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Minutes for August 30, 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>R</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 Friday, August 30, 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
Miss Carmichael, Assistant Secretary
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Noyes, Director, Division of Research and Statistics
Mr. Koch, Associate Director, Division of Research and Statistics
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. Goldstein, Economist, Division of International Finance

Money market review. There had been distributed tables on (1) monetary developments in the four weeks ending August 28, 1963, and (2) gross national product, time deposits, and liquid assets.

Mr. Yager reported on developments in the Government securities market, including announced and prospective Treasury financing operations, following which Mr. Axilrod discussed bank reserves, bank credit, the money supply, and related matters, with comments on the

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second of the two tables that had been distributed. Mr. Goldstein commented on foreign exchange developments.

All of the members of the staff except Mr. Kenyon and Miss Carmichael then withdrew from the meeting and the following entered the room:

Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Hexter, Assistant General Counsel
Mr. Shay, Assistant General Counsel
Mr. Kiley, Assistant Director, Division of Bank Operations
Mr. Smith, Assistant Director, Division of Examinations
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Hricko, Senior Attorney, Legal Division
Mr. Harris, Assistant Review Examiner, Division of Examinations

Discount rates. The establishment without change by the Federal Reserve Banks of Chicago and San Francisco on August 29, 1963, 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.

Report on competitive factors (Sioux City, Iowa). There had been distributed a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of Woodbury Bank and Trust Company, Sioux City, Iowa, into First National Bank in Sioux City, Sioux City, Iowa.

After an editorial change in the conclusion had been suggested by Governor Balderston and agreed upon, the report was approved unanimously for transmittal to the Comptroller. The conclusion read as follows:

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Combining Woodbury Bank and Trust Company and First National Bank in Sioux City would eliminate a substantial amount of existing and potential competition between Sioux City's second and fifth largest banks and the resulting bank would be the largest in the area. Effectuation of the proposal would probably have little effect on the smaller banks.

Application of West Branch Bank and Trust Company (Item No. 1).

There had been distributed a memorandum dated August 26, 1963, in which the Division of Examinations recommended unfavorably on an application of West Branch Bank and Trust Company, Williamsport, Pennsylvania, to merge with Bank of Newberry, Williamsport, Pennsylvania, under the charter of the petitioner and title Northern Central Bank and Trust Company. The Federal Reserve Bank of Philadelphia had recommended approval of the application.

According to the memorandum, the banking factors in the proposal were considered to be virtually neutral, weighing neither for nor against approval. The effects of the proposed merger on competition were considered adverse by the Division of Examinations as well as by the Comptroller of the Currency and the Justice Department in their reports to the Board on competitive factors. In order to justify approval of the merger, it was the view of the Division of Examinations that the factor of convenience and needs would have to support such action quite strongly. The Williamsport area possibly would benefit by having available a larger bank; however, little tangible evidence to support the need for a larger bank had been submitted by the applicant.

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After considering all the factors, the Division of Examinations had recommended disapproval of the application. However, since this was considered to be a close case, it was recommended that if the Board should be inclined at this point to deny the application, an opportunity be afforded for oral presentation before the Board. If such an opportunity were granted, it was suggested that in particular the banks concerned be requested to furnish comments and views regarding the need for a larger bank in the Williamsport area.

At the Board's request, Mr. Leavitt commented on the proposal and the conclusions reached, his remarks being based mainly on the memorandum that had been distributed.

Governor Mills stated that he was inclined to side with the opinion of the Philadelphia Reserve Bank, which had recommended approval of the application. He agreed that this was a close case, and as a close case he thought there were reasons to give the applicant banks the benefit of the doubt. In many ways the different factors were neutral, and it was the expressed wish of the owners of the banks to merge. On the more positive side, it was his view that the convenience and needs of the community would be served by the merger. He considered that the situation involved essentially a matter of judgment as to the number of banks that could most effectively serve a community such as Williamsport. The proposed merger of two of the five existing banks would appear to give

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the community better credit facilities and not to result in an undue concentration of banking resources. In his judgment the Williamsport area could be served better by a few substantial banks than by a larger number of banks that could not provide the services needed for the growth of the community.

Chairman Martin suggested at this point that the Board consider the question of affording an opportunity for oral presentation.

Mr. Shay referred to public proceedings that had been ordered by the Board in 1962 with respect to applications of (1) United California Bank, Los Angeles, California, to merge with The First National Bank of Vista, Vista, California, and (2) Asbury Park and Ocean Grove Bank, Asbury Park, New Jersey, to merge with The Central Jersey Bank and Trust Company, Freehold, New Jersey. In regard to the instant application, there was some indication that the proposed merger would benefit the community, but the facts presented in the application did not strongly support such a conclusion. Accordingly, it might be helpful to have an oral presentation. There appeared to be a need for further information relating to the convenience and needs of the community, and it was his view that by offering an opportunity for oral presentation the Board would in no way be favoring or making matters more difficult for the applicant.

Governor Robertson stated that he would be agreeable to holding an oral presentation prior to the Board's decision on the application.

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Governor Mills then said that he would not object to an oral presentation if that were the disposition of the Board, although in this instance he did not think that such a presentation was necessary.

Governor Shepardson expressed the view that it would be helpful to have an oral presentation since it seemed difficult at the moment to evaluate the facts presented. Conceivably there might be a greater need for the merger than was evidenced by the application as submitted.

Governor Balderston likewise indicated that he would find an oral presentation helpful.

After further discussion it was agreed to arrange an oral presentation regarding the proposed merger.

Secretary's Note: An oral presentation was subsequently arranged for September 19, 1963. A copy of the Board's order is attached as Item No. 1.

Messrs. Hexter, Shay, Leavitt, Hricko, and Harris then withdrew from the meeting.

Report of examination of Federal Reserve Bank of Philadelphia (Item No. 2). There had been circulated to the Board the report and the usual related papers with respect to the examination of the Federal Reserve Bank of Philadelphia by the Board's examining staff as of January 3, 1963.

At the Board's request, Mr. Smith reviewed information developed by the examination, his comments being based mainly on the material that

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had been circulated to the Board. In the course of his remarks, Mr. Smith called attention especially to a problem that had arisen relating to the handling of postal money orders. Late in 1962 the Post Office Department had introduced a new money order form and during the period of transition the Reserve Bank had been handling both the old and new forms, which had resulted in a delay in processing money orders. Also, a number of errors had developed, some of which were still not reconciled. Mr. Smith indicated that he believed the matter had now been cleared up and that there was no longer any substantial problem in this area.

Mr. Smith also noted that in the review of the reports submitted by Reserve Bank employees with regard to their indebtedness, bank stock ownership, outside business connections, etc., it had been observed that an assistant examiner in the Bank Examinations Department had reported a debit balance of \$1,500 in a margin account with a stock broker. Upon discussion with the Reserve Bank management, it was indicated that the matter had been fully reviewed and a decision reached against prohibiting the carrying of such a margin account. In this connection, Mr. Smith pointed out that the Board's letter of March 24, 1948, to the Federal Reserve Banks regarding outside business affiliations, teaching activities, and ownership of bank stocks did not refer specifically to margin accounts except as they might be construed to be included within more broadly stated general principles.

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Governor Mills recalled that some time ago the Board had asked the staff to prepare a letter to the Reserve Banks that would state the Board's views with respect to the maintenance of margin accounts by Reserve Bank personnel, and it was agreed that a draft of letter should be presented to the Board for consideration as promptly as possible.

Governor Robertson observed that the Philadelphia Reserve Bank had been examined as of January 3, 1963. It seemed to him that the findings of examinations should be considered by the Board more promptly so that any needed action could be taken without undue delay. There was general agreement with this comment, and Mr. Solomon referred to a revision of procedure being worked out by the Division of Examinations to make summary comments on examination reports available to the Board expeditiously.

During the course of the discussion, Governor Balderston referred to a recent report by Peat, Marwick and Mitchell covering the results of a survey by that firm of the Philadelphia Reserve Bank's audit function. In view of the quality of the report, he felt that the Audit Committees of the other Reserve Banks might find it useful, and it was understood that the possibility of distributing copies of the report would be discussed with President Bopp.

Referring to Mr. Smith's earlier comments regarding the difficulties experienced by the Philadelphia Reserve Bank in processing postal money orders, Governor Mills inquired if the Division of Bank Operations had information as to whether this situation had been corrected.

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Mr. Farrell replied that he believed it had. He described the circumstances involved and certain changes that had been made in operating procedures.

Mr. Farrell then referred to another matter at the Philadelphia Reserve Bank. This involved the use of a high-speed currency counting machine to verify incoming deposits of predominantly fit \$1, \$5, and \$10 bills. It was understood that this procedure resulted in substantial operating economies but that it afforded little or no opportunity for the detection of counterfeits. Each strap of incoming currency was "fanned" to determine that all pieces were of the same denomination, after which the currency was processed without each piece being handled individually, a procedure differing from that followed at the other Reserve Banks. Under such a procedure, counterfeit bills were not likely to be detected until they were returned at some later date to the Reserve Banks as unfit bills.

Mr. Farrell noted that the use of this equipment at the Philadelphia Reserve Bank had come to the attention of the Presidents' Conference Subcommittee on Electronics in connection with a study by Stanford Research Institute of the possibilities of automating the currency sorting and counting work of the Reserve Banks. Use of the high-speed equipment had been discussed at a recent meeting of the cash officers of Reserve Banks and the Subcommittee on Cash, Leased Wire, and Sundry Operations. It appeared, however, that the Subcommittee did not

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plan to pursue this matter further; accordingly, Mr. Farrell believed that it would be appropriate for the Board to give consideration to it.

Mr. Farrell noted that the record of the Reserve Banks in detecting counterfeit currency had been good, and he believed it might also be undesirable from a public relations standpoint for commercial banks to receive from Reserve Banks straps of currency containing counterfeit bills. He suggested that the matter be referred to the Conference of Presidents of the Federal Reserve Banks for consideration and recommendation. If it was decided that the use of the high-speed equipment was acceptable at the Philadelphia Bank, perhaps it would be well for the other Reserve Banks to acquire similar equipment.

Governor Mills observed that there was a trend on the part of commercial banks to cut corners on procedures in certain areas, on the theory that the resulting savings would far outweigh any losses that the banks might be obliged to assume. In a sense, it might be argued that the same principle attached to the matter of currency sorting and counting. Leaving aside considerations of Governmental responsibility and pride in detecting counterfeits, it was a question of weighing the cost savings against the possible disadvantages of using the high-speed equipment.

Mr. Farrell commented that, if such considerations were laid aside, there might be strong arguments for use of the high-speed equipment by all of the Reserve Banks. He mentioned the counterfeit warning

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cards that the Secret Service had been sending to commercial banks and the plan for discontinuing this service in view of a recent survey which had revealed that little use was being made of the cards. The utilization of equipment such as that now in use at the Philadelphia Reserve Bank involved essentially the question whether the Federal Reserve System should be willing to permit counterfeits to circulate until they became unfit and were then picked up through piece verification at the Reserve Banks. Along this line, he also noted that the detection of counterfeits at an early stage was helpful in making the Secret Service aware of new counterfeit activities.

After further discussion, it was agreed to refer the matter of the high-speed counting equipment to the Conference of Reserve Bank Presidents with a request for the benefit of the Presidents' views. A copy of the letter sent to the Chairman of the Conference of Presidents pursuant to this action is attached as Item No. 2.

Report of examination of Federal Reserve Bank of New York.

There had been circulated to the Board the report and the usual related papers with respect to the examination of the Federal Reserve Bank of New York by the Board's examining staff as of January 25, 1963.

At the Board's request, Mr. Smith reviewed the information developed by the examination, his comments being based on the material that had been circulated to the Board. It was agreed that there was no

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information developed by the examination that warranted specific action on the part of the Board.

Governor Mills, however, pointed out that both the New York and Philadelphia examination reports contained statements to the effect that all expenditures had been reviewed and none were considered worthy of comment. Noting that the House Banking and Currency Committee had recently asked Reserve Banks for an analysis of expense items such as foreign travel and entertainment, he expressed the view that it would be desirable for the Board to feel quite certain that it had adequate information on expenses representing money spent for purposes outside the normal course of routine operations. Such items might often be quite trivial, but through carelessness Reserve Banks were apt to make some expenditures that deserved comment.

Mr. Smith brought out that the Board's examiners reviewed all expense vouchers and followed the practice of relating Reserve Bank expenditures to outstanding letters of instruction from the Board. They did not take exception in examination reports to items that fell within the limitations of such instructions or were covered in the ordinary budgetary processes. Using such guidelines, however, they tried to make a determination as to whether specific payments were proper or improper.

Governor Mills then commented that in the past expenditures by Reserve Banks for purposes such as Christmas parties for employees,

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Christmas gifts to outside parties for services rendered, and entertainment for bankers associations had come to the Board's attention. Expenditures in that general area tended to creep into the operations of a Bank, and he would be surprised if the Reserve Banks were completely free of them. Also, in at least one Reserve Bank there had been occasion from time to time to subsidize the work of outside economists on projects not directly related to the ordinary research and statistical functions. He felt that it would be desirable for the examiners to comment on such items, although not necessarily to criticize them, rather than to have the examination reports so frequently include the notation that there were no expenditures appearing to warrant comment. To put it another way, he had in mind expenses not falling completely within the scope of a Reserve Bank's ordinary scheme of operations. It might also be advisable, he thought, for the Board's letters of instruction to the Federal Reserve Banks to be reviewed. In summary, it was his impression that the frequency of comments on expense items in examination reports had tended to diminish significantly in recent years, and it was hard for him to believe that the Reserve Banks had reached such a standard of perfection in their operations.

Foreign travel. The proposed attendance of President Irons of the Federal Reserve Bank of Dallas at the October monthly meeting of the Bank for International Settlements in Basle, Switzerland, as reported by Chairman Martin, was noted without objection.

The meeting then adjourned.

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Secretary's Notes: Governor Balderston today approved on behalf of the Board a letter to the Federal Reserve Bank of Atlanta (attached Item No. 3) approving the appointment of James Lee Jones as examiner.

Governor Shepardson today approved on behalf of the Board the following items:

Letter to the Federal Reserve Bank of Boston (attached Item No. 4) approving the designation of Roderick W. Downie as special assistant examiner.

Telegram to the Federal Reserve Bank of Chicago (attached Item No. 5) approving the appointment of Clifford R. Miller, II, as assistant examiner.

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

Appointment

George C. Maniatis as Economist, Division of International Finance, with basic annual salary at the rate of \$9,475, effective the date of entrance upon duty.

Salary increases, effective September 1, 1963

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>Research and Statistics</u>			
Stephen H. Axilrod, Senior Economist		\$14,565	\$15,045
Mona E. Dingle, Senior Economist		16,485	16,965
Levon H. Garabedian, General Assistant		6,675	6,900
Eleanor Jean Pratt, Research Assistant		6,675	6,900
Stephen P. Taylor, Chief, Flow of Funds and Savings Section		14,565	15,045
Erling T. Thoresen, Economist		8,310	8,575
John H. Wood, Economist		9,790	10,105
Charles A. Yager, Chief, Government Finance Section		14,565	15,045

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Salary increases, effective September 1, 1963 (continued)

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>International Finance</u>			
Robert F. Emery, Economist		\$10,105	\$10,420
Judy D. Taylor, Secretary		4,725	4,885
<u>Examinations</u>			
W. J. McClelland, Assistant to the Director		15,525	16,005
<u>Administrative Services</u>			
Carol Lee Dixon, Clerk-Typist		4,030	4,135
<u>Office of the Controller</u>			
L. Waite Waller, Jr., Supervisory Accountant		8,045	8,310
<u>Personnel Administration</u>			
Sandra Lee Wolfe, Clerk-Stenographer		4,250	4,390

Acceptance of resignations

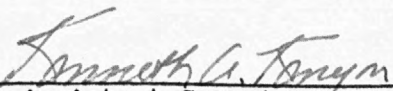
James M. Howell, Economist, Division of Research and Statistics, effective at the close of business September 6, 1963.

Richard D. Raddock, Research Assistant (Summer), Division of Research and Statistics, effective at the close of business August 30, 1963.

Walter Ford Carter, Research Assistant (Summer), Division of International Finance, effective August 30, 1963.

Max E. Fieser, Economist, Division of International Finance, effective August 30, 1963.

James T. Fegan, Supply Clerk, Division of Administrative Services, effective at the close of business September 6, 1963.


Assistant Secretary

Item No. 1
8/30/63

UNITED STATES OF AMERICA
BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C.

In the Matter of the Application of	:	
West Branch Bank and Trust Company,	:	
Williamsport, Pennsylvania	:	
for prior approval of proposed merger with the	:	
Bank of Newberry,	:	
Williamsport, Pennsylvania	:	

ORDER FOR PUBLIC PROCEEDING

West Branch Bank and Trust Company, Williamsport, Pennsylvania, has filed an application under the provisions of section 18(c) of the Federal Deposit Insurance Act, as amended, for the Board's prior approval of the merger of the Bank of Newberry, Williamsport, Pennsylvania, into the West Branch Bank and Trust Company, under the charter of the latter and the title "Northern Central Bank and Trust Company". Notice of the filing of this application was published by the Applicant pursuant to the requirement of section 18(c).

It now appears to the Board to be in the interest of the public, as well as the Applicant, to afford an opportunity for the expression of views and opinions by persons in a public proceeding before the Board. Accordingly,

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IT IS HEREBY ORDERED, that a public proceeding before the Board be held commencing at 2:00 p.m. on September 19, 1963, at the offices of the Board of Governors, Washington, D. C.

IT IS FURTHER ORDERED, that any person desiring to appear before the Board at this proceeding should file with the Secretary of the Board, 20th and Constitution Avenue, N. W., Washington, D. C. 20551, on or before September 13, 1963, a written request setting forth a brief statement of the nature of the views he wishes to express. Persons submitting such requests will be notified of the Board's decision thereon.

By order of the Board of Governors.

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

(SEAL)

August 30, 1963.

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

Item No. 2
8/30/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 3, 1963.



AIR MAIL

Mr. Watrous H. Irons, Chairman,
Conference of Presidents,
Federal Reserve Bank of Dallas,
Station K,
Dallas, Texas. 75222.

Dear Mr. Irons:

It has come to the Board's attention that the Federal Reserve Bank of Philadelphia has for some time been using a high-speed (De La Rue) currency counting machine to verify incoming deposits of predominantly fit \$1, \$5, and \$10 bills. It is understood that this procedure results in substantial operating economies but, on the other hand, affords little opportunity for the detection of counterfeits.

The Board would appreciate having the views of the Conference of Presidents with respect to the advantages and disadvantages of this method of proving currency deposits and with respect to whether a uniform System position concerning the utilization of such a procedure would seem desirable.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Kenneth A. Kenyon".

Kenneth A. Kenyon,
Assistant Secretary.

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

Item No. 3
8/30/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 30, 1963



Mr. J. E. Denmark, Vice President,
Federal Reserve Bank of Atlanta,
Atlanta 3, Georgia.

Dear Mr. Denmark:

In accordance with the request contained in your letter of August 22, 1963, the Board approves the appointment of James Lee Jones, at present an assistant examiner, as an examiner for the Federal Reserve Bank of Atlanta, effective September 3, 1963.

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. 4
8/30/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 30, 1963



Mr. Luther M. Hoyle, Jr., Vice President,
Federal Reserve Bank of Boston,
Boston 6, Massachusetts.

Dear Mr. Hoyle:

In accordance with the request contained in Mr. Aubrey's letter of August 23, 1963, the Board approves the designation of Roderick W. Downie as a special assistant examiner for the Federal Reserve Bank of Boston for the purpose of participating in examinations of The Connecticut Bank and Trust Company, Hartford, Connecticut; Depositors Trust Company, Augusta, Maine; The Merrill Trust Company, Bangor, Maine; and Rhode Island Hospital Trust Company, Providence, Rhode Island. The authorization previously given your bank to designate Mr. Downie as a special assistant examiner is hereby canceled.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

Item No. 5
8/30/63T E L E G R A M
LEASED WIRE SERVICEBOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

August 30, 1963.

ROSS - CHICAGO

Relet Morrison August 20, 1963, Board approves appointment of Clifford R. Miller, II, as assistant examiner for Federal Reserve Bank of Chicago effective September 3, 1963.

It is noted Miller owns six shares of stock of City Bank and Trust Company, Jackson, Michigan, a State member bank of which his father is vice president, trust officer and director, and that his brother is employed by National Bank of Detroit, Detroit, Michigan. Accordingly Board's approval of appointment is given with understanding that he will not participate in any examination of City Bank and Trust Company so long as he owns its stock or is related to an officer or director of that institution, or of National Bank of Detroit so long as his brother is employed by that bank.

The Board feels Mr. Miller should take steps to dispose of stock of the member bank. While the Board does not wish to impose undue hardship on Mr. Miller, the Board's letter of March 24, 1948 (S-1018, F.R.L.S. 9054) contemplates that officers of the Federal Reserve Banks and employees occupying responsible positions should not purchase any stock of a member bank and should dispose of such stock as they might have when employed as soon as practicable without undue hardship.

(Signed) Elizabeth L. Carmichael

CARMICHAEL