

Minutes for May 27, 1964.

To: Members of the Board

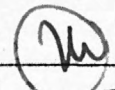
From: Office of the Secretary

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

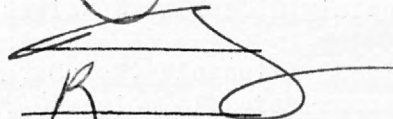
It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

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.

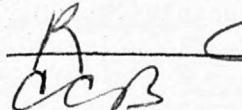
Chm. Martin



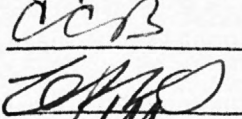
Gov. Mills



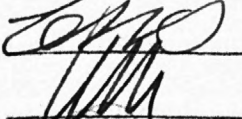
Gov. Robertson




Gov. Balderston



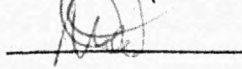
Gov. Shepardson



Gov. Mitchell



Gov. Daane



Minutes of the Board of Governors of the Federal Reserve System
on Wednesday, May 27, 1964. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Miss Carmichael, Assistant Secretary
Mr. Bakke, Assistant Secretary
Mr. Noyes, Adviser to the Board
Mr. Cardon, Legislative Counsel
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Brill, Director, Division of Research and
Statistics
Mr. Farrell, Director, Division of Bank
Operations
Mr. Solomon, Director, Division of Examinations
Mr. Shay, Assistant General Counsel
Mr. Hooff, Assistant General Counsel
Mr. Holland, Associate Director, Division of
Research and Statistics
Mr. Dembitz, Associate Adviser, Division of
Research and Statistics
Mr. Leavitt, Assistant Director, Division of
Examinations
Mr. Langham, Assistant Director, Division of
Data Processing
Mr. Sanders, Attorney, Legal Division
Mr. McClintock, Supervisory Review Examiner,
Division of Examinations
Mr. White, Review Examiner, Division of
Examinations
Mr. Veenstra, Chief, Financial Statistics
Section, Division of Data Processing

Discount rates. The establishment without change by the Federal Reserve Bank of Boston on May 25, 1964, of the rates on discounts and advances in its existing schedule was approved unanimously, with the understanding that appropriate advice would be sent to that Bank.

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

	<u>Item No.</u>
Letter to Irving Trust Company, New York, New York, approving the establishment of a branch at 675 Third Avenue, Borough of Manhattan.	1
Letter to Bank of Delaware, Wilmington, Delaware, approving the establishment of a branch at Chestnut Hill Road and Route 273, White Clay Creek Hundred, New Castle County.	2
Letter to The Southwestern National Bank of Oklahoma City, Oklahoma City, Oklahoma, granting its request for permission to maintain reduced reserves.	3
Letter to Chippewa Trust Company, St. Louis, Missouri, waiving the requirement of six months' notice of withdrawal from membership in the Federal Reserve System.	4
Letter to the Federal Deposit Insurance Corporation regarding the application of Northtown Bank of Decatur, Decatur, Illinois, for continuation of deposit insurance after withdrawal from membership in the Federal Reserve System.	5
Letter to Mr. Eugene Adams, President, The First National Bank of Denver, Denver, Colorado, regarding conflicts between the bank supervisory agencies.	6

Report on competitive factors (Dayton, Ohio). After discussion, a report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of The Community Bank, Dayton, Ohio, into The National Bank of Dayton, Dayton, Ohio, was approved unanimously for transmittal to the Comptroller. The conclusion read as follows:

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The Community Bank and The National Bank of Dayton are not direct competitors to an important extent.

While the proposed merger will not have adverse effects on other banks serving Montgomery County, it will increase the concentration of banking resources in three banks which now hold about 89 per cent of the total bank deposits in Montgomery County.

Mr. White then withdrew from the meeting, and Messrs. Schwartz, Director, Division of Data Processing, and O'Connell, Assistant General Counsel, entered the room.

Call report form (Items 7 and 8). There had been distributed a memorandum dated May 25, 1964, from Messrs. Veenstra and Holland submitting for the Board's consideration drafts of letters to (1) the Bureau of the Budget responding to a letter dated May 15, 1964, to the heads of the three Federal bank supervisory agencies and (2) the Comptroller of the Currency making clear the System's position with respect to a uniform call report, both in general and with special reference to the forthcoming June call.

The May 15 letter from the Bureau of the Budget indicated that differences in the forms used by the Federal bank supervisory agencies had prevented the compilation of regular benchmark statistics for the September 1963 call and that the April 1964 call had involved incompatibilities, which had been overcome by estimating techniques. The letter stated further that a continuation of this situation into the June call might be expected to have more serious consequences and urged

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that negotiations be undertaken that would assure compatibility for the June and subsequent calls.

The draft reply to the Bureau of the Budget would indicate that the Board wished to support the Bureau's efforts to improve the Federal statistical system and was interested in the adoption of a uniform call report and the continuation of a cohesive and integrated banking statistics program consistent with a minimum respondent burden. The letter would state also that the Board had been in communication with the other Federal bank supervisory agencies, specifically urging the adoption of a compatible report form for the June call, and would enclose a copy of a letter that was being sent to the Comptroller of the Currency along this line.

In discussion, Mr. Holland pointed out that the letter from the Budget Bureau was an outgrowth of a telephone conversation during which Mr. Bowman of the Bureau had expressed concern to Governor Robertson about the lack of common purpose among the Federal bank supervisory agencies. In that conversation Mr. Bowman had stated that he proposed to write letters to the three agencies expressing his concern.

Governor Robertson commented that the proposed letter to the Comptroller of the Currency might not do any good but, on the other hand, it would at least put on record the Board's willingness to cooperate with the other agencies in working out a suitable format for the call report.

Mr. Holland emphasized the importance of having full and compatible statistics for the mid-1964 call.

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In the discussion that followed, Mr. Holland commented that as yet the Board's staff had no definite information as to the format that the Comptroller of the Currency proposed to use for the June call, although it was understood that the Federal Deposit Insurance Corporation planned to use a form that would be compatible with the December 1963 call report. If the Comptroller should decide to use an abbreviated form, then it would again be necessary for the Board to collect supplementary information from national banks in order to provide certain benchmark statistics.

Governor Mills said he would favor sending the proposed letters to the Bureau of the Budget and to the Comptroller of the Currency. He also suggested that representatives of the Board's staff should be especially attentive to any complaints that were recorded about the profusion of statistics that the Board was requesting. He felt strongly that the Board should have in mind the proper interests of banks, and he would not wish to place on them the burden of reporting a mass of statistics for which there was little or no real need.

Mr. Veenstra commented that the plans the Board's staff had in mind for the call report would result in a net reduction in the total burden of reporting.

Referring to Governor Mills' remarks, Mr. Noyes stated that, on the other side of the picture, complaints had been received from the banking fraternity about the decline in usefulness and validity of the Board's statistics.

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Governor Robertson expressed the view that it was important to have a record of this sort of complaint as well as the type mentioned by Governor Mills.

After some further discussion, the letters to the Bureau of the Budget and the Comptroller of the Currency were approved unanimously in the form attached as Items 7 and 8. It was understood that a copy of the letter to the Comptroller would be sent to the Federal Deposit Insurance Corporation.

Mr. McClintock then withdrew from the meeting and Mr. Hexter, Assistant General Counsel, entered the room.

Payment of interest on "borrowed" funds (Item No. 9). Pursuant to the understanding at the Board meeting on February 17, 1964, a letter was sent to the Presidents of all Federal Reserve Banks enclosing a copy of a proposed reply to an inquiry from Wachovia Bank and Trust Company, Winston-Salem, North Carolina, as to whether it would be permissible for a member bank to "borrow" at an agreed rate of interest, from correspondent banks and other depositors, by means of transfers from "deposits" to "bills payable", "borrowed money", or other similar liability account.

The inquiry from Wachovia described a procedure under which a country bank requests its city correspondent to "invest for a certain period of time" -- overnight or for a few days or weeks -- a specified portion of the country bank's deposit balance with the city correspondent. The city correspondent itself agrees to "borrow these funds ... at the

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Federal funds rate." The specified amount is thereupon transferred, on the books of the city correspondent, from the deposit account to "bills payable", and the country correspondent is paid interest thereon at the current rate for Federal funds.

The Board's letter to the Reserve Banks pointed out the possibility that the procedure described might have important implications with respect to sound banking practice, the statutory prohibition against payment of interest on demand deposits, the applicability of reserve requirements, and the Federal funds market. The letter requested comments on the proposed reply, including views as to the nature and magnitude of the problems presented and recommendations as to procedures for dealing with those problems.

Prior to today's meeting there had been distributed a memorandum from the Legal Division dated May 25, 1964, transmitting a summary of the responses from the Reserve Banks to the Board's February 17 letter. In view of the importance of the matter from the standpoint of bank supervision generally, the Legal Division recommended that the proposed reply to the Wachovia inquiry be sent to the Comptroller of the Currency and the Federal Deposit Insurance Corporation for comments. A draft of letter to the two agencies was attached to the memorandum.

At the Board's invitation, Mr. Sanders summarized the responses of the Reserve Banks, his remarks being based mainly on information in the attachment to the May 25 memorandum. He noted that all of the Reserve

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Banks except St. Louis and Kansas City had agreed with the conclusion reached by the Board's Legal Division that the transaction described by Wachovia would not constitute the payment of interest on demand deposits in violation of section 19 of the Federal Reserve Act and the Board's Regulation Q. Five of the ten Reserve Banks that had agreed with the Legal Division conclusion favored publication of the Board's interpretation.

Mr. Solomon stated that, in general, he would not consider the type of transaction under discussion to be sound; he would like to find a way to discourage it if there was any feasible way of doing so since he doubted that the prohibition against payment of interest on demand deposits could be maintained if such transactions became general.

In the ensuing discussion, Mr. Hexter said that after careful consideration of the matter the Legal Division was unable to find a solution that would restrict the practice without virtually destroying the Federal funds market. As had been pointed out at the Board meeting on February 17, 1964, the kind of transaction presented by Wachovia seemed to be indistinguishable, on any clearly defensible ground, from permissible Federal funds transactions.

Governor Mills stated that he agreed regretfully with the conclusion that had been reached by the Legal Division, but he also agreed with Mr. Solomon that some way should be found to discourage this type of transaction. He felt there should be an actual exchange of instruments between the lender and borrower in the case of each transaction

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involving a transfer of a portion of a customer's deposit account to a "borrowed money" account. Otherwise, Governor Mills suspected that a situation would develop where a bank depositor would tell his bank that any time his deposits were in excess of a certain amount, he would lend the excess to the bank at the Federal funds rate of interest. If the Board were to prescribe that each such transaction be handled individually, at least some restraint would be provided.

Governor Robertson said that he was disturbed about the transaction presented by Wachovia. It appeared that the Board might be permitting a practice where a bank would "borrow" from a correspondent and, instead of calling the bank's obligation a deposit, it would be called a loan, which would not be subject to reserve requirements or to interest rate limitations under Regulation Q. Governor Robertson said he agreed with the Legal Division's opinion regarding the transaction, but he thought an attempt should be made to curtail such a transaction to the fullest extent possible. He concurred in the view expressed by Governor Mills that the transaction should be evidenced by something more than a book entry.

Governor Mills noted that before the officers of a bank could borrow funds they would need to have some authorization. Accordingly, it would seem that supervisory examiners would be able to find in the records of a bank some evidence of the authority to borrow funds in the circumstances under consideration. In his judgment, there should be some instrument clearly executed in accordance with a duly approved resolution.

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As the discussion progressed, Governor Shepardson stated that he was bothered by the possibility that the Board might be placed in the position of trying to work with an unenforceable restriction. Accordingly, he considered it important for the Board to explore what its ultimate position would be before answering the question that had been presented.

Mr. Hackley suggested that a paragraph might be added to the proposed response to the effect that, while the transactions described did not violate section 19 of the Federal Reserve Act or Regulation Q, it should be understood that whenever a transfer was made from a deposit account to "bills payable" or similar account, statutes relating to borrowing and lending would be applicable. However, a question could be raised as to the ways in which a "deposit" account differed significantly from a "borrowed money" account. The Congress had prohibited the payment of interest on demand deposits, but if a bank should choose to cast a transaction in the form of a loan rather than a deposit, then the customer from whom the money was borrowed could no longer draw checks on the "borrowed" portion of his funds. Mr. Hackley noted that there was a limit on the amount of money a bank could borrow, and he wondered if there was any real problem unless the practice were to develop to such an extent that this sort of transaction was being used by banks generally not as bona fide borrowing but as a device to evade provisions of Regulation Q.

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Governor Robertson commented that if the Board's reply to the Wachovia inquiry were to include a reference to the statutory requirements that would be applicable with respect to the borrowing of funds, that might discourage the practice to some extent.

At the conclusion of the discussion, it was understood that the proposed reply to the Wachovia inquiry would be revised in line with views expressed at this meeting and that copies would be sent to the other Federal bank supervisory agencies for comments. A copy of the letter sent to the Comptroller of the Currency is attached as Item No. 9. A similar letter was sent to the Federal Deposit Insurance Corporation.

It was further understood that copies of the proposed letter and of the letters to the two agencies would be sent to the General Counsel of the Treasury Department as a matter of information, even though the procedure outlined in the Secretary of the Treasury's letter of March 3, 1964, did not appear to be applicable in this instance.

Messrs. Noyes, Schwartz, Hooff, Langham, and Sanders then withdrew from the meeting.

Request of Chairman Patman for supplemental information (Item No. 10). There had been distributed a draft of reply to Chairman Patman of the House Banking and Currency Committee in response to his letter of April 20, 1964, in which information was requested that would supplement material contained in the Board's 50th Annual Report to the Congress.

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Following discussion during which a number of changes in the wording of the letter were suggested and agreed upon, the letter was approved unanimously in the form attached as Item No. 10.

Visit of Mr. Roth. Mr. Farrell reported on arrangements that had been made for Mr. Roth, Chairman of the Board of Franklin National Bank, Franklin Square, New York, to meet with members of the Board's staff on Thursday, May 28, to discuss the Board's denial of the bank's request for permission to continue to carry country bank reserves following establishment of a branch in New York City. Several suggestions as to the approach that the staff might follow in talking with Mr. Roth were made. It was understood that a report on the conference would be furnished each member of the Board.

Reception for Reserve Bank representatives. Mr. Sherman reported that on May 26, 1964, with Governor Shepardson's approval, a telegram had been sent to the Presidents of all Federal Reserve Banks and Vice Presidents in charge of branches extending an invitation to an informal reception in the Board's dining rooms at 3:30 p.m. on Wednesday, June 3, for Reserve Bank representatives attending the American Institute of Banking Annual Convention, to be held in Washington.

Members of the Board indicated that they were in agreement with plans for the reception.

The meeting then adjourned.

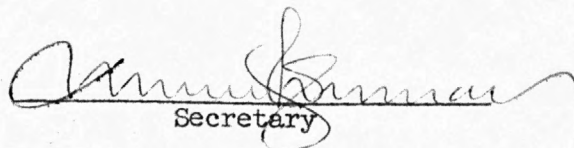
Secretary's Note: Governor Shepardson approved on behalf of the Board on May 26, 1964, the following items:

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Letter to the Federal Reserve Bank of San Francisco (attached Item No. 11) approving the appointment of Jon E. Garcia as assistant examiner.

Memoranda from the Division of Personnel Administration recommending the appointment of Bernice Bell and Joyce Matile as Clerk-Stenographers in that Division, each with basic annual salary at the rate of \$3,880, effective the respective dates of entrance upon duty.


Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 1
5/27/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 27, 1964.

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

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Irving Trust Company, New York, New York, of a branch at 675 Third Avenue, Borough of Manhattan, New York, New York, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
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, D. C. 20551

Item No. 2
5/27/64



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 27, 1964.

Board of Directors,
Bank of Delaware,
Wilmington, Delaware.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by Bank of Delaware at the intersection of Chestnut Hill Road and Route 273, White Clay Creek Hundred, New Castle County, Delaware (site to be designated as 414 Christiana Road, Newark P.O., Delaware), provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
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. 3
5/27/64BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 27, 1964.



Board of Directors,
The Southwestern National Bank
of Oklahoma City,
6000 South Western Avenue,
Oklahoma City, Oklahoma.

Gentlemen:

With reference to your request submitted through the Federal Reserve Bank of Kansas City, the Board of Governors, acting under the provisions of Section 19 of the Federal Reserve Act, grants permission to the Southwestern National Bank of Oklahoma City to maintain the same reserves against deposits as are required to be maintained by non-reserve city banks, effective as of the date it opens for business.

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, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 27, 1964.



Board of Directors,
Chippewa Trust Company,
St. Louis, Missouri.

Gentlemen:

The Federal Reserve Bank of St. Louis has forwarded to the Board of Governors your letter dated May 6, 1964, together with the accompanying resolution signifying your intention to withdraw from membership in the Federal Reserve System and requesting waiver of the six-months' notice of such withdrawal.

In accordance with your request, the Board of Governors waives the requirement of six-months' notice of withdrawal. Upon surrender to the Federal Reserve Bank of St. Louis of the Federal Reserve Bank stock issued to your institution, such stock will be canceled and appropriate refund will be made thereon. Under the provisions of Section 208.10(c) of the Board's Regulation H, your institution may accomplish termination of its membership at any time within eight months from the date the notice of intention to withdraw from membership was given.

It is requested that the certificate of membership be returned to the Federal Reserve Bank of St. Louis.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 5
5/27/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 27, 1964.



The Honorable Joseph W. Barr, Chairman,
Federal Deposit Insurance Corporation,
Washington, D. C. 20429

Dear Mr. Barr:

Reference is made to your letter of April 30, 1964, concerning the application of Northtown Bank of Decatur, Decatur, Illinois, for continuance of deposit insurance after withdrawal from membership in the Federal Reserve System.

Since the examination of subject bank by the Federal Reserve Bank of Chicago as of the close of business July 5, 1960, adequacy of the bank's capital has been considered less than satisfactory in relation to the volume of risk assets held by the bank. The Reserve Bank has regularly requested that action be taken to improve the bank's capital position through the sale of unspecified amounts of additional capital stock for cash.

There have been no other corrective programs urged upon the bank, or agreed to by it, which have not been fully consummated, and, in the Board's opinion, there are no other such programs that it would be advisable to incorporate as conditions of admitting the bank to membership in the Corporation as a nonmember of the Federal Reserve System.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 6
5/27/64

OFFICE OF THE VICE CHAIRMAN

May 27, 1964.



Mr. Eugene H. Adams, President,
The First National Bank of Denver,
Denver 17, Colorado.

Dear Gene:

In the absence of Chairman Martin, I am taking the liberty of acknowledging your letter of May 18, 1964, advising of your appointment by the President of the American Bankers Association as chairman of a committee to study the problem that has arisen from current conflicts between the bank supervisory agencies. Your letter will be brought to the Chairman's attention upon his return, and I am sure that he would be happy to have your committee visit him in connection with your study.

Meantime, with the thought that it may be of some assistance, I am enclosing a memorandum that describes some of the major conflicts between the Comptroller of the Currency and the Board of Governors that have developed during recent months. In addition, I assume that you are familiar with the hearings that were held in May of last year by the House Committee on Banking and Currency with respect to the bill, H. R. 5874, to establish a Federal Banking Commission. Chairman Martin and Governors Robertson, Mills, and Mitchell testified individually at the hearings; and their statements before the Committee were reprinted in the May 1963 issue of the Federal Reserve Bulletin, a copy of which is enclosed.

Your committee's assignment is a formidable one but certainly one of the highest importance, and I am sure that you will find it extremely interesting.

Sincerely yours,

(Signed) C. C. Balderston

C. Canby Balderston,
Vice Chairman.

Enclosures

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 7
5/27/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 27, 1964.



Mr. Raymond T. Bowman,
Assistant Director for
Statistical Standards,
Executive Office of the President,
Bureau of the Budget,
Washington, D. C. 20503

Dear Mr. Bowman:

The Board appreciates the concern for statistical cooperation among the Federal bank supervisory agencies expressed in your letter of May 15 and hopes that it will prove to be a stimulus to early resumption of the arrangements which prevailed for many years. The Board supports the Bureau's efforts to improve the Federal statistical system; it has a strong interest in the adoption of a uniform call report and the continuation of a cohesive and integrated banking statistics program consistent with a minimum respondent burden.

The Board has been in communication with the other Federal bank supervisory agencies specifically urging the adoption of a compatible report form for the June call. You may be interested in the enclosed copy of the Board's letter to the Comptroller of the Currency, a copy of which also has been sent to the Chairman of the Federal Deposit Insurance Corporation.

Compatibility in the report forms of the different agencies is regarded as essential for an effective banking statistics program. Beyond the question of the June reporting form, the Board is hopeful that the agencies can arrive at some orderly means for considering and reconciling various views toward improving the call report in the future. In this connection, your offer of personal assistance in helping to work out an appropriate program will be kept very much in mind.

The Board's staff will continue to keep your Office advised of developments in this area.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosure.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 8
5/27/64

OFFICE OF THE VICE CHAIRMAN

May 27, 1964.



The Honorable James J. Saxon,
Comptroller of the Currency,
Washington, D. C. 20220

Dear Mr. Comptroller:

In the light of attention now focused on differences with respect to condition report format and procedures, it seems desirable to bend every effort to achieve some orderly means for considering and reconciling our various views toward improving the call report. At the same time, the Board believes it imperative to minimize the problems posed for call report data collection in the interim.

The Budget Bureau's letter of May 15, 1964, to the heads of the three Federal bank supervisory agencies and the President's directives on the simplification of reports to the Government are indications of a new and growing interest in coordinating this area of Governmental activity. In the past, it has been possible to accommodate individual needs through effective cooperation and compromise among all the bank supervisory authorities. We should like to see this cooperation continue, and we are prepared to extend our own efforts in this direction.

You recognize, I am sure, that in such a spirit the Board did not endeavor to argue against the abbreviated call report form for March, even though the resulting incompatibilities necessitated the development of some time-consuming and not entirely accurate estimation procedures in order for the Board, the Federal Deposit Insurance Corporation, and other agencies to be able to publish summary totals for the banking system. We, for our part, recognize that your Office has occasionally, as last December, submerged its own desires to the needs for compatible statistical bench marks.

In the light of this experience, the Board suggests that the mid-1964 call date is one for which full and compatible statistics are of unusual importance. Not only is the typical June 30 date a bench mark for comparing a wide variety of midyear financial and nonfinancial figures, but its importance as a bench mark this year is enhanced by the absence of detail from the back of the reports submitted in March *

* Should have read April

The Honorable James J. Saxon

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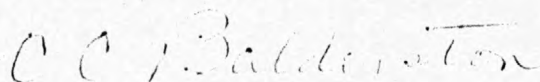
this year and last September, and the intramonth dating chosen for the call last December. We therefore urge that your Office give serious consideration to the distribution of a condition report form at the forthcoming midyear call date that will contain a full front and back and be compatible with the form to be distributed to State banks.

It is recognized that, because of operating difficulties and time limitations arising from the necessity for the Board and the Federal Deposit Insurance Corporation to coordinate with State banking departments, this may require postponement of some desired revisions in the national bank report form. However, any such move on the part of your Office to achieve compatibility in June will not prejudice the mutual consideration of these revisions in the report form for later calls. It is apparent to us that the substance of some of the innovations introduced in the national bank form recently merit adoption in any uniform State-national report, and we believe this can be accomplished without overburdening either national or State banks.

The representatives of the State banking departments have already indicated a willingness to consider sympathetically any reasonable program on which the Federal agencies can agree in this area. We share with you the desire that the Federal banking agencies should continue to exercise initiative in this respect.

The three Federal agencies may have somewhat divergent interests in the use of the condition report form, but there is also a dominant community of interests. Considerable latitude remains to meet most legitimate interests in a single compatible report form. We feel confident that, if the three agencies can achieve consistency for the June call, we can thereafter manage to work out a compatible format for the three classes of banks that would serve our individual needs for supervisory and statistical information and also serve as a means of appropriate disclosure to the public of the condition of individual banks. In critical instances, the possibility of supplemental sample reporting, discussed among our staffs, may well offer an avenue for reducing respondent burdens. We shall be happy to discuss this subject with you, or to have members of our staff work with yours, in an effort to arrive at the goals indicated.

Sincerely yours,



C. Canby Balderston,
Vice Chairman.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 9
5/27/64



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 28, 1964.

The Honorable James J. Saxon,
Comptroller of the Currency,
Treasury Department,
Washington, D. C. 20220

Dear Mr. Saxon:

A member State bank has inquired whether it is permissible for a member bank to "borrow" at an agreed rate of interest from a correspondent bank, by means of transfers from "Deposits" to "Bills payable", "Borrowed money", or a similar liability account.

The inquiry may have important implications with respect to sound banking practice (including the giving of security to banks' creditors), the prohibition against payment of interest on demand deposits, reserve requirements, and the Federal funds market. To assist in its further consideration of this matter, the Board would appreciate receiving your comments and recommendations.

The enclosed draft of a proposed response may be of assistance in your study of the question presented. The Board's staff is available for discussion of the matter with representatives of your Office.

The Board is also seeking the views of the Federal Deposit Insurance Corporation.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosure

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 10
5/27/64

OFFICE OF THE VICE CHAIRMAN

May 27, 1964.

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

Dear Mr. Chairman:

In response to your inquiry of April 20, 1964, there are enclosed herewith (a) a breakdown of the reimbursements received by the Federal Reserve Banks during 1963 for the fiscal agency function and other expenses, and (b) a copy of the 1963 audit of accounts and holdings of the System Open Market Portfolio by the Board's examiners.

You also asked whether if vault currency and coin had not been allowed to be counted as part of member banks' reserves subsequent to December 1959, open market purchases by the System would not have been larger, with the result that the open market portfolio would have been larger and the return to the Treasury in the form of interest remittance somewhat larger.

It is true that if member banks had not been allowed to count their vault cash as part of required reserves, beginning in December 1959, more reserves would have had to be provided by other means--one possibility being through Federal Reserve purchases of Government securities for the System Open Market Account.

The amount of such purchases that might have been required cannot be estimated with exactitude. We know that member banks found it necessary, prior to being enabled to count their vault cash as reserves, to hold, on the average, around \$2 billion of such assets for operating needs, although the figure varied considerably by seasons, approaching \$2.5 billion in December. It may be assumed that open market purchases of approximately this amount were rendered unnecessary at the time vault cash began to be counted toward required reserves, thus reducing to some extent interest "rebates" to the Treasury.

You will recall that the action by the Congress in 1959 to authorize the counting of vault cash as reserves was taken for a number of reasons. The main purpose was to correct inequities in the distribution of the burden of reserve requirements among banks, by

The Honorable Wright Patman -2-

eliminating the necessity for "double holding" of nonearning Federal Reserve liabilities by member banks, in one form to satisfy cash needs and in another form to satisfy reserve requirements. Reduction in Federal Reserve costs of shipping currency between member banks and the Reserve Banks, and the desirability of larger supplies of currency at member banks in case of a national emergency, were also factors. A fuller exposition of these considerations was presented in the Board's testimony before your Committee during hearings on this legislation.

Sincerely yours,

(Signed) C. C. Balderston

C. Canby Balderston,
Vice Chairman.

Enclosures.

1898

Item No. 11
5/27/64

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 26, 1964.



CONFIDENTIAL (FR)

Mr. E. H. Galvin, Vice President,
Federal Reserve Bank of San Francisco,
San Francisco, California. 94120

Dear Mr. Galvin:

In accordance with the request contained in Mr. Cavan's letter of May 19, 1964, the Board approves the appointment of Jon E. Garcia as an assistant examiner for the Federal Reserve Bank of San Francisco. Please advise the effective date of the appointment.

It is noted that Mr. Garcia is indebted to The State National Bank of Wayne, Wayne, Nebraska, located in Federal Reserve District No. 10, but that he will not participate in any examination of that bank.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.