain:

This will acknowledge your letter of August 19, 1963, relating to a proposed change in location of the branch of Banco Mercantil y Agricola, Caracas, Venezuela, in the San Bernardino area of Caracas from present quarters at Edificio Normandie, Urbanizacion San Bernardino to new quarters in the shopping center located near the intersection of Avenue Caracas and Avenue La Estrella.

In accordance with the request and on the basis of the information furnished, the Board grants consent to the change in location as requested. Please advise the Board of Governors in writing, through the Federal Reserve Bank of New York, when the branch is removed to the new location, furnishing information as to the street address.

In the event of any further change in location within the City of Caracas, please notify the Board of Governors of the new address.

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
8/27/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 27, 1963

Board of Directors,
Bloomsburg Bank-Columbia Trust Company,
Bloomsburg, Pennsylvania.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by Bloomsburg Bank-Columbia Trust Company, Bloomsburg, Pennsylvania, in the Maust Brothers Shopping Center located in the 1000 block of South Market Street, Bloomsburg, Pennsylvania, 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. 3
8/27/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 27, 1963

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

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by The First Pennsylvania Banking and Trust Company, Philadelphia, Pennsylvania, of a branch on the south side of Sumneytown Pike, about one-tenth of a mile east of Broad Street, Upper Gwynedd Township, Montgomery County, Pennsylvania, 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.)

T E L E G R A M
LEASED WIRE SERVICE

Item No. 4 2938
8/27/63

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

August 27, 1963

HYDE -- RICHMOND

KEBJE

A. Virginia Commonwealth Corporation, Richmond, Virginia.

B. Bank of Warwick, Newport News, Virginia,

The Bank of Virginia, Richmond, Virginia,

The Bank of Salem, Salem, Virginia.

C. Prior to the 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).

(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. 5
8/27/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 27, 1963

Board of Directors,
County Bank of Santa Cruz,
Santa Cruz, California.

Gentlemen:

The Board of Governors of the Federal Reserve System extends to March 16, 1964, the time within which County Bank of Santa Cruz may establish a branch in the vicinity of the intersection of Front and Cooper Streets, Santa Cruz, California.

The Board trusts that steps leading towards establishment of the branch will be taken as soon as possible.

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. 6
8/27/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 27, 1963

Mr. Thomas R. Sullivan, Vice President,
Federal Reserve Bank of Dallas,
Dallas, Texas. 75222

Dear Mr. Sullivan:

In your Bank's letter of March 28, 1961, and in subsequent correspondence and discussions, the question was presented as to whether the institution by a member bank of a program of so-called "split-dollar" life insurance for its managerial employees would result in executive officers becoming indebted to the bank in excess of $2,500, which is prohibited by section 22(g) of the Federal Reserve Act and the Board's Regulation O. In the meantime, the same question has been raised in two other Federal Reserve Districts involving life insurance plans that differ somewhat in detail but are substantially the same as the plan described by you.

It is understood that the member banks are interested in the plan since they believe it will enable them to recruit and retain in their employ promising young men having potential managerial ability. The insurance may be attractive to a young employee since it enables him to secure life insurance at much lower rates than would be otherwise available, and at a time when his need for insurance is perhaps the greatest.

All the various plans of split-dollar insurance which have been examined are based on the fact that in every permanent life insurance contract there is (1) an investment element represented by cash value and dividends, if any, that increases each year, and (2) the insurance element that decreases as the investment element increases.

While, as indicated, different plans may vary in detail, they all appear to incorporate the same basic features. Pursuant to an agreement made with its key employees, a bank takes out a life insurance policy for each. The bank pays that portion of the premium that is equivalent to the increase in the cash surrender value of the policy and the employee pays the remainder. However, since the policy at its inception has no cash surrender value, special arrangements usually are made for payment of the entire first year premium by the employee, although arrangements in this respect vary with different

insurance plans. When a policy is paid up, or should the employee die or his services be terminated during the life of the policy, the bank receives a return of an amount equivalent to the sum of the premiums it has paid.

Under some forms of agreement, the employee obligates himself, in the event his employment is terminated during the life of the policy, to pay to the bank any difference there may be between the cash surrender value of the policy and the aggregate premiums theretofore paid by the bank with interest compounded at two per cent per annum. In the unlikely event that no dividends have been paid, it is understood that this could amount to $2,920 in the twenty-fifth year of a $50,000 policy, thus exceeding the $2,500 limitation provided by Regulation O. However, the Board considers the likelihood of this ever happening to be so remote that it may be disregarded for purposes of the question here considered.

Regulation O may be violated whenever, as a result of any transaction, an executive officer becomes indebted to his bank, directly or indirectly. Under no plan of split-dollar insurance that has been brought to the Board's attention does the executive officer ever become so obligated. On the contrary, the bank must look solely to the cash surrender value of the policy, including dividends, for reimbursement of the sum expended for its portion of the premium. Accordingly, since any obligation to make payment to the bank runs to the insurance company and not to the executive officer, it is the Board's view that no violation of the Regulation would be involved.

Finally, it seems evident from the legislative history of section 22(g) that its underlying purpose was not to interfere with or discourage banks from providing their employees with various forms of fringe benefits, including programs for life insurance. This is not to say, however, that a violation of the Regulation would not result if, under the terms and conditions of a particular plan, an executive officer is required to become indebted to his bank in excess of the $2,500 permitted by the Regulation.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

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Item No. 7
8/27/63

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 27, 1963

Mr. Phillip S. Hughes,
Assistant Director for
Legislative Reference,
Bureau of the Budget,
Washington 25, D. C.

Dear Mr. Hughes:

This is in response to your communication of July 24, 1963, requesting the Board's views on a draft bill proposed by the Department of Agriculture that would amend the Commodity Exchange Act to include sugar within its provisions and, in addition, would authorize the Secretary of Agriculture to regulate margin requirements on sugar futures under certain conditions.

The study recently completed by the Department of Agriculture indicates that excessive speculation in sugar futures, both by large and small traders, resulted in the sharp price increase that occurred early this year and was followed by the equally sharp price break that began during the month of May. It is understood that the purpose of the proposed legislation is to provide protection to both consumers and producers from the adverse effects of such extreme price fluctuations.

While it appears that recent developments in the sugar market have no significant relevancy to the Board's monetary responsibilities, the Board recognizes that a problem exists in this area and that some form of regulation, such as that proposed, may be desirable.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

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

Item No. 8
8/27/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 27, 1963

Board of Directors,
Grace National Bank,
New York, New York.

Gentlemen:

This relates to the application from your bank, submitted through the Federal Reserve Bank of New York, for permission to maintain the same reserves against deposits as are required to be maintained by banks located outside of reserve cities.

After considering the nature of your bank's loan activities, its clearance business with over-the-counter securities dealers, and the extent of its foreign account activity, the Board has decided that the character of your bank's business is in many respects more similar to that of the other reserve city banks in New York City than to that of New York City banks which have been granted permission to maintain reduced reserves. Accordingly, the Board believes that it would not be justified in granting your application for reduced reserves.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

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

Item No. 9
8/27/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 27, 1963.

Mr. David Cohn,
Office of Statistical Standards,
Bureau of the Budget,
Executive Office of the President,
Washington 25, D. C.

Dear Mr. Cohn:

Enclosed for your information are copies of an exchange of correspondence with the Comptroller of the Currency relating to revisions in the report of condition form to be used by national banks at the forthcoming fall call date.

As indicated in the Board's response, it is concerned with the unilateral adoption of these changes in the national bank form but, because of time limitations, the Board has decided to print and distribute the same form as used on June 29, 1963.

The Board's staff has been instructed to continue to try to cooperate with the staff of the Office of the Comptroller of the Currency and of the Federal Deposit Insurance Corporation in adopting uniform reports of condition and of income and dividends for all commercial banks in December; and the Board would appreciate the assistance of your Office to this end.

Because of the practical impossibility of making tabulations of fall call data from differing forms under recently perfected electronic processing methods, the Board sees no purpose in requiring State member banks to complete the detailed schedules on the back of the form beyond the few items required for FDIC deposit insurance assessment purposes; completion and publication of the face side of the report would be required. Unless your Office has objections to this procedure, it is contemplated that State member banks will be so instructed.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

Enclosure

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

Item No. 10
8/27/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 27, 1963.

The Honorable James J. Saxon,
Comptroller of the Currency,
Treasury Department,
Washington 25, D. C.

Dear Mr. Comptroller:

This is to acknowledge your letter of August 20, 1963, enclosing a copy of the revised national bank report of condition form which you plan to use for the third call in 1963. It is noted that you are obliged to make most of these changes in order to have the report conform with the rulings published in the Comptroller's Manual for National Banks.

The Board's staff has had time to give only limited consideration to these changes, and the Board has only reviewed staff comments, copy attached.

It would seem that many of the changes are technical, merely requiring careful consideration as to the relative need therefor and as to their appropriateness. However, most of them would make it necessary to revise computer programs for verifying and editing individual reports and preparing subsequent tabulations, both at the Board and at the Reserve Banks, and to make changes in the related forms used by weekly reporting member banks, the report of income and dividends, the instructions pamphlets for preparing the reports of condition and of income and dividends, and the operating ratios published by the Reserve Banks.

Moreover, it is the Board's practice to submit revisions in its forms to the Bureau of the Budget, which, in turn, ordinarily refers them to its Advisory Committee. These negotiations require time, and the nature of your proposed changes in the report of condition would not seem to warrant time pressures against these other organizations; negotiations would also be necessary with State banking authorities because of the joint publication arrangements developed over the years with most of them.

In the circumstances, the Board will print and distribute the same forms as used on June 29, 1963. This will break a long tradition of uniformity in these reports among the Federal bank supervisory agencies; and the difference between the forms would make tabulations of the fall call data practically impossible under present methods. However, this would seem preferable to making piecemeal revisions in one form before conforming changes can be made in related reports, instructions, and computer programs.

The Board's staff has been instructed to continue to try to cooperate with your staff in what the Board hopes will result in uniform reports of condition and of income and dividends for all insured commercial banks in December. In these negotiations other improvements in the report forms which have been considered by the staff at the Board and the Reserve Banks could be given careful consideration.

A copy of this letter is being sent to the Federal Deposit Insurance Corporation and to the Bureau of the Budget because of their interest in condition report and related statistics.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

Enclosure

CHANGES IN PRESENT REPORT OF CONDITION FORM INDICATED BY THE DRAFT ACCOMPANYING MR. SAXON'S LETTER OF AUGUST 20, 1963

1. Omission of present Asset item 5, "Corporate stocks (including $_____ stock of Federal Reserve Bank)." This item is relatively unimportant statistically, amounting to $477 million Federal Reserve Bank stock and $195 million Other corporate stocks on March 18, 1963, for all member banks. Mr. Saxon's letter and its accompanying form do not indicate where these stocks are to be reported.

2. New items, "Federal funds sold" and "Federal funds purchased," to follow Loans and Borrowings, respectively. These additions would, as stated by Mr. Saxon, make the report more informative, but the question, in view of the many requests from inside and outside users of the form for additional items and the widespread desire to simplify rather than expand the form, is whether these two are the most important and deserving of being shown separately on the face of the form which is published.

3. A new item, "Direct lease financing," to follow the new item "Federal funds sold." The representatives of the FDIC and the Federal Reserve at the meeting in Deputy Comptroller of the Currency Watson's office on August 19 were not familiar with this type of financing or with the Comptroller's Manual for National Banks. It was understood from the Comptroller's representatives that this item is expected to grow at national banks. The immediate question is whether the item is of sufficient importance or if it would be reported at enough banks to deserve separate reporting on the face of the form which is published.

4. Change of the present item, "Investments and other assets indirectly representing bank premises or other real estate," to "Loans to and investments in corporations owning bank premises." The present item probably includes relatively few loans or other investments indirectly representing other real estate but this was one of the main purposes of the item when it was first added to the form following the great depression. The present item is relatively unimportant statistically, amounting to only $329 million for all member banks on March 18, 1963, and the item, "Real estate owned other than bank premises," amounted to only $83 million.

5. "Debentures" added as an item under Capital Accounts. This addition, if the three items should be reversed on the Comptroller's form, would make the forms for the three agencies uniform.

6. Substitution of "Note" for "Memoranda." This is a trivial matter of terminology.

7. Deletion under "Memoranda" (or "Note") of the present item, "Assets pledged or assigned to secure liabilities . . . ." This item is

relatively unimportant statistically and its aggregates are not published in the summaries issued by the supervisory agencies. It has been considered important from the point of view of the individual bank in publishing its report of condition.

8. Insertion of new "Memoranda" or "Note" item, "Total valuation reserves, excluding reserves for depreciation on fixed assets." This addition to the national bank form would make it more nearly like the FDIC and FR forms but it seems doubtful that it is as informative as the present items on the other two forms:

Loans as shown above are after deduction of valuation reserves of ....._____

Securities as shown above are after deduction of valuation reserves of ....._____

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 11
8/27/63

OFFICE OF THE CHAIRMAN

August 27, 1963

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

Dear Mr. Chairman:

I have your letter of August 21, with which you enclosed a questionnaire prepared by Doctors Brunner and Meltzer. I was momentarily cheered by your comment that the questions will not "require a great deal of thought or lengthy dissertations." Sober second thoughts set in, however, as I read the questions themselves. The questions are searching ones, and a good deal of time and thought will be required in order to answer them properly. This may take a little more time than is available between now and the 9th of September.

After a brief discussion with the other members of the Board, it seemed to us that the best way to proceed would be to ask the staff to prepare draft answers that reflect the views of the Board and Federal Open Market Committee as a whole. The other members of the Board and I will then review these answers individually and indicate any fundamental respects in which they do not reflect our personal views.

Sincerely yours,

Wm. McC. Martin, Jr.

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

Item No. 12
8/27/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 26, 1963

CONFIDENTIAL (FR)

Mr. Thomas R. Sullivan, Vice President,
Federal Reserve Bank of Dallas,
Dallas 2, Texas.

Dear Mr. Sullivan:

This will acknowledge your letter of August 13, 1963, advising the Board of the decision not to report to the Justice Department and the Federal Bureau of Investigation the probable criminal violations on the part of Special Assistant Examiner William E. Cheshier and Texas Bank & Trust Company of Dallas, Dallas, Texas, a State member bank, resulting from loans made by that bank to Mr. Cheshier.

As requested, the authorization heretofore given your bank to designate Mr. Cheshier as a special assistant examiner is hereby canceled.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.