

Minutes for May 20, 1965

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

M

Gov. Robertson

Gov. Balderston

CCB

Gov. Shepardson

CS

Gov. Mitchell

LM

Gov. Daane

DD

Gov. Maisel

SJ.M.

Minutes of the Board of Governors of the Federal Reserve System

on Thursday, May 20, 1965. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman  
Mr. Balderston, Vice Chairman  
Mr. Robertson  
Mr. Shepardson  
Mr. Maisel

Mr. Kenyon, Assistant Secretary  
Mr. Hackley, General Counsel  
Mr. Solomon, Director, Division of Examinations  
Mr. Shay, Assistant General Counsel  
Mr. Holland, Associate Director, Division of  
Research and Statistics  
Mr. Leavitt, Assistant Director, Division of  
Examinations  
Mr. Langham, Assistant Director, Division of  
Data Processing  
Mr. Poundstone, Review Examiner, Division of  
Examinations

Proposed foreign investment (Item No. 1). There had been distributed a memorandum from the Division of Examinations dated May 12, 1965, recommending favorably on a request of Manufacturers-Detroit International Corporation, Detroit, Michigan, for permission to acquire a minority interest in Kent Trust & Savings Company, Chatham, Ontario, Canada.

Governor Robertson noted that the proposed investment would carry the applicant Edge corporation over the 105 per cent target under the voluntary foreign credit restraint effort. The parent bank (Manufacturers National Bank of Detroit) also was over the target. He favored approval of the proposed investment. However, before the letter of approval was sent, he would like to get in touch with representatives

5/20/65

-2-

of the parent bank and inquire how long it was anticipated that it would take to get back under the 105 per cent target. He also recommended certain changes in the last paragraph of the letter of approval, which changes he described.

There being agreement with the recommendations of Governor Robertson, unanimous approval was given to a letter to Manufacturers-Detroit International Corporation in the form attached as Item No. 1, with the understanding that the letter would not be sent until after the inquiry to which Governor Robertson referred had been completed.

Frequency of examinations in Pennsylvania (Item No. 2). There had been distributed a memorandum from Mr. Solomon dated May 19, 1965, regarding a telephone call he had received from Mr. G. Allen Patterson, Secretary of Banking of the State of Pennsylvania, concerning a pending revision of the Pennsylvania banking law. Mr. Patterson expressed concern about a proposed change in the law that would call for one examination of State banks each 12 months, rather than one examination each year.

Submitted with the memorandum was a draft of letter to Mr. Patterson pointing out certain problems that the change, if made, would create with respect to the carrying out of Federal Reserve examining responsibilities. First, it would increase the problems involved in scheduling and coordinating joint Federal Reserve-State examinations. Second, it would reduce the latitude for variations in the scheduling of examinations, and therefore the degree of surprise.

5/20/65

-3-

The Philadelphia and Cleveland Reserve Banks agreed with the desirability of sending such a letter.

In response to inquiry about the background of the matter, Mr. Solomon said the State law now called for one examination each year, which was construed to mean once each calendar year. The State supervisor had not been meeting this program, particularly with respect to nonmember banks. As the State banking law was to be revised, the supervisor proposed to change the requirement to call for one examination within each 18 months, thus validating the current practice. However, the legislators then proposed to cut the 18 months back to 12 months, and Mr. Patterson had been unable to persuade them differently.

Governor Shepardson observed that when examinations were called for once each calendar year this meant that sometimes banks were not examined for periods ranging up to 20 months or more. He raised the question whether efforts should not be in the direction of working toward more frequent examinations rather than the reverse.

Mr. Solomon suggested that the objective could best be achieved through methods not involving the rigidity of the proposed requirement of the Pennsylvania State law.

There followed discussion of reasons why the proposed change in the State law would complicate problems of scheduling and coordination, and Mr. Solomon explained why he felt that the surprise element would be lessened.

5/20/65

-4-

Governor Robertson then said that although he would not object to the sending of a letter to Mr. Patterson, in view of the desirability of cooperation, he felt the Board should not put itself in the position of seeming to agree, even by implication, that examinations each 18 months were preferable to examinations each calendar year.

Governor Shepardson referred to discussions that had occurred from time to time about the weakness of certain State banking departments and the tendency to rely unduly on the Federal Reserve as far as the conduct of examinations was concerned. If a State was making a move toward strengthening its own system of examinations, this would seem to be all to the good.

Mr. Solomon agreed, but said he did not think that a change in the statutory requirement from one examination each calendar year to one examination each 12 months would work toward the strengthening of examinations. It might result instead in cutting down on the scope and depth of examinations.

Governor Robertson suggested, after further discussion, modifying the letter to Mr. Patterson to emphasize the need for frequent examinations. The letter could point out, however, that the proposed change in State law would reduce flexibility, and the view could be expressed that it would seem more appropriate to work toward the end of greater frequency of examinations in some manner that would not have this result.



5/20/65

-5-

There was agreement with the approach suggested by Governor Robertson and also with a change in the letter to show that it was written because the Board's views had been requested by Mr. Patterson. Accordingly, unanimous approval was given to a letter in the form attached as Item No. 2.

Request for condition and earnings data (Item No. 3). A distributed memorandum from Messrs. Holland and Langham dated May 17, 1965, reported that the Federal Reserve Bank of Chicago had requested authority to serve as a "modified clearing house" on requests from researchers for data that normally would be made available only after processing on the Board's computer to prevent disclosure of data for individual banks. The Reserve Bank would obtain tapes of basic data from the Board and then monitor the use of the tapes at local computer centers. All computer charges and all necessary programming would be the responsibility of the individual requesting the data. The Reserve Bank's responsibility would be limited to making sure that the tapes were not duplicated and that data output did not violate disclosure policy.

The Reserve Bank proposal was precipitated by a request from a graduate student at Northwestern University who proposed in her doctoral dissertation to explore the effect of Federal Reserve membership on the profitability of banks in the State of Illinois. For this purpose she had requested access to reports of condition and reports of income and dividends for all insured commercial banks in Illinois for the

5/20/65

-6-

period 1961-63. The Federal Deposit Insurance Corporation had indicated that it was agreeable to furnishing for insured nonmember banks data similar to that made available for member banks.

The Reserve Bank proposed that the researcher's program for converting the basic data tapes to a special input tape would be examined by the Bank, that the basic data tapes supplied by the Board would be carried to the Northwestern University Computer Center by a member of the Bank's staff, that the Bank representative would be present when the program was run, and that he would bring back to the Bank the basic data tapes, any tapes created, and print-outs of the tapes created. If the Bank assured itself that no individual bank data could be identified on the newly-created tapes, they would be returned to the Computer Center for storage and for the use of the researcher. If the individual bank data had not been sufficiently disguised, the tapes would be retained in the custody of the Bank and would be run at the Computer Center only when a member of the Bank's staff was present.

The principal concern expressed in the memorandum from Messrs. Holland and Langham was that the proposed procedure might not be an economical use of System resources. It was recommended that the requested data be made available to the Chicago Reserve Bank to satisfy this particular request, but that the action not be considered a

5/20/65

-7-

precedent. Future requests for similar operations would be weighed against the Reserve Bank's experience and reaction to the results of the first test.

Discussion of the matter focused principally on the question of use of Reserve Bank resources, and question was raised whether arrangements could not be explored for sending material of this kind for processing to a computer installation that operated under appropriate security restrictions, thus obviating the need for a Reserve Bank representative to remain with the tapes being processed. It was noted, however, that there were other aspects of the proposed endeavor on the part of the Reserve Bank that might also be time-consuming.

Chairman Martin then observed that the specific request involved an experimental operation, and that on such basis little harm probably could come from cooperating. There being general concurrence with this comment, the request was approved and it was understood that the Federal Reserve Bank of Chicago would be advised accordingly. A copy of the letter sent to the Reserve Bank is attached as Item No. 3.

Schedule of meetings. Chairman Martin referred to a circumstance that suggested foregoing the staff economic review that normally would be presented next Monday, May 24, the day preceding the Federal Open Market Committee meeting. It was agreed that due to this situation, summary staff comments on economic developments would be combined with the money market review tomorrow.

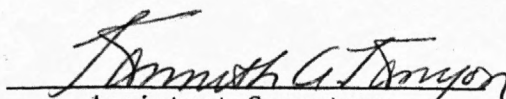


5/20/65

-8-

The meeting then adjourned.

Secretary's Note: A letter was sent today to The Chase Manhattan Bank, New York, New York, acknowledging receipt of notice of its intent to establish an additional branch in San Juan, Puerto Rico, to be located in the Hato Rey area of metropolitan San Juan.

  
Assistant Secretary

1701

Item No. 1  
5/20/65

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



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

May 20, 1965.

Manufacturers-Detroit International Corporation,  
151 West Fort Street,  
Detroit, Michigan 48226.

Gentlemen:

In accordance with the request in your letter of March 5, 1965, transmitted through the Federal Reserve Bank of Chicago, and on the basis of information furnished, the Board of Governors grants consent for your Corporation to purchase and hold 45,000 common shares, par value Can.\$10 each, of the capital stock of Kent Trust & Savings Company, Chatham, Ontario, Canada, ("Kent"), at a cost of approximately US\$479,205, provided such stock is acquired within one year from the date of this letter.

The Board also approves the purchase and holding of shares of Kent within the terms of the above consent in excess of 15 per cent of your Corporation's capital and surplus.

The foregoing consent, which will result in the foreign loans and investments exceeding the guidelines established under the voluntary foreign credit restraint effort now in effect, has been given on the basis of the assurance contained in your telegram of April 28, 1965, that steps will be taken to bring such loans and investments down to the guideline level within a reasonable length of time.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,  
Assistant Secretary.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON



OFFICE OF THE CHAIRMAN

May 20, 1965.

Mr. G. Allen Patterson,  
Secretary of Banking,  
Department of Banking,  
Harrisburg, Pennsylvania.

Dear Mr. Patterson:

You have advised us that Pennsylvania law now provides for one examination by your Department of each State bank each calendar year, and you have inquired as to our views concerning a possible change in this provision to specify one such examination each 12 months. We assume that under either provision more frequent examinations would be made if considered necessary.

Under present law almost 24 months are available within which to schedule two regular examinations--although in practice the two would almost never be scheduled at the extreme beginning and end of the period. The changed provision would require that no more than 12 months elapse between one examination and the next.

Let me assure you that under either provision the Federal Reserve would continue to cooperate fully with your Department in our joint and continuing efforts to serve the public interest by helping to maintain sound banking conditions. Let me emphasize, also, that the Federal Reserve favors frequent bank examinations, and that in carrying out its policy of conducting one regular examination of each State member bank each calendar year, it endeavors to avoid unduly long periods between examinations. It may be helpful, however, to point out certain problems which a 12-month requirement would create, and to outline some of the considerations which have influenced the Board to adopt and follow the calendar-year policy.

As you know, in order to avoid waste and duplication--by both banks and examining authorities--your Department and the Federal Reserve closely coordinate their examinations of State member banks of the Federal Reserve System and make these examinations jointly. This necessitates a considerable amount of liaison and planning between the two agencies, even under the flexibility of a calendar-year policy. A change from a calendar year to a 12-month basis,

Mr. G. Allen Patterson

-2-

while seemingly slight, would substantially reduce flexibility and increase the problems of scheduling and coordinating joint examinations.

It is also important that a bank examination be as much of a surprise as possible to those examined. When the examination can be made at any time over a calendar year, there is greater flexibility, greater uncertainty as to when the examination may occur, and, therefore, more surprise. If each examination was required to be made within 12 months after the previous one, there would be less latitude for variation, less uncertainty as to when the examination might take place, and, therefore, less surprise. It would be extremely difficult to vary the dates of examinations of a bank, particularly a large bank, and still meet a 12-month requirement, without scheduling two examinations in some years. This would impose additional requirements of manpower and expense not only on the examining authorities, but also on the State banks examined.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

1704

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

Item No. 3  
5/20/65



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

May 26, 1965.

Mr. Karl A. Scheld,  
Assistant Vice President,  
Federal Reserve Bank of Chicago,  
P. O. Box 834,  
Chicago, Illinois. 60690

Dear Mr. Scheld:

Pursuant to the procedures set forth in your letter to Mr. Langham of May 3 to insure that individual bank data will not be released to unauthorized persons, the Board has approved the proposal that your Bank serve as a modified clearing house in responding to the request by Mrs. Lucille Mayne for access to condition and earnings data reported by individual banks in Illinois, for the period 1961-1963. Board approval included the following condition--"The person directly responsible for computer manipulation of the data formally certify that no individual bank data were seen, copied, or otherwise retained."

These data are being made available for the "Mayne" study, with the understanding that this action will not be considered a precedent. Future requests for similar operations would be weighed against your Bank's experience and reaction to the results of this first use of condition and earnings data under these conditions.

Programming required for data preparation needed for the Mayne study is well underway and hopefully will be completed this week.

Very truly yours,  
  
(Signed) Kenneth A. Kenyon  
  
Kenneth A. Kenyon,  
Assistant Secretary.