

Minutes for October 2, 1963

To: Members of the Board

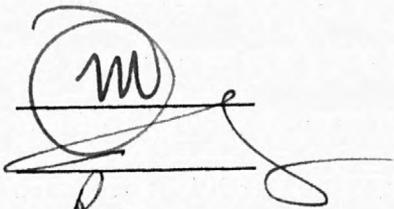
From: Office of the Secretary

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

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

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

Chm. Martin

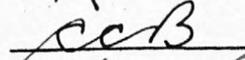


Gov. Mills

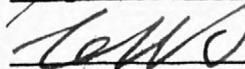
Gov. Robertson



Gov. Balderston



Gov. Shepardson



Gov. Mitchell



Minutes of the Board of Governors of the Federal Reserve System on Wednesday, October 2, 1963. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank Operations
Mr. Shay, Assistant General Counsel
Mr. Hooff, Assistant General Counsel
Mr. Goodman, Assistant Director, Division of Examinations
Mr. Mattras, General Assistant, Office of the Secretary
Mr. Collier, Chief, Current Series Section, Division of Bank Operations

Call for condition reports. The heads of the three Federal bank supervisory agencies having selected September 30, 1963, as the date for the third call for reports of condition to be made by insured banks within the calendar year 1963, a telegram was sent to the Presidents of all Federal Reserve Banks on October 1, 1963, requesting that a call be made on State member banks on October 3, 1963, for reports of condition as of the close of business September 30, 1963, on forms transmitted with the Board's letter of September 16, 1963.

The sending of the telegram was ratified by unanimous vote.

Discount rates. The establishment without change by the Federal Reserve Banks of Boston and Atlanta on September 30, 1963, of the rates

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

Reserve city status of Helena (Items 1, 2, and 3). On September 23, 1963, the Board considered applications by First National Bank and Trust Company of Helena and Union Bank and Trust Company, both of Helena, Montana, for permission to carry reduced reserves. In connection with the applications, the Board also considered the question of terminating the designation of Helena as a reserve city, since approval of the applications would result in a situation where no member banks in Helena were required to maintain reserve city bank reserves. The Division of Bank Operations recommended at that time, in its memorandum dated September 17, 1963, that the reserve city status be terminated automatically in the case of any Federal Reserve Bank or branch city if all member banks received permission to carry reduced reserves. However, the Board decided at the September 23 meeting to defer action on the applications and on the status of Helena as a reserve city until the President of the Federal Reserve Bank of Minneapolis had opportunity to obtain the views of the Helena banks and business community on the proposed declassification of that city.

There had now been distributed a memorandum from Mr. Sherman dated September 27, 1963, reporting on a telephone conversation with President Deming of the Minneapolis Reserve Bank. President Deming

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stated that there would be some unfavorable reaction to the termination of Helena's designation as a reserve city and that the bankers in Helena would strenuously object to such action. The objections of the two banks whose applications for reduced reserves were now pending before the Board would not be sufficient to cause them to withdraw the applications, although their objections would nevertheless be vigorous. The two banks had not anticipated that approval of the applications would cause a change in Helena's classification, and the city's bankers generally felt that such declassification would downgrade Helena and might lead ultimately to the loss of the Federal Reserve branch.

President Deming also stated that in submitting the applications of the two banks, it had not occurred to him that the reserve city status of Helena would be changed. He had felt that permission for the two banks to carry reduced reserves would simply be a matter of authorizing the individual banks to carry the lower level of reserves. President Deming was unable to see any persuasive reason for termination of Helena's reserve city status.

Governor Mitchell expressed some reservation with regard to the validity of the arguments against termination of the reserve city classification but stated that he would not be inclined to argue the matter strongly because the question did not seem sufficiently important.

Chairman Martin agreed that there was some merit, as a matter of logic, in the view expressed by Governor Mitchell. On the other hand,

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the city's classification was a relatively small matter that might involve prestige considerations, and he would therefore be inclined to allow the city's present classification to remain unchanged. There was general agreement with the views expressed by the Chairman.

The Board then approved unanimously the applications by First National Bank and Trust Company of Helena and Union Bank and Trust Company, Helena, Montana, to carry reduced reserves, with the understanding that the designation of Helena as a reserve city would not be terminated. Letters to the two banks and to the Federal Reserve Bank of Minneapolis reflecting the Board's action are attached to these minutes as Items 1, 2, and 3.

Service building of Union Bank (Item No. 4). There had been distributed a memorandum from the Legal Division dated September 30, 1963, with regard to the question whether a certain service building of Union Bank, Los Angeles, California, would constitute a branch of the bank that would require the approval of the Board under section 9, paragraph 3, of the Federal Reserve Act. There had also been distributed a draft of letter to the Federal Reserve Bank of San Francisco stating that the Board did not regard the service building as a branch of Union Bank or its correspondent State member banks, and that therefore Board approval was not required.

The Legal Division noted that in determining whether a particular facility or location of a State member bank was a branch requiring Board

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approval, the Board had applied the definition of a branch applicable to national banks under section 5155 of the Revised Statutes. Under that definition, a branch includes any office at which deposits are received, or checks paid, or money lent. The service building in question would house electronic equipment on which Union Bank intended to perform deposit account processing, including the processing of customers' "bank-by-mail" deposits, for its own banking offices as well as for some of its correspondent banks. The receipt of these "bank-by-mail" deposits at the service building, as well as the fact that the deposit account processing would involve the posting to the accounts of both credits and charges, raised the question whether the service building would constitute (1) a branch of Union Bank or (2) a branch of each of the correspondent State member banks. This matter had been considered by the Board on October 30, 1962, and January 14, 1963. The Board had taken no position, but had advised the Reserve Bank that Union Bank might be assured that the Board would issue a branch permit covering the service building if it should be concluded that such permission was required by statute. Thereafter, Union Bank again raised the question and sought the Board's approval of a branch.

The Legal Division was of the opinion that Union Bank's service building should not be regarded as a branch unless the proposed receipt of "bank-by-mail" deposits and the posting of deposits and checks for the bank itself, and for its correspondent banks, would require an opposite

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conclusion. The Legal Division noted, in this connection, that the Bank Service Corporation Act of 1962 permitted separately incorporated bank service corporations and independent data processing centers (such as operated by IBM and RCA) to perform for banks services of substantially the same nature as those to be performed at the service building. Such processing centers were not regarded as branches of the banks whose deposit accounts were processed, and the Legal Division felt that the best test of a branch would be to determine whether the office dealt directly with the public. From the legislative history of the Bank Service Corporation Act, it appeared that the services in question were regarded as being performed for the banks and not for the public.

The informal views of the staff of the Comptroller of the Currency and the Federal Deposit Insurance Corporation were reported to be consistent with the opinion of the Legal Division, and the Superintendent of Banks of the State of California had advised that the service building would not constitute a branch under California law.

Governor Mills stated that, as a practical matter, he completely agreed with the views of the Legal Division, but he raised a question as to whether the proposed letter might not be placing too much emphasis on the effect of the Bank Service Corporation Act of 1962.

Mr. Hackley expressed the opinion that the Bank Service Corporation Act had, in fact, superseded to some extent section 5155 of the Revised Statutes in defining a branch. The Bank Service Corporation Act permitted

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independent organizations to handle bank services of the type to be performed at the service building in question. If the service building were to be regarded as a branch, consistency would require that independent organizations performing such services should also be regarded as branches, a view that was not the legislative intent in the passing of the Bank Service Corporation Act. Further, if the service building were regarded as a branch, this would raise the question whether it was also a branch of each of the correspondent banks for which it would perform similar services. He was of the opinion that the correct position would be to regard the service building as serving the banks in question and not the public, and that as such it should not be regarded as a branch.

After further discussion, the proposed letter to the Federal Reserve Bank of San Francisco was approved unanimously, with the understanding that it would be revised slightly to reflect certain minor changes in wording agreed upon at this meeting. A copy of the letter, as sent, is attached as Item No. 4.

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

Designation of Chairman at St. Louis. The Secretary was informed later that during the executive session the Board noted that Chairman and Federal Reserve Agent Ethan A. H. Shepley of the Federal Reserve Bank of St. Louis had submitted his resignation, effective September 30, 1963, in view of his plan to stand for nomination as a candidate for political

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office. In light of Mr. Shepley's resignation, Raymond Rebsamen, Chairman of the Board of Rebsamen & East, Inc., Little Rock, Arkansas, and currently a Class B director of the St. Louis Reserve Bank, was appointed a Class C director of the Bank for the unexpired portion of the three-year term ending December 31, 1965, and was designated as Chairman and Federal Reserve Agent for the remainder of the year 1963, with compensation as Chairman fixed at an amount equal to the fees that would be payable to any other director of said Bank for equivalent time and attendance to official business.

The meeting then adjourned.

Secretary's Note: Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson approved on behalf of the Board on October 1, 1963, the following actions relating to the Board's staff:

Appointment

Denise Claire O'Brien as Statistical Clerk, Division of Research and Statistics, with basic annual salary at the rate of \$3,820, effective the date of entrance upon duty.

Transfers

Patricia E. Gardosik, from the position of Clerk-Stenographer in the Division of Personnel Administration to the position of Clerk-Stenographer in the Division of Bank Operations, with no change in basic annual salary at the rate of \$4,030, effective the date of assuming her new duties.

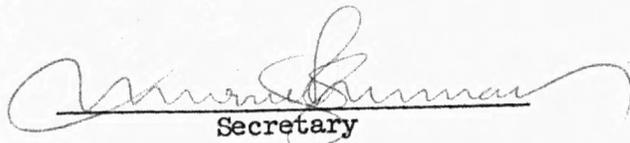
Sandra Lee Wolfe, from the position of Clerk-Stenographer in the Division of Personnel Administration to the position of Secretary in the Division of Bank Operations, with an increase in basic annual salary from \$4,390 to \$4,725, effective the date of assuming her new duties.

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Outside activity

Thomas M. Klein, Economist, Division of International Finance, to teach a graduate course in Macroeconomic Theory at George Washington University during the fall semester.



Secretary

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

Item No. 1
10/2/63



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 2, 1963.

Board of Directors,
First National Bank & Trust Company of Helena,
Helena, Montana.

Gentlemen:

With reference to your request submitted through the Federal Reserve Bank of Minneapolis, the Board of Governors, acting under the provisions of Section 19 of the Federal Reserve Act, grants permission to the First National Bank & Trust Company of Helena to maintain the same reserves against deposits as are required to be maintained by nonreserve city banks, effective with the first biweekly reserve computation period beginning after the date of this letter.

Your attention is called to the fact that such permission is subject to revocation by the Board of Governors.

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. 2
10/2/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 2, 1963.



Board of Directors,
Union Bank and Trust Company,
Helena, Montana.

Gentlemen:

With reference to your request submitted through the Federal Reserve Bank of Minneapolis, the Board of Governors, acting under the provisions of Section 19 of the Federal Reserve Act, grants permission to the Union Bank and Trust Company to maintain the same reserves against deposits as are required to be maintained by nonreserve city banks, effective with the first biweekly reserve computation period beginning after the date of this letter.

Your attention is called to the fact that such permission is subject to revocation by the Board of Governors.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

Item No. 3
10/2/63



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 2, 1963.

Mr. Frederick L. Deming, President,
Federal Reserve Bank of Minneapolis,
Minneapolis, Minnesota. 55440

Dear Mr. Deming:

Reference is made to your letters of July 31 and August 16, 1963, recommending that the First National Bank & Trust Company of Helena and the Union Bank and Trust Company, both of Helena, Montana, be permitted to maintain the same reserves against deposits as are required to be maintained by banks in nonreserve cities.

After consideration of the information submitted, the Board of Governors concurs in your recommendation and, pursuant to the provisions of Section 19 of the Federal Reserve Act, grants permission to the First National Bank & Trust Company of Helena and the Union Bank and Trust Company, both of Helena, Montana, to maintain the same reserves against deposits as are required to be maintained by nonreserve city banks, effective with the first biweekly reserve computation period beginning after the date of this letter. Please forward the enclosed letters addressed to the subject banks; a copy of each is enclosed for your file.

Although approval of reduced reserves for these banks means that no member bank in Helena will be required at this time to carry reserves at the reserve city level, the reserve city designation of that city will continue in accordance with the 1947 Rule for Classification of Reserve Cities, as amended.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosures

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

Item No. 4
10/2/63



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 2, 1963.

Mr. Eliot J. Swan, President,
Federal Reserve Bank of San Francisco,
San Francisco, California. 94120

Dear Mr. Swan:

This is in further reference to Mr. Galvin's letter of June 26, 1963, and earlier related correspondence between your Bank, the Board, and Union Bank, Los Angeles, California, concerning whether the Service Building of Union Bank would constitute a branch for which the Board's approval would be required by section 9, paragraph 3 of the Federal Reserve Act.

In a reply of October 30, 1962, to your Bank, the Board had indicated that it would issue a branch permit to Union Bank for its Service Building if it were concluded that such permission was required by the statute. Since that time, your Bank has forwarded further information received at various intervals from Union Bank concerning the matter.

From the information now at hand, it appears that the Service Building (under construction at a location several blocks from Union Bank's nearest office) will house, among other things, the Bank's electronic computer and related equipment. On this equipment the Bank intends to perform deposit account processing, including the processing of customers' "bank-by-mail" deposits, for its own banking offices and, apparently, for some of its correspondent banks. It is principally the proposed receipt of the "bank-by-mail" deposits at the Service Building, as well as the fact that the deposit account processing will involve the posting to the accounts of both credits and charges, that has given rise to the question. Union Bank has stated that no banking business with the public will be transacted at the Service Building.

The Board has reviewed all the information that has been submitted on this matter and has concluded that, on the basis of its understanding of the functions proposed to be performed at the Service Building, such Building would not constitute a branch requiring the approval of the Board. The Board's conclusion, of course, is based only on the specific matters covered in the correspondence that has been received at the Board concerning this matter, and should be regarded as applicable only with respect to State member banks, i.e.,

Mr. Eliot J. Swan

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Union Bank and any correspondent State member bank being served by the Service Building.

In reaching its conclusion, the Board took particular cognizance of the assurance of Union Bank that no banking business with the public would be transacted over the counter at the Service Building. The Board also deemed it appropriate to read the provisions of the law relating to the establishment of branches by State member banks in the light of the Bank Service Corporation Act of 1962 (12 U.S.C. 1861 et seq.), which clearly contemplates the performance of important services for banks at locations other than their banking offices.

It will be appreciated if your Bank will convey the Board's views concerning this matter to Union Bank.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.