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Minutes for September 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	<u> <i>M</i> </u>
Gov. Mills	<u> <i>[Signature]</i> </u>
Gov. Robertson	<u> <i>R</i> </u>
Gov. Balderston	<u> <i>CB</i> </u>
Gov. Shepardson	<u> <i>[Signature]</i> </u>
Gov. Mitchell	<u> <i>M</i> </u>

Minutes of the Board of Governors of the Federal Reserve System on Friday, September 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. Sherman, Secretary
 Mr. Kenyon, Assistant Secretary
 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. Holland, Adviser, Division of Research and Statistics
 Mr. Furth, Adviser, Division of International Finance
 Mr. Sammons, Adviser, Division of International Finance
 Mr. Broida, Chief, Consumer Credit and Finances Section, Division of Research and Statistics
 Mr. Eckert, Chief, Banking Section, Division of Research and Statistics
 Mr. Yager, Chief, Government Finance Section, Division of Research and Statistics
 Mr. Goldstein, Economist, Division of International Finance

Money market review. Mr. Yager commented on developments in the Government securities market, Mr. Eckert described developments in the area of reserves, bank credit, and related matters, and Mr. Goldstein reviewed foreign exchange market developments. Distributed materials referred to by the speakers included a table and charts showing yields on U. S. Government securities, by maturity, during 1963; a

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table on the net change in business loans and total loans of commercial banks in selected time periods; a summary of monetary developments in the four weeks ended September 25, 1963; and a revised estimate of dollar-denominated time deposits placed by U. S. corporations in foreign banks during 1962 and 1963.

All members of the staff except Messrs. Sherman, Kenyon, Fauver, Noyes, and Sammons then withdrew from the meeting and the following persons entered the room:

Mr. Cardon, Legislative Counsel
 Mr. Hackley, General Counsel
 Mr. Solomon, Director, Division of Examinations
 Mr. Johnson, Director, Division of Personnel Administration
 Mr. O'Connell, 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
 Miss Hart, Senior Attorney, Legal Division
 Mr. Young, Senior Attorney, Legal Division
 Mr. Fisher, Senior Economist, Division of Research and Statistics

Discount rates. The establishment without change by the Federal Reserve Banks of New York, Cleveland, Richmond, Chicago, St. Louis, Kansas City, and Dallas on September 26, 1963, of the rates on discounts and advances in their existing schedules was approved unani- mously, with the understanding that appropriate advice would be sent to those Banks.

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

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Item No.

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| Letter to Bankers Trust Company, New York, New York, approving the establishment of a branch at Castleton Corners, Borough of Richmond. | 1 |
| Letter to The Cleveland Trust Company, Cleveland, Ohio, approving the establishment of a branch in the River Plaza Shopping Center, Rocky River. | 2 |
| Letter to the Federal Reserve Bank of Atlanta waiving the assessment of a penalty incurred by Fidelity National Bank of Baton Rouge, Baton Rouge, Louisiana, because of a deficiency in its required reserves. | 3 |
| Letter to Ypsilanti Savings Bank, Ypsilanti, Michigan, approving the establishment of a branch at Washtenaw Avenue and Hewitt Road, Ypsilanti Township. | 4 |
| Letter to Citizens Commercial Trust and Savings Bank of Pasadena, Pasadena, California, approving an extension of time to establish a branch at 1010 East Colorado Boulevard. | 5 |
| Letter to Peoples Trust Company of Bergen County, Hackensack, New Jersey, approving the establishment of a branch in Norwood. | 6 |

In connection with Item No. 2, there was a brief discussion, at the instance of Governor Balderston, concerning the competitive position of Cleveland Trust Company, and particularly its right under a "grandfather" clause in the law to establish branches outside Cuyahoga County, a privilege not available to other Cleveland banks. Mr. Leavitt said that the trust company had only one branch outside the County, which it operated under the grandfather clause. While the trust company was the largest bank in Cleveland, he was informed that the trust company had not been finding it easy in recent years to maintain its relative

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position. There was a lot of competition in the area and certainly no indication of a tendency toward a monopolistic situation.

Mr. Noyes then withdrew from the meeting.

Report on competitive factors (South Bend-New Carlisle, Indiana).

There had been distributed a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed purchase of assets and assumption of liabilities of The First National Bank of New Carlisle, New Carlisle, Indiana, by The National Bank and Trust Company of South Bend, South Bend, Indiana.

In discussion, similarities and differences from the standpoint of competitive effect were suggested between this proposed transaction and the proposal on which the Board had recently reported to the Comptroller whereby Michigan National Bank, Lansing, Michigan, would take over two small banks in the community of Grand Ledge. It was the view of the Division of Examinations that significant distinctions could be found in the two proposals. Certain changes in the wording of the conclusion of the draft report on competitive factors were then suggested by Governor Robertson, following which the report was approved for transmittal to the Comptroller in a form in which the conclusion read as follows:

While the proposed purchase of assets and assumption of liabilities of First National Bank, New Carlisle, Indiana, by National Bank and Trust Company, South Bend, Indiana, would eliminate the nominal amount of competition between National Bank and Trust and First National, the over-all effect on competition would not be adverse.

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Baystate Corporation (Item No. 7). The Federal Reserve Bank of Boston had requested the Board's opinion as to whether Insurance Agent Auto Finance Plan, Inc., and Insurance Agent Auto Finance Trust, affiliates of Harvard Trust Company, Cambridge, Massachusetts, a subsidiary of Baystate Corporation, were exempt subsidiaries of Baystate under section 4(c)(1) of the Bank Holding Company Act of 1956. Two questions were presented: (1) whether the Plan and the Trust were subsidiaries of Baystate within the meaning of the Act; and (2) if so, whether their activities were exempt from the prohibitions of section 4 of the Act as bank service subsidiaries under the 1958 interpretation by the Board in the matter of The National Shawmut Bank, Boston, and its subsidiary, Devonshire Financial Service Corporation. It was the conclusion of the Legal Division, as stated in a memorandum dated September 25, 1963, which had been distributed to the Board, that the prohibitions of section 4 of the Bank Holding Company Act did not apply to the relationships between Harvard and Plan and Trust because, in terms of that statute, the latter were not subsidiaries of Baystate. A draft of letter to the Boston Reserve Bank to such effect was attached for the Board's consideration in the event the Board agreed with this conclusion. If the Board so agreed, it would be unnecessary to reach the question whether the Plan and the Trust would be exempt from the prohibitions of section 4 as companies engaged "...solely in the business of furnishing services to or performing services for such holding

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company and banks with respect to which it is a bank holding company..." under section 4(c)(1).

Following comments by Miss Hart in supplementation of the memorandum, Governor Mills commented that the position proposed to be taken seemed generally consistent with the Shawmut-Devonshire decision, which, however, he regarded as a borderline decision. He had always been concerned that the Board may have been an accessory to a subterfuge. To the extent that this was true, the Board in a sense would be compounding the earlier error by the proposed decision in the present case. While the proposed interpretation probably was technically correct, he had some qualms as to whether or not the decision in the Shawmut-Devonshire case was a correct one.

Miss Hart brought out that the Legal Division had concluded in this case that if there had been a subsidiary relationship, the divestment requirements of the Bank Holding Company Act would have applied. In other words, the case would not have fallen within the Shawmut exception. However, the Holding Company Act does not reach all kinds of business relationships, and it did not seem to reach this particular relationship so far as the Legal Division could determine. If not, there was no provision in the Act under which the Board could require divestment.

Governor Robertson said he also had the feeling that a subterfuge was involved, one that could lead to a breakdown of the whole purpose of the divestment requirements of the Bank Holding Company Act. At the

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same time, he agreed with the Legal Division that this situation was not covered by the Holding Company Act in its present form. Therefore, the conclusion reached by the Legal Division seemed correct. Nevertheless, this kind of situation was one on which the Board should keep its eye to see whether it should request amendment of the statute.

After further discussion, there was general agreement that the conclusion reached by the Legal Division, in light of the present provisions of the Bank Holding Company Act, was legally correct. Accordingly, unanimous approval was given to the letter to the Federal Reserve Bank of Boston of which a copy is attached as Item No. 7.

Mr. O'Connell and Miss Hart then withdrew from the meeting.

Report on S. 810, S. 811, and S. 2130 (Item No. 8). Chairman Robertson of the Senate Banking and Currency Committee had requested reports from the Board on three bills, each designed to provide a secondary market for conventional mortgages. S. 810 would provide for the Federal chartering of mortgage insurance corporations and mortgage marketing corporations to insure and deal in conventional mortgages. S. 811 would create a Home Mortgage Corporation within the Home Loan Bank System with authority to deal in participations in mortgages. S. 2130 would expand the operations of the Federal National Mortgage Association to include conventional home mortgages.

There had been distributed a memorandum from the Legal Division dated September 26, 1963, reviewing the three bills and the position

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taken by the Board with respect to similar proposals in the past. There was submitted a draft of letter to Chairman Robertson that would express approval of the objective of the three bills -- to improve the market-ability of mortgages not presently underwritten by the Federal Government -- but would raise a number of questions concerning the present proposals.

In commenting, Mr. Young and Mr. Cardon said that the Committee had held meetings on the bills and that it wished to have a report from the Board for inclusion in the printed record of the hearings. They judged that the bills were doubtful of enactment.

Governor Mills said his thought would be that these bills did not deserve even the indirect extent of endorsement that was indicated in the proposed letter. The letter would say that the Board approved the underlying principle, but he wondered whether that principle was correct. Possibly there were statistics that showed that there was an inadequate secondary market for conventional mortgages. In view of presently available facilities, however, he considered it questionable whether there was indeed a clear and definite need for this sort of secondary mortgage market operation. Over the long run, such a device could encourage undue mortgage activity on the part of banks and savings and loan associations because they could extend their mortgage loans in the knowledge that they could move the surplus on to the secondary market as they saw fit. There was also a possibility that banks and savings and loan associations would have an incentive to lend beyond the limits of

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their own resources. Unless the insurance provisions were such that the quality of mortgages insured would be appropriate, there would be some incentive over a period of time for these institutions to lend and move along their mortgages for a carrying fee, which could reduce the quality of the credits they were handling. What this program would do to Federally guaranteed mortgages, he did not quite know, especially if the Federal National Mortgage Association were permitted to enter the conventional mortgage loan market by acquiring such mortgages. By and large, the yield on conventional mortgages was substantially higher than on Government guaranteed mortgages. It would seem that there would be a strong incentive on the part of banks to move entirely out of the field of Federally guaranteed mortgages and into the field of conventional mortgages. Further, S. 810 would allow national banks to invest up to 5 per cent of their capital and surplus in the stock of mortgage insurance corporations and up to an additional 5 per cent in the stock of mortgage marketing corporations. There was a growing extension of authorities to allow banks to invest up to certain percentages of their capital and surplus in various types of corporations. Taking all of these together, some banks might have a large percentage of their capital and surplus absorbed in such investments, and little free capital standing in protection of their deposit liabilities.

Governor Balderston said he shared Governor Mills' point of view. His antipathy to this whole development stemmed from cogent arguments presented to him by Mr. Fisher and by insurance company executives.

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Governor Robertson then suggested revision of the second paragraph of the proposed letter to eliminate the statement that the Board approved the objectives of the three bills, and there was general agreement with the revised language suggested by Governor Robertson.

Governor Robertson also noted that S. 810 would give impetus to the stretching out of terms of mortgages. He suggested that the letter might be amplified in this respect against the background of the testimony given by Chairman Martin before the House Banking and Currency Committee earlier this week on a bill -- one of several covered by the testimony -- that had the objective of relaxing terms on conventional mortgage loans by national banks. There was agreement that the letter should be amplified along the lines of Governor Robertson's suggestion.

After an additional suggestion for a clarifying change in the proposed letter was agreed upon, unanimous approval was given to a letter to Chairman Robertson in the form attached as Item No. 8. It was understood that a similar letter would be sent to the Budget Bureau, which had likewise requested a report on S. 810.

Foreign travel. In a memorandum dated September 25, 1963, which had been distributed, Mr. Young (Adviser to the Board and Director, Division of International Finance) noted that an understanding had been reached by U. S. and Canadian financial officials to create a joint working party of senior technicians to examine available data on the interrelationships between the U. S. and Canadian money markets, to recommend procedures for improving such data, and hopefully to suggest measures that might

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enhance the ability of the two markets to function together in such a way as to improve the operations of the international monetary system. The U. S. members of the working party would include representatives of the Treasury Department, a representative of the Federal Reserve Bank of New York, and Mr. Sammons, Adviser in the Board's Division of International Finance. It was contemplated that several meetings of the working party would be held, some in Washington and some in Ottawa, Canada, and the first meeting had been tentatively scheduled for October 10 and 11, 1963. It was recommended that the Board authorize travel to Ottawa by Mr. Sammons for the purpose of participating in this meeting. It was further recommended that he, or if necessary some other member of the Board's staff as his substitute, be authorized to make such additional trips to Ottawa as might be necessary to complete the task assigned to the joint working party. A request for travel authorization would be prepared and submitted, prior to each individual trip, to the Board member (presently Governor Shepardson) to whom authority was delegated for approving such requests.

The recommendations contained in Mr. Young's memorandum were approved unanimously.

Messrs. Cardon, Fauver, Sammons, Leavitt, Young (Legal), and Fisher then withdrew from the meeting.

Outside activities of Reserve Bank officers and employees
(Item No. 9). Pursuant to discussions at meetings of the Board, most

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recently on August 30, 1963, there had been distributed, with a memorandum from Messrs. Johnson, Solomon, and Sherman dated September 26, 1963, a draft of letter to the Presidents of all Federal Reserve Banks that would express the views of the Board with respect to speculative activities on the part of Reserve Bank officers and employees. This expression of views was incorporated in a proposed revision of the Board's letters of March 24, 1948 (S-1018, FRLS #9054) and October 7, 1957 (S-1639, FRLS #9054.1). Except for the addition of the statement on speculative activities, the substance of the draft letter was consistent with the content of the two letters that would be superseded. Some leeway, however, would be provided for a Reserve Bank to authorize the acceptance of an honorarium by an officer or employee for the preparation of material for articles or other publications utilizing information accumulated in the conduct of the affairs of the Bank. This language was suggested because the 1948 and 1957 letters might be interpreted as being more restrictive than the rules currently applied by the Board to its own staff. The memorandum suggested that the Board might wish to send such revised letter as it agreed upon to the Federal Reserve Banks for comment before issuing it as a standing instruction.

Following comments on the matter by Messrs. Sherman, Johnson, and Solomon in supplementation of the distributed memorandum, Governor Robertson raised two questions concerning the language of the draft letter. First, he questioned the use of the word "nominal" in stating

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that the Board would not object if the Reserve Bank authorized an officer or employee, in a specific case, to accept an honorarium tendered in a nominal amount for the preparation of material for articles or other publications utilizing information accumulated in the conduct of the affairs of the Bank. It was his suggestion that reference be made to authorizing the acceptance of an honorarium in "reasonable" amount, or language to such effect, and there was general agreement with this suggestion.

Second, Governor Robertson questioned the statement in the proposed letter that the Board would ordinarily see no objection to an officer or employee of a Federal Reserve Bank maintaining a teaching connection with a recognized educational institution at the university level, particularly if such a connection would be helpful in enabling him to keep abreast of developments in his field "and if it would be conducive to the maintenance of good relations between the Federal Reserve System and the academic community." It was suggested that the language be changed to read: "if it would facilitate communication between the Federal Reserve System and the academic community," and there was agreement with this change.

As to the statement in the proposed letter that it would be inappropriate for a member of the staff of a Reserve Bank to purchase stock of a member bank or an affiliate thereof (except possibly where the actual relationship of the affiliate to the member bank was remote),

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Governor Balderston raised a question as to the purpose of the reference to affiliates, including the language in parentheses. He inquired whether the purpose would be served by referring to "stock of a member bank or a bank holding company".

In discussion, it was noted that this language was taken from the outstanding 1948 letter. It was pointed out that there were affiliates other than bank holding companies the stock of which it would be inappropriate for a member of the staff of a Reserve Bank to hold. In general, it would be inappropriate for a member of the staff of a Reserve Bank to acquire and hold stock of any affiliate that would fall within the purview of examination by the Reserve Bank, but there might be infrequent cases where the relationship of the affiliate to the member bank would be so remote that the holding of stock of the affiliate would not be objectionable.

In light of these considerations, it was agreed that the use of the word "affiliate" would be appropriate.

Governor Balderston also raised the question whether the distinction between speculative dealings and investments, as set forth in the proposed letter, was sufficiently clear; in the light of ensuing discussion, however, he agreed with the other members of the Board that this portion of the draft letter seemed reasonably understandable.

Governor Mills raised the question whether the Board would be following an appropriate procedure in submitting the draft letter to

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the Federal Reserve Banks for comment before issuing it as a standing instruction. He pointed out that the law vested the Board with the power of general supervision over the Federal Reserve Banks. If issued, the letter would stand as a directive, but the Reserve Banks would not be precluded from objecting to it if they wished, and the Board could then consider the validity of any such objections. According to the proposed procedure, the Reserve Banks would be admitted to the right to submit suggestions in advance on a letter of instruction that was to be issued under power vested by statute with the Board.

In discussion of this point, Governor Shepardson noted, by way of possible analogy, that in formulating regulations applicable to member banks the Board was generally required by the Administrative Procedure Act to publish a notice of proposed rule making in the Federal Register, thus giving the supervised institutions a chance to comment. Governor Robertson expressed the view that the point of concern was whether the Board itself made the final decision as to the terms of the letter. The question whether it obtained comments before the issuance of the letter or afterward did not seem to him so important. Chairman Martin expressed the view that from the standpoint of System relationships the Board could benefit by following the proposed procedure. He noted that the proposed letter, particularly as it related to speculative activities, involved a subject that had been under discussion from time to time over a substantial period.

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It was then understood that the proposed letter, modified to the extent agreed upon at this meeting, would be transmitted to the Federal Reserve Banks for comment. A copy of the letter subsequently sent to the Presidents of the Federal Reserve Banks inviting their comments is attached as Item No. 9.

Processing of examination reports. In a memorandum from the Division of Examinations dated September 25, 1963, which had been distributed, a revision was proposed of the procedures followed in processing reports of examination of the Federal Reserve Banks and the usual supplemental memoranda. The object of the revision was to bring to the attention of the Board in a more timely and concise manner those matters disclosed in the reports and supplemental memoranda that seemed to warrant Board action or to be of special interest.

It was contemplated that (1) each report of examination and supplemental memorandum would be reviewed promptly after receipt in the Division of Examinations; (2) the summary memorandum prepared in the Division would cover only the more significant matters revealed in those documents; (3) copies of the Division's memorandum would be sent to each Board member and to appropriate members of the staff; (4) simultaneously with the distribution of the summary memorandum, but as a separate matter, the reports of examination and related papers would be placed in circulation to the members of the Board and to others to whom these documents had customarily been made available; (5) discussion of the Division's memorandum would be placed on the agenda by the Secretary

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without necessarily awaiting completion of the circulation of the report of examination; (6) upon request, the Secretary's Office would cause the complete folder on the examination to be withdrawn from circulation and made immediately available to any Board member who wished to see it in advance of its circulation to him in the regular course.

There had also been distributed a second memorandum from the Division of Examinations, also dated September 25, 1963, summarizing the report of the examination of the Federal Reserve Bank of Cleveland made as of May 23, 1963. This was submitted as an example of the type of memoranda that would be prepared and distributed if the Board approved the revised procedures suggested for the processing of examination reports and related papers.

Following comments by Mr. Solomon on the proposed revised procedures, there ensued a discussion during which Governor Mills said that he could not agree with the recommendation. As one member of the Board, he would not consider that he had discharged his statutory duty if he passed on an examination report solely on the basis of a staff memorandum condensing the information in that report. Instead, he would want to review each report of examination in detail on his own account. He felt that delays would be corrected if the members of the Board reviewed each examination report before it was circulated to several members of the staff. Using the Cleveland memorandum as an example, he said that if he had not had an opportunity to read the report of

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examination and accepted the condensed commentary on that report, he would be passing on the matter without an opportunity for any criticisms that he might want to make after he had analyzed the examination report in detail. If the matter was passed upon on the basis of the summarization, he gathered that correspondence with the Federal Reserve Bank in question might, in effect, be regarded as terminated at approximately the same time, the Board having indicated that it was satisfied.

Governor Mills also commented that the summary memorandum on the examination of the Cleveland Bank contained no remarks on the character of the expenses of the Reserve Bank, other than to indicate that none of them were regarded as warranting comment. After reviewing the reports made recently by the Dallas and New York Reserve Banks to the House Banking and Currency Committee concerning expenditures in several categories, he believed strongly that the Board was not discharging its duties properly and that it should have available to it adequate comments by the examiners on discretionary expenditures. To approach this subject more thoroughly, the Board also should review at an early date the outstanding letters of instruction (S-letters) to the Federal Reserve Banks with respect to discretionary expenditures that were used by the Board's examiners as the basis for scrutinizing the expenses of the Reserve Banks and determining which expenditures should be brought to the attention of the Board.

Mr. Solomon agreed, on the question of discretionary expenditures, that the Board might well want to review the outstanding letters of

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instruction. He added that the Division of Examinations had under preparation a memorandum describing for the Board how its examiners went about reviewing the expenditures of the Reserve Banks, in order that the Board could then say exactly what it wanted done and whether it wanted to have the examiners follow a different procedure in the future. He felt that the Board's examiners had been diligent in inquiring into such expenditures, with the objective of bringing to the attention of the Board any expenditures not appearing to conform to the letters of instruction. They had not thought it necessary, however, to report similar expenditures repeatedly in successive reports of examination. It was always possible, of course, where questions of judgment were involved, that the examiners might consider something reasonable and others might take a different view. In general, though, it was his opinion that the examiners had been diligent in their review of discretionary expenditures and that the Federal Reserve Banks had not failed to comply with the Board's letters of instruction. Such expenditures could only be made voluntarily and as a deliberate matter. The management of a Reserve Bank must approve, and the Bank's auditors must review, such expenditures, including their character.

Governor Mills suggested that if a Bank's management was satisfied with the character of the expenditures, he did not know exactly what question an auditor could raise, following which Governor Shepardson commented that if expenditures were contrary to the outstanding Board

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letters, the examiners presumably would be obliged to call attention to them.

Governor Robertson expressed the view that Governor Mills had made a good point in suggesting a review of the outstanding Board letters. In the absence of definite Board policy statements, the examiners could do little.

On the proposed revised procedures, Governor Robertson made a suggestion intended to cure the difficulty mentioned by Governor Mills. This was to obtain an additional copy of each examination report. Then, when a report was received at the Board's offices and the Division of Examinations began working on it, the second copy could be put in circulation to the Board immediately.

Governor Balderston raised a question as to the timing that would be involved under a procedure such as Governor Robertson suggested, and the latter noted that a report of examination was not, of course, completed until the close of an examination, which took from three to six weeks. He felt that after a report was received at the Board's offices the processing of it should not take more than two weeks. Accordingly, within an over-all period of about two months, the Board should be in a position in each instance to have completed its review and discussion of a report of examination.

Governor Shepardson noted that part of the delay encountered on some occasions had been attributable to difficulty in scheduling

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reports of examination for Board consideration in view of the press of other matters coming before the Board, and that the Board had a responsibility for arranging that such reports were placed on Board meeting agenda and discussed as promptly as feasible.

At the conclusion of the discussion, the proposed revised procedures for the processing of examination reports, as set forth in the memorandum from the Division of Examinations dated September 25, 1963, and as amended by the suggestion of Governor Robertson, were approved.

As to the examination of the Federal Reserve Bank of Cleveland, it was agreed, in light of the point raised by Governor Mills and the amendment to the processing procedures that had been agreed upon in line with Governor Robertson's suggestion, that consideration of the report of examination by the Board would be deferred until after the report, and the supplemental memoranda relating to the examination, had completed circulation to the members of the Board.

The meeting then adjourned.

Secretary's Notes: Pursuant to the procedure agreed upon by the Board at its meeting on August 22, 1963, with respect to expanding the weekly K.2 release to include information on various kinds of applications received and acted upon by the Board, there was sent to the Federal Reserve Banks under today's date a letter of advice as to the procedures the Board had decided to follow. A copy of the letter is attached as Item No. 10.

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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:

Appointments

William K. Scheirer as Economist, Division of Research and Statistics, with basic annual salary at the rate of \$8,045, effective the date of entrance upon duty. (Mr. Scheirer was to be assigned to the Division of Data Processing and would work under the immediate supervision of the Director of that Division.)

Edward A. Dittrich as Federal Reserve Examiner, Division of Examinations, with basic annual salary at the rate of \$10,735, effective October 21, 1963.

James E. Miller as Operator, Tabulating Equipment (Trainee), Division of Data Processing, with basic annual salary at the rate of \$3,820, effective the date of entrance upon duty.

Salary increases

Ann R. Walka, from \$5,375 to \$5,725 per annum, with a change in title from Statistical Assistant to Research Assistant, Division of Research and Statistics, effective September 29, 1963.

Jack M. Egertson, from \$12,245 to \$13,270 per annum, with a change in title from Review Examiner to Supervisory Review Examiner, Division of Examinations, effective September 29, 1963.

Charla Jo Hall, from \$3,560 to \$3,820 per annum, with a change in title from Key Punch Operator (Trainee) to Key Punch Operator, Division of Data Processing, effective September 29, 1963.

Transfer

Carol Lee Jones, from the position of Secretary in the Office of the Secretary to the position of Secretary in the Division of Bank Operations, with an increase in basic annual salary from \$4,725 to \$5,205, effective October 13, 1963.

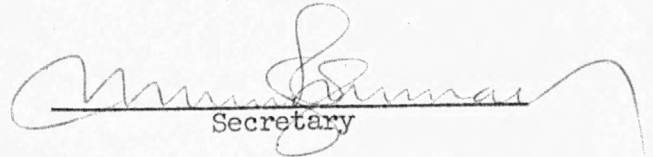
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Transfers

Jeannette R. DeLawter, from the position of Stenographer in the Division of Examinations to the position of Secretary in the Division of Research and Statistics, with an increase in basic annual salary from \$4,530 to \$4,885, effective September 29, 1963.

Mary Theresa Johnson, from the position of Clerk-Stenographer in the Division of Bank Operations to the position of Secretary in the Division of Research and Statistics, with an increase in basic annual salary from \$4,810 to \$5,205, effective September 29, 1963.


Secretary

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

Item No. 1
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ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 27, 1963.

Board of Directors,
Bankers Trust Company,
New York, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch at the northeast corner of Victory Boulevard and Manor Road, Castleton Corners, Borough of Richmond, New York, New York, by Bankers Trust Company, 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.

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Item No. 2
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ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 27, 1963.

Board of Directors,
The Cleveland Trust Company,
Cleveland, Ohio.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by The Cleveland Trust Company, Cleveland, Ohio, in the River Plaza Shopping Center between Spencer Road and River Oaks Drive north of Center Ridge Road in Rocky River, Ohio, provided the branch is established within six months from the date of this letter.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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

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

Item No. 3
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ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 27, 1963.



Mr. Harold T. Patterson,
Assistant Vice President
and General Counsel,
Federal Reserve Bank of Atlanta,
Atlanta, Georgia 30303.

Dear Mr. Patterson:

This refers to your letter of September 16 regarding the penalty of \$877.59 incurred by the Fidelity National Bank of Baton Rouge, Baton Rouge, Louisiana, for the period ended September 4, 1963.

It is noted that the deficiency resulted from the failure of the subject bank's New York correspondent to transfer funds to the bank's reserve account as requested; Western Union Telegraph Company admitted its failure to transmit the message requesting the transfer; had the transfer been made, no deficiency in the reserve account would have occurred; and that the subject bank has had no deficiency reserve penalties since early in 1953.

In the circumstances, the Board authorizes your Bank to waive the assessment of the penalty of \$877.59 for the period ended September 4, 1963.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 4
9/27/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



September 27, 1963.

Board of Directors,
Ypsilanti Savings Bank,
Ypsilanti, Michigan.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Ypsilanti Savings Bank, Ypsilanti, Michigan, of a branch at the southwest corner of the intersection of Washtenaw Avenue and Hewitt Road, Ypsilanti Township, Washtenaw County, Michigan, 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.)

Item No. 3381
9/27/63

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



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 27, 1963.

Board of Directors,
Citizens Commercial Trust and Savings Bank of Pasadena,
Pasadena, California.

Gentlemen:

The Board of Governors of the Federal Reserve System extends to December 18, 1963, the time within which Citizens Commercial Trust and Savings Bank of Pasadena may establish a branch at 1010 East Colorado Boulevard, Pasadena, California.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary

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Item No. 6

9/27/63

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



September 27, 1963

Board of Directors,
Peoples Trust Company of Bergen County,
Hackensack, New Jersey.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Peoples Trust Company of Bergen County, Hackensack, New Jersey, of a branch in the vicinity of the intersection of Broadway and Livingston Streets, Norwood, Bergen County, New Jersey, 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.)

Item No. 7

9/27/63

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 27, 1963.



Mr. Luther M. Hoyle, Jr.,
Vice President,
Federal Reserve Bank of Boston,
Boston, Massachusetts. 02106

Dear Mr. Hoyle:

This refers to your letter of April 12, 1963, enclosing copies of documents and correspondence relating to Insurance Agent Auto Finance Plan, Inc. ("Plan") and Insurance Agent Auto Finance Trust ("Trust"), affiliates of Harvard Trust Company, Cambridge, Massachusetts ("Harvard"). A majority of the capital stock of Harvard is owned by the registered bank holding company, Baystate Corporation ("Baystate").

Two questions are presented, (1) whether Plan and Trust are subsidiaries of Baystate within the meaning of section 2(d) of the Bank Holding Company Act of 1956 ("the Act"), and (2) if so, whether the activities of Plan and Trust would be exempt from the prohibitions of section 4(a) of the Act under the rule laid down by the Board in the so-called "Shawmut interpretation", which was published at 1958 Federal Reserve Bulletin 431, as companies "engaged solely in the business of furnishing services to or performing services for" their "bank holding company or subsidiary banks thereof" within the meaning of section 4(c)(1) of the Act. If the answer to the first question is negative, it is unnecessary to reach the second.

The documents which you submitted show that Plan was formed to provide Harvard with a source of automobile, and incidentally, of automobile insurance paper. Paper of this kind is generated when purchases of automobiles are financed through the agent who is writing insurance on the car. When a customer wishes his insurance agent to arrange bank financing for him, and the agent is working with Plan, the agent submits an application for financing to Plan's office. If the application is approved,

Mr. Luther M. Hoyle, Jr.

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Plan pays the dealer by means of a draft on Plan (if insurance is to be financed as well, the insurance company or broker is similarly paid by means of a draft on Plan), the customer signing the draft or drafts, a note, and a chattel mortgage. Each day, Plan sells the notes it has received, without recourse, to Harvard. Harvard credits Plan's account in payment for the notes, and the drafts are paid from this account. Harvard then sets up the loans on its books and sends each customer a coupon payment book. From this point on, the customer deals with Harvard as would any installment loan customer.

All stock of Plan is presently owned by Trust, the successor to a trust originally established by three directors of Harvard for the benefit of all the shareholders of Harvard. According to a letter of April 2, 1963, addressed to you, from Mr. Donald P. Noyes, Secretary of Harvard, which was included with the materials you submitted, the original trust was terminated on February 11, 1963, after it had become "apparent that there was some question as to whether the Baystate Corporation as a stockholder of the Bank (Harvard) could have a beneficial interest in this (the original) trust under the Bank Holding Company Act of 1956." All the assets of the original trust were then turned over to Trust, whose beneficiaries comprise all stockholders of Harvard excluding Baystate.

Under the provisions of the declaration which establishes Trust, the trust property is to be held and managed "in the best interests of the shareholders" of Harvard, defined to exclude Baystate. The trustees are to serve until death or resignation, and vacancies are to be filled by appointment by the remaining trustee or trustees. The trust may be amended or terminated by unanimous action of all three trustees, but no amendment altering the purposes of the trust or "denying the rights and interests" of the beneficiaries may be made without the consent of a majority of them. On termination, trust property is to be distributed among the beneficiaries, and property not needed in the trust may be distributed ratably among the beneficiaries (apparently in proportion to their shareholdings in Harvard) at any time.

The same three directors of Harvard remain as trustees of Trust, but serve as individuals rather than by virtue of their positions with Harvard. In its registration statement, received at the Board's offices on January 25, 1957, Baystate stated that "No officer or director of Registrant (Baystate) is on the board of directors of any member bank" and that this state of affairs resulted from "the policy of Registrant that the officers and directors of each member bank should retain full responsibility for its actions." It is assumed that this statement is still correct, and that these three men are not, therefore, directors or officers of Baystate.

Mr. Luther M. Hoyle, Jr.

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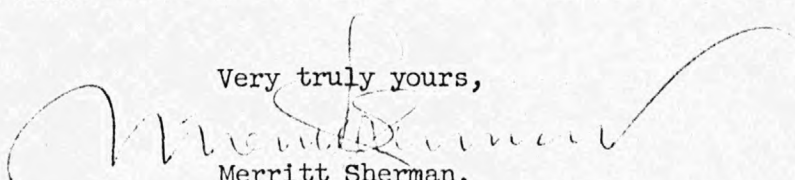
Trust is an "affiliate" of Harvard within the meaning of section 2(b)(3) of the Banking Act of 1933, which provides that the term shall include "any corporation, business trust, association, or similar organization . . . of which a majority of its directors are directors of any one member bank." Baystate is a "holding company affiliate" of Harvard by virtue of provisions of section 4(c)(1) of the same statute, since Baystate owns a majority of the shares of capital stock of Harvard. It is not material to the question before the Board whether Plan and Trust are affiliated with Baystate within the meaning of that statute, since the criteria which serve to establish a subsidiary relationship under the Bank Holding Company Act of 1956 are different from those laid down in the earlier law.

Section 2(b) of the Bank Holding Company Act of 1956 defines "company" to include "any corporation, business trust, association, or similar organization . . ." and Trust would appear to be a "company" for this purpose. However, Trust does not seem to fall within any of the three categories of "subsidiary" set forth in section 2(d) of the Act. As to the first category, the trustees hold Trust for the benefit of the (minority) shareholders of Harvard, other than Baystate, and Baystate does not control the trust in any way under the terms of the trust instrument, so that Baystate cannot be said to own or control "25 per centum or more" of the "voting shares" (or interest) in Trust. Nor does Baystate in any manner control the election of a majority of the trustees of Trust, as would be required if Trust were to be a subsidiary of Baystate under the second category, since, although it did help to elect the directors who became trustees of the original trust, it has no authority under the trust instrument to influence the selection of successor trustees under Trust.

Finally, assuming that the shareholders of Baystate do not substantially overlap the minority shareholders of Harvard, 25 per centum or more of the interest in Trust cannot be said to be "held by trustees for the benefit of the shareholders or members of" Baystate. This fact would eliminate applicability of the third category of subsidiary defined as such in section 2(d).

Accordingly, it would appear that the prohibitions of section 4 of the Act do not apply to the relationship between Harvard and Plan and Trust, nor to the relationship between Baystate and Harvard (at least, so far as that relationship is relevant to Plan and Trust), since Plan and Trust are not subsidiaries of Baystate. Therefore, it is unnecessary to reach the second question outlined above. It would be appreciated if you would communicate the substance of this letter to Harvard and to Baystate.

Very truly yours,



Merritt Sherman,
Secretary.

Item No. 8
9/27/63

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

OFFICE OF THE CHAIRMAN

September 27, 1963.



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

Dear Mr. Chairman:

This is in response to your requests for reports on S. 810, that would provide for the Federal chartering of mortgage insurance corporations and of mortgage marketing corporations to insure and to deal in, respectively, conventional mortgages; S. 811, that would create a Home Mortgage Corporation within the Home Loan Bank System with authority to deal in participations in mortgages; and S. 2130, that would expand the operations of the Federal National Mortgage Association to include conventional home mortgages.

The objective of each of the three bills is to improve the marketability of mortgages not presently underwritten by the Federal Government. The Board believes that certain questions arising from these proposals should be carefully considered and resolved before action is taken with respect to any of the three.

The mortgage insurance corporations chartered under S. 810 would be required to pay "in cash without delay" insurance claims arising out of loans that are in default for a period of ninety-one days. Just how long such a corporation could meet this requirement during an extended period of decline in real estate prices poses a serious question, particularly in view of the further mandate in the bill that "there shall be maintained at all times unimpaired capital, surplus, and undivided profits . . . of not less than 5 percentum of the unpaid principal amounts of all outstanding contracts of mortgage insurance." The experience with guaranteed mortgages in the 1930's was that they became frozen illiquid investments. This raises a serious question whether the liquidity of the proposed mortgage insurance corporations could be assured during an extended period of unfavorable real estate market conditions, protection against which their insurance policies are presumably to be issued.

The Honorable A. Willis Robertson -2-

S. 810 would permit mortgage insurance corporations to insure mortgage loans having a loan-to-value ratio of up to 90 per cent of the appraised value of the property and maximum maturities of 30 years. It seems clear that this provision would serve to encourage a relaxation of mortgage credit standards. Already in the postwar period, these standards have been progressively relaxed, partly in an effort to meet a pent-up demand for housing and partly to stimulate the economy. In the Board's view this is not the time to give even implied legislative sanction to a further relaxation of these standards.

The Board has serious reservations about provisions of S. 810 which would allow national banks to invest up to 5 per cent of their capital and surplus in the stock of mortgage insurance corporations and up to an additional 5 per cent in the stock of mortgage marketing corporations. This would be in addition to whatever obligations were purchased by national banks. Furthermore, the bill would permit a national bank to deal in, underwrite, and purchase for its own account, obligations of mortgage marketing corporations. The Board believes that investment banking should be kept separate from commercial banking and the existing exceptions to this rule should not be broadened to authorize underwriting of the securities envisaged under S. 810.

In the case of the proposed mortgage insurance corporations, it appears from the language of S. 810 that the Joint Board would be required to charter any and all applicants once the Board "is of the opinion that the incorporators transmitting the articles of association meet the requirements of the Act. . . ." This provision apparently would permit a number of mortgage insuring associations to be chartered, each insuring conventional home mortgages at possibly differing premium rates. If so, the result might be to fragment further and impede-- rather than to improve-- present markets for conventional home mortgage loans.

One possible alternative in the direction intended by S. 810 would be to improve the acceptability to the market of present Government programs by removing the statutory requirements requiring administratively-determined interest rate ceilings on FHA- insured and VA-guaranteed home loans. The Board, as you know, has long advocated the removal of these statutory requirements as one step toward improved primary and secondary home mortgage markets.

S. 811 would establish a precedent in authorizing Federal home loan banks, by participating through the Home Mortgage Corporation in conventional first home mortgage loans, to advance funds directly on mortgage security. Under existing legislation Federal home loan banks may make advances to member institutions, usually

The Honorable A. Willis Robertson -3-

collateralized by mortgages or United States Government obligations, and insured savings and loan associations may participate in mortgages among themselves. Under S. 811 no minimum or maximum participation is proposed. Thus, the Home Mortgage Corporation could assume a very large share of each loan and consequently of the total risk.

The Board is also concerned about provisions of S. 810 and S. 811 which would appear to work against the maintenance of loan quality. S. 810, for example, would provide for 100 per cent insurance of principal, interest, and approved allowances from time of default on insured conventional loans; such insurance, if granted, would seem to offer originators of insured loans little incentive to maintain loan quality. S. 811 would appear to shift mortgage risks to the proposed Home Mortgage Association to the extent of its participation, which under the terms of the bill could be any share of less than 100 per cent.

It is apparent that the extension of the activities of the Federal National Mortgage Association into the conventional mortgage field, as is provided by S. 2130, would present a number of special problems not necessarily present in the case of Government guaranteed or insured mortgages. As has been mentioned recently in testimony before your Housing Subcommittee, these problems involve uniform standards of appraisal, mortgage instruments, property requirements, and procedures, as well as uniform methods for determining the acceptable credit standing of mortgagors. It is noted also that S. 2130 contains provisions which apparently assume the enactment of S. 810, or at least those provisions of the latter bill relating to the Federal chartering of mortgage insurance corporations with respect to which the Board has already commented.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

3389
Item No. 9
9/27/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 4, 1963.

Dear Sir:

The Board has reviewed its outstanding letters relating to outside activities of Reserve Bank officers and employees (S-1018, F.R.L.S. #9054, dated May 24, 1948,* and S-1639, F.R.L.S. #9054.1, dated October 7, 1957) in connection with a question that arose regarding the maintenance of a margin account by an employee of a Reserve Bank. After careful review of the contents of these two letters and of the additional question of speculative activities, the Board has tentatively approved a revision of the outstanding letters along the lines of the enclosed copy, with the understanding that before it was issued the Reserve Banks would be asked for comments. Accordingly, it will be appreciated if you will review this letter and send to the Board any comments you may wish to make, preferably to be received by October 21.

Very truly yours,

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

Merritt Sherman,
Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

* Should have read March 24, 1948.

Attachment to letter to
all Reserve Banks,
October 4, 1963.

Dear Sir:

This letter, which is designed to incorporate in a single communication the Board's views concerning outside activities of Federal Reserve Bank officers and employees, supersedes the Board's letters of March 24, 1948 (S-1018; FRLS #9054), and October 7, 1957 (S-1639, FRLS #9054.1). The views expressed in this letter are applicable to outside activities of all officers and full-time regular employees. Depending on the particular circumstances, they may or may not be equally applicable to individuals engaged on a consultant basis, those employed on a part-time basis, or those employed for temporary periods such as during vacations or for work on specific projects.

As an over-riding general principle, the Board continues to take the position it has held for many years that officers and employees of a Federal Reserve Bank should refrain from placing themselves in any position that might embarrass the Bank or the Federal Reserve System as a whole in the conduct of its operations or result in any question being raised as to the independence of the individual's judgment or his ability to perform satisfactorily all of the duties of his position with the System. In keeping with this concept, outside business affiliations and teaching activities should be entered into only with the approval of a Federal Reserve Bank.

The Board believes that the propriety of participation in specific outside activities can be determined effectively only after

consideration by the management of a Federal Reserve Bank in light of the circumstances pertinent to the particular situation. It would, therefore, not be feasible for the Board to attempt to comment on all types of activities in which Reserve Bank officers and employees might be engaged. For the guidance of the Reserve Banks, however, the Board's views on certain kinds of outside activities follow:

1. The Board would ordinarily see no objection to an officer or employee of a Federal Reserve Bank maintaining a teaching connection with a recognized educational institution at the university level, particularly if such a connection would be helpful in enabling him to keep abreast of developments in his field and if it would facilitate communication between the Federal Reserve System and the academic community. Similarly, the Board would ordinarily see no objection to teaching connections with other reputable institutions of learning, especially if the curriculum bears some relationship to the functions of a Federal Reserve Bank, as in the case of the American Institute of Banking. Teaching engagements should, of course, be clearly secondary and should not interfere with the performance of Reserve Bank duties.

2. If a Federal Reserve Bank approves the participation of an officer or employee in the preparation of material for articles or other publications utilizing information accumulated in the conduct of the affairs of the Bank, it is the Board's view that no additional compensation should accrue to the individual concerned, although it would not object if the Bank authorized the individual in a specific case to accept an

honorarium tendered in a small amount. The foregoing would apply, for example, to authorship of a chapter in a book on the Federal Reserve System edited by a person outside the System, as well as to separate articles or reports of studies.

3. If an officer or employee of a Federal Reserve Bank undertakes a public speaking or similar assignment in his capacity as a representative of the Bank, it is the Board's view that no additional compensation should accrue to the individual concerned.

4. The Board considers it inappropriate for any officer or employee of a Federal Reserve Bank to engage in speculative dealings (as distinguished from investments), whether in securities, commodities, real estate, exchange, or otherwise. Indicators of activities primarily of a speculative nature would include, but not be limited to, accounts for trading in securities whether on a margin or a cash basis, commodity trading accounts, and the like.

5. It would be inappropriate for a member of the staff of a Reserve Bank to purchase stock of a member bank or an affiliate thereof (except possibly where the actual relationship of the affiliate to the member bank is remote), and employees holding stock of member banks or affiliates should dispose of it as promptly as practicable without undue hardship.

It is understood that all Federal Reserve Banks will continue to require officers and employees occupying responsible positions to submit periodic reports to the Board of Directors concerning outside business activities and indebtedness. The examiners of the Board of Governors

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continue under instruction, in connection with each examination of a Federal Reserve Bank, to review those reports and inform the Board of any situations that they feel should be brought to the Board's attention.

Very truly yours,

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

Item No. 10
9/27/63



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 27, 1963.

Dear Sir:

You will recall that on July 22, 1963, the Board wrote to obtain the views of the Reserve Banks on expanding the material included in the weekly "K.2" release regarding applications received by the Board to include additional information on the receipt of, and action on, applications of a general licensing character.

The Board appreciated the care with which the responses from the Reserve Banks were prepared. In general, there seemed to be a consensus favoring announcements regarding applications for branches, foreign and domestic, and for the formation and expansion of Edge Act and Agreement Corporations. Reservations were expressed by some of the Banks concerning the inclusion of applications for permission to carry reduced reserves and especially for those relating to System membership. Generally, those Banks favoring the release of such information felt its announcement would provide information of public interest. Banks opposing this procedure felt that the announcement might be objectionable to applicant banks and might be embarrassing in the event of a denial.

After careful consideration of all the views expressed, the Board concluded that, as a matter of public policy, routine announcements should be made about all of the matters referred to in the July 22 letter. Accordingly, beginning with the week ending October 4, 1963, the weekly K.2 release, which is given relatively limited distribution, will include announcements of the receipt of, and actions on, applications for:

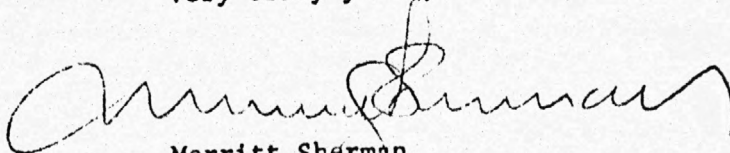
- (1) Branches, foreign and domestic,
- (2) Edge Act and Agreement corporations and new branches thereof,
- (3) Admission to and withdrawal from membership in the System, and
- (4) Permission to carry reduced reserves.

-2-

The opening of such branches and corporations and actual admission to or withdrawal from membership of banks will continue to be reported on the Board's K.3 release when they occur.

Several Reserve Banks questioned when an application would be considered to have been received by the System. For the purposes of these announcements an application will be considered to be received when it has arrived at the Board's offices and is found to contain all information necessary for its consideration by the Board and its staff. With respect to applications for foreign branches under Regulation M or the expansion of Edge Act and Agreement Corporations under Regulation K, where approval is semiautomatic once a branch has been approved for a given country, notice from the institution of intention to establish subsequent branches will be considered to be an "application" and, upon the expiration of the prescribed time limit without there having been objection from the Board, it will be considered to have been "approved."

Very truly yours,



Merritt Sherman,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.