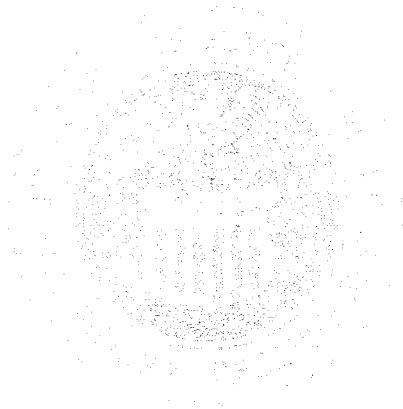


FIFTIETH

Annual Report

OF THE

BOARD OF GOVERNORS
of the Federal Reserve System



COVERING OPERATIONS FOR THE YEAR

1995

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM,
Washington, March 31, 1964.

THE SPEAKER OF THE HOUSE OF REPRESENTATIVES.

Pursuant to the requirements of Section 10 of the Federal Reserve Act, as amended, I have the honor to submit the Fiftieth Annual Report of the Board of Governors of the Federal Reserve System. This report covers operations for the year 1963.

Yours respectfully,

WM. MCC. MARTIN, JR., *Chairman.*

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PART I
Review of 1963

1963 was another year of expansion in domestic economic activity and of broad stability in commodity prices. Business and consumer incomes rose further and were at new high levels. The deficit in the U.S. balance of payments was reduced somewhat, reflecting a marked improvement in the last half of the year, and during this period the position of the dollar in foreign exchange markets strengthened.

There also was a large expansion of credit and a further substantial growth in financial savings, particularly in liquid form. The money supply—demand deposits and currency in the hands of the public—rose by nearly 4 per cent, and time and savings deposits at commercial banks by 15 per cent. Despite large supplies of funds, most types of interest rates increased, particularly in the short-term area. Although the increases were moderate, they contributed to the improvement in the balance of payments.

The performance of the economy during the year was marred by the persistence of high unemployment. There was also less-than-optimum utilization of a steadily expanding industrial capacity. Although employment increased considerably, the rise was only enough to absorb the growth in the civilian labor force. As a result, the rate of unemployment continued within the range of 5.5 to 6 per cent of the civilian labor force.

It was of continuing concern that the number of persons out of work for 15 weeks or longer was only slightly smaller than a year earlier and that unemployment among young workers increased further. On the other hand, along with the increases in industrial employment there was some decline in unemployment among adult males, and the number of major geographical areas with substantial labor surpluses declined.

Gross national product in the fourth quarter advanced to an annual rate of \$600 billion, 6 per cent higher than a year earlier.

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In constant dollars the rise was just over 4 per cent. Industrial production also rose substantially, with most of the gain concentrated in the first half of the year. In December, production was nearly 7 per cent higher than at the end of 1962.

Increases in expenditures in 1963 were widespread and well balanced, with no exceptionally large increases in any of the major sectors. Business inventory investment, often a source of disruptive swings in the economy, followed a relatively stable course, despite the large fluctuations in steel stocks growing out of the threat of a steel strike in the first half. Total inventories accumulated at a somewhat faster rate in the fourth quarter, but stock-sales ratios continued low by historical standards.

Business outlays for fixed capital increased moderately to a new high late in the year, stimulated by expanding sales, widespread confidence in the business outlook, and growing expectations of a general reduction in taxes. New high levels of corporate profits and large retained earnings facilitated the increased outlays. The investment tax credit and the Treasury's revised depreciation guidelines, effective in 1962, were also stimulating influences. Stock prices rose to a new high at the year-end.

Utilization of capacity at less-than-optimum rates in many manufacturing industries tended to limit capital expansion programs to moderate proportions and helped to maintain active competition and general price stability. In contrast to the 1955-57 period of marked expansion in capacity, such programs in 1963 were not outrunning growth in the economy. Technological developments and strong competitive pressures for modernization and replacement of productive facilities continued to be important factors in industrial investment.

Residential construction activity increased considerably in 1963 as multifamily building continued to rise. New housing units started during the year reached a near-record 1.6 million, nearly a tenth more than in 1962. Mortgage funds were readily available at rates below those of a year earlier.

Consumer purchases of goods and services increased about in

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line with disposable income, which rose 5 per cent from the fourth quarter of 1962. Purchases of durable goods were especially strong, with those of new automobiles at a new high. This high, however, must be considered in the light of the substantial rise in population and income since the previous automobile sales record in 1955.

Along with the increase in sales of automobiles and other durable goods, there was a large expansion in consumer installment credit, but this was not accelerated by any marked lengthening in automobile contract maturities, as in 1955. The proportion of consumer income devoted to repayments on instalment debt rose to a new high, but there was little evidence of rising delinquencies or of other signs of over-commitment.

Government demands again contributed importantly to increased economic activity during 1963. State and local government expenditures accounted for most of the increased demands, as payrolls and highway and other construction expenditures expanded further. Federal purchases of goods and services continued to rise rapidly in the first quarter, then leveled off.

Wage increases in 1963 generally continued moderate and about in line with average gains in output per manhour in manufacturing. The productivity advances were unusually large for the third year of a cyclical expansion. Reflecting the net effect of the changes in earnings and productivity, total labor costs per unit of output continued to show little change. Average hourly earnings of production workers in manufacturing rose about 3 per cent over the 1962 average. Despite some severe tests, industrial relations were relatively peaceful, and time lost because of labor disputes was not greatly above the postwar low in 1961.

Moderate wage settlements, along with the sustained gains in productivity, ample industrial capacity, and active competition from at home and abroad, were reflected in continuing stability in most broad measures of prices. Such increases in wholesale prices as did occur reflected developments in particular markets more than the general pressures of aggregate demand. The in-

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dustrial price average rose fractionally between spring and the year-end, but was still nearly 1 per cent below early 1960. Consumer prices continued to edge up at about the rate of other recent years. At the end of 1963 the combined index was 1.7 per cent higher than it was a year earlier. Prices of services showed a somewhat larger advance; prices of nonfood commodities a somewhat smaller one.

The money supply increased by 3.8 per cent during the year. This was a substantially faster rate of growth than in 1962, but less than the increase in GNP. Turnover of money increased further. At the same time there was a substantial growth in other liquid assets. Public holdings of all liquid assets rose faster than GNP, and the ratio of these holdings to GNP—already high—increased further instead of declining as it usually does in an extended period of business expansion.

Net funds raised in credit markets in 1963 amounted to \$61 billion, eclipsing the record of \$58 billion in 1962. The increase in outstanding security issues of corporations, both domestic and foreign, and of State and local governments combined was somewhat larger than in 1962. The major growth in borrowing, however, occurred in mortgages, which increased by a record \$30 billion or about \$4.5 billion more than in 1962, and in short-term loans of consumers, foreigners, and businesses.

To finance a cash deficit of \$4.6 billion during the calendar year—a somewhat smaller deficit than in 1962—the U.S. Government undertook net new cash borrowings of nearly this amount, to a large extent in the form of Treasury bills. The Treasury also refunded existing and maturing debt into longer-term issues, with the result that the average maturity of the debt lengthened somewhat, to the longest term since 1958.

Commercial bank credit increased by 8 per cent during the year, a little less than in 1962 and about the same as in 1961. There was another marked increase in loans, with growth in business loans accelerating after midyear. Investments increased only moderately, as commercial banks liquidated U.S. Govern-

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ment securities while continuing to acquire record amounts of State and local government obligations.

Expansion of bank credit during the year reflected a generally stimulative monetary policy, but one that became somewhat less so during the first 9 months of the year. In July the discount rate was raised from 3 to 3½ per cent, in an effort to help reduce the large deficit in the U.S. balance of payments. Total reserves continued to rise over the year, but banks were under a little more reserve pressure in the latter part than they were in the earlier part, and they obtained more reserves by borrowing at Federal Reserve Banks. Free reserves tended lower and in the fourth quarter averaged a little over \$100 million as compared with almost \$400 million a year earlier.

There was substantial progress during the year in working down the large deficit in the balance of payments. As compared with a deficit of \$3.6 billion in 1962, the deficit for the full year 1963 was \$3.3 billion, excluding special transactions. But in the second half it was substantially lower. Part of the improvement reflected increased exports and a larger trade surplus. But much of the improvement in the second half was traceable to the return flow of short-term liquid funds and, even more, to the reduced outflow of long-term capital. The rise in domestic short-term interest rates and the proposed interest equalization tax contributed importantly to the reduction in the capital outflows.

The financing of the balance of payments deficit involved a much smaller drain on U.S. gold reserves than in earlier years. Gold stocks declined by \$460 million, only about half as much as in 1962 or 1961. A large proportion of the deficit was financed by increased foreign holdings of dollars and by Treasury short- and medium-term borrowings of foreign currencies. In spite of the continued large U.S. payments deficit and such shocks as the rejection of Britain's entry into the Common Market and the assassination of President Kennedy, the international monetary system remained safe from significant speculative attack, thanks in part to the cooperation of monetary authorities.

DIGEST OF PRINCIPAL FEDERAL

<i>Period</i>	<i>Description</i>
January- mid-May	Reduced System holdings of U.S. Government securities and then increased them in line with seasonal and moderate growth needs of the economy. Total holdings rose about \$470 million on balance, owing mainly to net purchases of issues maturing in more than 1 year. Member bank borrowing rose slightly to a level of about \$150 million in the first half of May.
Mid-May- late-July	Reduced the degree of reserve availability slightly further. System holdings of U.S. Government securities increased nearly \$1.2 billion, about one-fifth representing net purchases of issues maturing in more than 1 year. Member bank borrowing increased further, averaging \$275 million over the period.
Mid-July	Raised the discount rate from 3 to 3½ per cent. Raised maximum interest rates payable by member banks on time deposits (other than savings) and certificates of deposit with maturities of 90 days to 6 months from 2½ to 4 per cent and with maturities of 6 months to 1 year from 3½ to 4 per cent.
Late-July- December	Reduced a little further the degree of reserve availability. System holdings of U.S. Government securities increased about \$1.1 billion, of which more than one-half represented purchases of securities with maturities of more than 1 year. Member bank borrowing averaged about \$325 million over the period.
November	Raised margin requirements on loans for purchasing or carrying listed securities from 50 to 70 per cent of market value of securities. Also increased retention requirements on proceeds of sales from undermargined accounts from 50 to 70 per cent.

RESERVE POLICY ACTIONS, 1963

Purpose

To offset seasonal downward pressures on short-term interest rates early in the period and to provide for growth in bank credit and the money supply at a rate consistent with minimizing capital outflows in accordance with the policy of slightly reduced reserve availability adopted at the December 18, 1962, meeting of the Federal Open Market Committee.

To achieve a slightly greater degree of firmness in the money market in order to minimize the outflow of capital while continuing to provide reserves for moderate monetary and credit growth.

To help reduce short-term capital outflows by firming U.S. short-term money market rates and permitting member banks to compete more effectively for foreign and domestic funds.

To attain slightly more firmness in the money market, in the context of a higher discount rate, with a view to minimizing the outflow of funds abroad while offsetting seasonal reserve drains and providing for growth needs of the domestic economy.

To help prevent excessive use of stock market credit, which had increased sharply since July 1962, when margin requirements were lowered from 70 to 50 per cent.

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MONETARY POLICY

During 1963 the Federal Reserve continued to seek monetary and credit conditions that would contribute to adequate and sustainable growth in the domestic economy and to the achievement of balance in U.S. international payments. In working toward these objectives, it gradually lessened the degree of credit and monetary ease.

Reserves and discount operations. At its last meeting in 1962 the Federal Open Market Committee had concluded that it was appropriate to reduce a little the degree of ease existing at that time. Accordingly, it redirected its actions toward accommodating “moderate further increases in bank credit and the money supply, while aiming at money market conditions that would minimize capital outflows internationally.” The Committee made no further change in policy until mid-May, when it moved to reduce reserve availability slightly further.

These changes in policy resulted in a fairly persistent decline in the free reserves of commercial banks from late 1962 to mid-1963. The amount by which total excess reserves of member banks exceeded their borrowings from the Federal Reserve Banks, for example, narrowed gradually from around \$400 million in the last quarter of 1962 to an average of about \$150 million by June 1963.

As the first half of 1963 unfolded, domestic economic prospects brightened. The rapid rise in production and the substantial expansion in employment and income indicated that economic activity was improving. Bank credit rose at an annual rate of 11 per cent during the period, and time and savings deposits at commercial banks increased at a 14 per cent rate. Expansion in the money supply—demand deposits and currency held by the public—was moderate, $2\frac{1}{2}$ per cent, as it had been throughout the past decade.

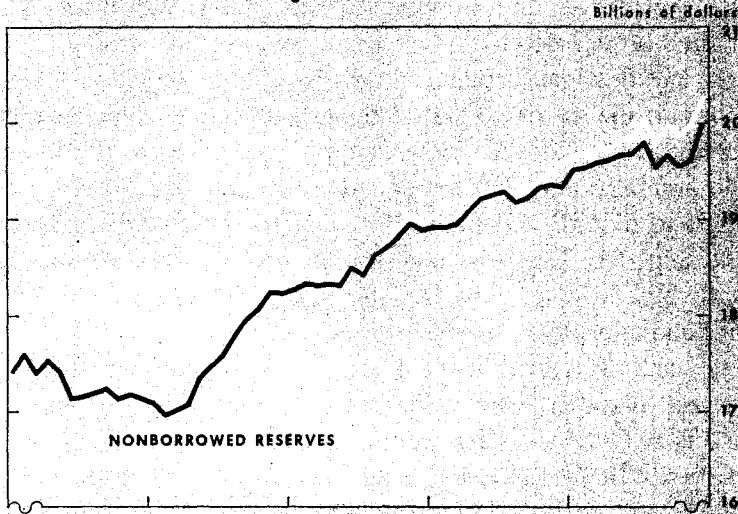
But in contrast to the brighter picture in our domestic economy during the first half of the year, there was a marked worsening

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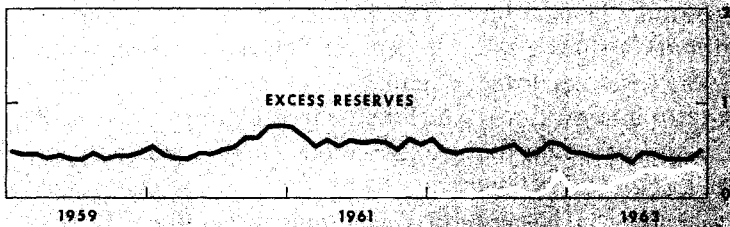
during the spring in the U.S. balance of international payments as outflows of both long-term and short-term private capital increased.

Short-term money market rates rose only a little until late spring, despite the reduction in free reserves and in the liquidity of the banking system. In June, however, the rate on 3-month

TOTAL RESERVES continue growth



BORROWINGS rise in 1963



NOTE.—Monthly averages of daily figures for member banks. Total and nonborrowed reserves seasonally adjusted. Total reserves also adjusted to exclude the effects of changes in reserve requirements. Nonborrowed reserves are total reserves (adjusted) minus borrowings at F.R. Banks.

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Treasury bills advanced to 3 per cent, the level of the Federal Reserve discount rate. Then in mid-July, shortly before President Kennedy's announcement of a number of other steps to help reduce the U.S. balance of payments deficit, the discount rate was raised to 3½ per cent and reserve availability was reduced a little further, in the light of the increase in the discount rate, in an effort to help to achieve international payments equilibrium.

During the last half of the year the gross national product continued to rise, and demand for bank loans was brisk. With liquidity drawn down and reserves less readily available, the banks met this loan demand in part by selling securities. Reflecting in part the increased loan demand and despite some lessening in credit availability, the money supply rose in the final 6 months at an annual rate of just under 5 per cent. The rise was also due in part to a shift of demand deposits from Treasury to private ownership, the Treasury having built up its deposits to an unusually high level at midyear. Time and savings deposits in banks continued to expand rapidly.

By early July the lower levels of bank liquidity and free reserves, together with widespread expectations in financial markets that money rates would rise, resulted in a stepping up and then a further but slower advance in these rates during the summer and early fall. During the last 2 months of the year money rates settled at a level about ½ of 1 percentage point higher than in mid-June. The rise in short- and intermediate-term market rates was quite general, but its effect on negotiated rates on customer loans of banks was modest. Meanwhile, most long-term interest rates, which had edged up during the early part of the year, rose on the average about ⅛ of 1 percentage point further in the second half.

Operations in longer-term Government securities. In supplying the reserves needed to support moderate bank credit and monetary expansion, the Federal Reserve continued on occasion during 1963 to buy longer-term U.S. Government securities instead of short-term issues. It did this to help minimize downward

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pressures on short-term interest rates that developed from time to time during the year.

The Federal Reserve's purchases of longer-term securities (with maturities of more than a year) amounted to \$1.5 billion in 1963, about one-sixth of its gross purchases of Government securities. In 1962 and 1961 purchases of longer-term securities by the Federal Reserve had totaled \$1.9 billion and \$2.7 billion, respectively. As in the earlier years, purchases of Government securities outside the short-term area in 1963 were concentrated in issues maturing in less than 10 years.

A chronological review of operations of the System Open Market Account in domestic securities during the year 1963 appears on pages 129-70.

Foreign exchange operations. During 1963 the Federal Reserve continued to engage in transactions in foreign currencies. Such transactions are designed primarily to cushion short-run disturbances in the foreign exchange markets. They are not intended to be a substitute for basic measures to reduce the deficit in the U.S. balance of payments.

In these operations the Federal Reserve made use of the network of reciprocal currency, or "swap," arrangements with foreign central banks that it had begun to set up in early 1962. By the end of 1963 these arrangements had added more than \$2 billion to the sums potentially available or actually being used for the defense of the dollar. Drawings under the swap arrangements have a maturity of 3 months, and renewals are limited in order to ensure that every drawing is liquidated within a year at the most.

Under those arrangements, the Federal Reserve in 1963 drew \$793 million of foreign currencies and repaid \$589 million. Drawings outstanding at the year-end amounted to \$469 million, as compared with \$265 million a year earlier. Against these drawings, plus forward-exchange commitments of \$63 million, the System had foreign-currency holdings of \$153 million and forward-exchange purchase contracts of \$22 million. The difference of \$357 million between total drawings and commitments,

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on the one side, and total holdings and purchase contracts, on the other, represented the net amount of foreign currencies the Federal Reserve would need to acquire, either in the foreign-exchange market or directly from foreign central banks, in order to liquidate its commitments.

A review of operations of the System Open Market Account in foreign currencies in 1963 appears on pages 171-90.

Other actions. Concurrently with the increase in the discount rate in mid-1963, the Federal Reserve raised to 4 per cent the maximum rates that member banks may pay on time deposits with maturities of from 3 to 12 months. Since this increase came at a time when money rates were advancing, many large banks soon raised the rates that they pay on deposits with these maturities as well as those with longer maturities. The adjustment enabled commercial banks to compete more effectively for funds that might otherwise have gone into direct investment in short-term securities or to other financial intermediaries, and helped to retain in this country the liquid balances of domestic as well as foreign investors that might have gone into the Euro-dollar market.

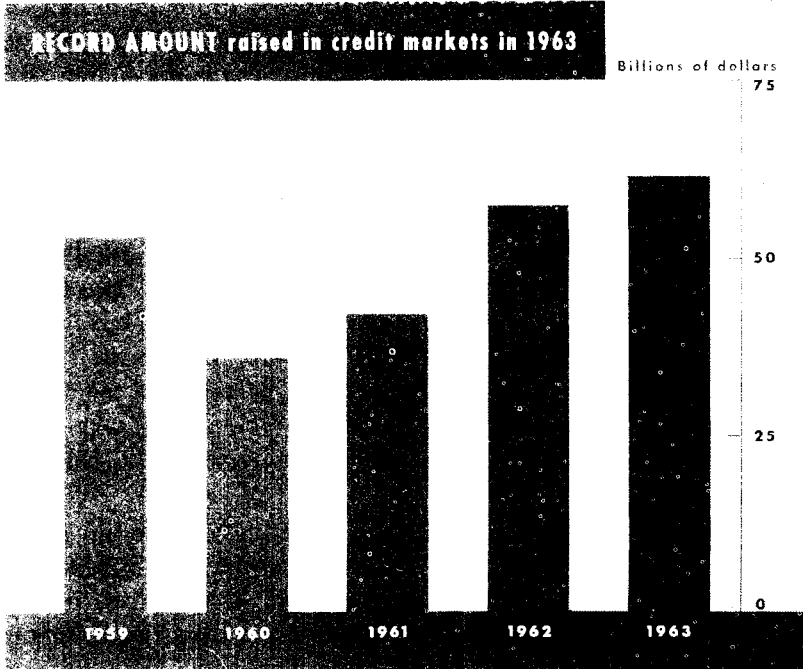
In early November the Board of Governors also raised from 50 to 70 per cent the equity required on new or additional credits arranged for the purpose of purchasing or carrying securities registered on a national securities exchange. Simultaneously, it raised from 50 to 70 per cent the proportion of the proceeds of a security sale from an undermargined account—in this instance, an account with a margin of less than 70 per cent at the time of sale—that must be retained in the account to build up additional equity.

These actions on margin requirements followed a rise in stock market credit of more than 40 per cent from the July 1962 low of \$4.9 billion to the September 1963 total of \$7.0 billion. This rate of growth was faster than in any other segment of the credit markets, and the Board concluded that an increase in margin requirements was appropriate to prevent the excessive use of credit in the stock market.

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FINANCIAL DEVELOPMENTS

There were moderate increases in both short- and long-term interest rates in financial markets during 1963. The demand for credit was quite large, with the net amount of funds raised in credit markets reaching a record \$61 billion. On the supply side



NOTE.—Flow of funds data for total borrowing by nonfinancial businesses, households, governments, and foreigners in U.S. credit markets. Includes corporate stock issues. Excludes security credit, trade credit, and borrowing by financial businesses.

there was some lessening of credit availability as a result of monetary policy actions, and this put a little upward pressure on interest rates generally. These policy actions had their most immediate impact on the availability and cost of bank reserves and on short-term interest rates. The net flow of long-term saving

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to banks and other financial institutions continued to be substantial, although the rate slackened somewhat in the second half, and this helped to moderate the rise in long-term interest rates.

Consumer finance. Consumers continued in 1963 their active participation in financial markets as both lenders and borrowers. Consumer saving, expanding in line with total production, personal income, and consumption, rose 5 per cent more than in 1962. As in that year, consumers invested more than half of their total saving in financial assets, a proportion well above the average for the preceding 10 years. Although the net increase in consumer borrowing, at \$27 billion, was also large, it was much less than the amount consumers saved and made available for lending. As a group, consumers made net advances of \$19 billion to other sectors of the economy during the year.

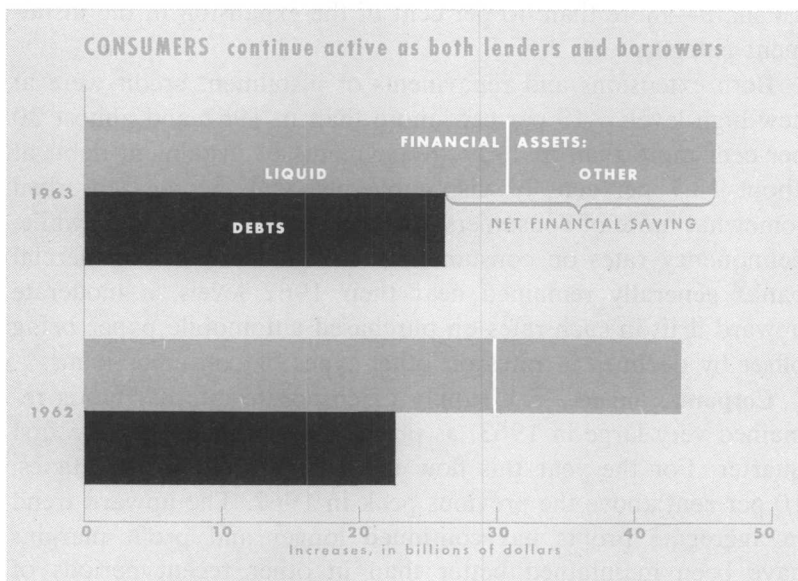
Financial investment. The total flow of consumer funds into financial assets was \$46 billion, of which about two-thirds flowed into cash and time and savings accounts. Thus, as in 1962, consumers continued in their acquisitions to place strong emphasis on liquid types of assets, and by the year-end their total holdings of such assets had risen to \$310 billion. This was equal to 79 per cent of disposable income, compared with 75 per cent a year earlier.

A few shifts in asset preference were discernible in 1963, however. The rise in demand deposits was larger, and in time and savings deposits was smaller, than in 1962. Also, during most of the year consumers made larger net direct investments in U.S. Government securities, partly in response to increases in market rates of interest. Meanwhile, individuals continued to add steadily to their equity in life insurance and pension funds.

In stock transactions, individuals withdrew more funds from the market than they invested, while institutions expanded their holdings. As in 1962, net new issues of stocks by business corporations were light, and institutional buying continued to exceed the total volume of new issues. Some of the increase in institutional holdings apparently represented stocks bought from consumers, who used funds from these and other sales of stock

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to invest in other financial assets or in physical assets, and perhaps to some extent to increase consumption. Even though consumers as a group made net sales of stocks during the year, the current value of their stock holdings increased over the year along with the rise in stock prices, and they borrowed large amounts for the purpose of purchasing or carrying securities.



NOTE.—Flow of funds data, including nonprofit organizations. Liquid assets consist of demand deposits, currency, and time and savings accounts at banks and savings institutions. Other financial assets are U.S. Govt. and other securities, mortgages, insurance and pension reserves, and equity in noncorporate business. Borrowing consists of mortgages, consumer credit, security debt, life insurance policy loans, and mortgage and other borrowing by nonprofit organizations.

Borrowing. Consumer borrowing for other purposes was also large in 1963—at the same high rate relative to consumer capital outlays as in 1962. Net borrowing on home mortgages was about \$2 billion more than in 1962. Part of this borrowing was to finance purchases of new or existing houses, and part was to refinance existing mortgages under the more liberalized terms

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prevailing, with the net proceeds used for either financial investment or spending on other goods and services.

Consumers added an estimated \$6.7 billion to their short- and intermediate-term indebtedness in 1963. This was about \$1 billion more than in 1962 and was slightly above the previous record amount in 1959. Instalment credit accounted for most of the increase. As usual, automobile credit accounted for the largest share—more than 40 per cent of the expansion in the instalment category.

Both extensions and repayments of instalment credit were at new high levels—10 per cent more than in 1962 and almost 30 per cent more than in 1959. Repayments of instalment debt, at about 13.7 per cent of disposable personal income, absorbed somewhat more of consumers' income than in 1962. Meanwhile, delinquency rates on consumer instalment loans at commercial banks generally remained near their 1962 levels, a moderate upward drift in such rates on purchased automobile paper being offset by declines in rates on other types of consumer loans.

Corporate finance. The supply of corporate internal funds remained very large in 1963, as profits rose steadily after the first quarter. For the year this flow totaled \$27 billion after taxes, 10 per cent above the previous peak in 1962. The upward trend in aggregate profits has continued longer and profit margins have been maintained better than in other recent periods of cyclical expansion. Retained earnings in 1963 were the largest since 1959, and depreciation allowances continued to expand. The new depreciation guidelines and the investment tax credit together added roughly \$2.5 billion to corporate internal funds in 1963, about the same amount as in 1962 when these provisions first became effective.

Outlays for new plant and equipment reached a new peak in 1963, but the increase from 1962 was considerably less than the rise in internal funds. Inventory accumulation was about in line with its restrained pace in most of the recent expansion period. On the other hand, business corporations increased their

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accounts receivable by more than in any other year since 1955, and their holdings of cash and of U.S. Government securities rose moderately.

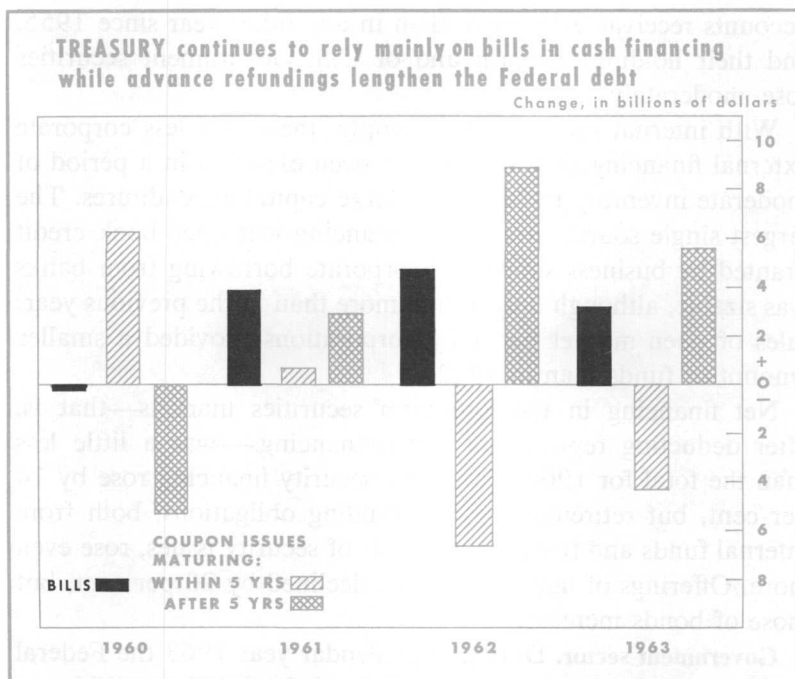
With internal funds in large supply, there was less corporate external financing than might have been expected in a period of moderate inventory build-up and large capital expenditures. The largest single source of external financing was open-book credit granted by business suppliers. Corporate borrowing from banks was sizable, although only a little more than in the previous year; sales of open market paper by corporations provided a smaller amount of funds than in 1962.

Net financing in the long-term securities markets—that is, after deducting repayments and refinancings—was a little less than the total for 1962. Total new security financing rose by 14 per cent, but retirements of outstanding obligations, both from internal funds and from the proceeds of security issues, rose even more. Offerings of new stock issues declined by 20 per cent, but those of bonds increased.

Government sector. During the calendar year 1963 the Federal Government incurred a cash deficit of \$4.6 billion. With receipts rising faster than payments, this deficit turned out to be less than in either of the two previous years. To finance it, the Treasury drew down its cash balance by a few hundred million dollars and undertook net cash borrowing of \$4.3 billion. The Treasury met most of its borrowing needs by selling marketable securities; nonbank investors were net purchasers of such securities, as banks drew down holdings of U.S. Government issues on balance. For the first time since 1950, savings bonds provided the Treasury with a net source of funds, as sales exceeded redemptions (excluding accrued interest) by about \$500 million during the year.

Continuance of balance of payments pressures and the desire to bring U.S. short-term interest rates more in line with the short-term rates in other countries resulted again in major reliance by the Treasury on the sale of bills in cash financings.

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The increase in Treasury bills outstanding accounted for more than \$3 billion of the total increase of about \$4.5 billion in marketable Government debt outstanding.

Since the Treasury centered its new borrowing on shorter-term issues, it relied on regular and advance refundings to maintain a well balanced maturity structure of the debt. Advance refundings shifted more than \$14.7 billion of securities into longer-term issues. Partly as a result of such shifts, coupon issues maturing within 5 years declined during the calendar year by \$4.3 billion, while issues with maturities in excess of 5 years rose by about \$5.6 billion. Continuing the trend of the last few years, the average maturity of the public debt rose slightly—from 4 years and 11 months at the end of 1962 to 5 years and 1 month at the end of 1963.

State and local governments were active in credit markets

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during the year. To raise funds for the construction of highways, schools, and other public facilities, they sold a record \$9.1 billion of long-term bonds. This was 6 per cent more than the previous peak of a year earlier. Bond sales to refund outstanding issues of long-term debt were up even more, to about \$1.3 billion, as these governments took advantage of the relatively low interest rates to obtain funds to retire high-coupon revenue bonds sold earlier.

Financial intermediaries. The lending and borrowing of various sectors of the economy were accomplished to a great extent through financial institutions. Money flows through major non-bank financial intermediaries were very large during 1963, although the gains were largest in the first half. Competition for funds among savings institutions remained acute throughout the year, and there were some selective further increases in the interest rates offered for savings.

The emphasis on mortgage financing by the savings intermediaries continued undiminished. This was true not only for lenders that specialize in mortgages but also for the more diversified types of lending institutions, such as life insurance companies and commercial banks.

Savings and loan associations. Share capital at savings and loan associations again increased by a record amount—about \$11 billion for the year. Rates of inflow during the first half of the year substantially exceeded those prevailing during the same period in 1962, but after midyear the rate of growth slackened somewhat.

Despite the record inflow of investable funds, reliance on advances from the Federal home loan banks increased sharply over the year. After heavy repayments during the first quarter, total borrowings by savings and loan associations at these banks climbed steeply to a new high of \$5 billion at the end of December. Expanded use of borrowed money facilitated the record increase in mortgage lending. The increase for the full year is estimated to have been \$12 billion, compared with the previous high of \$10 billion in 1962.

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Mutual savings banks. At mutual savings banks, too, the inflow of savings slackened in the second half of 1963, but for the year as a whole it exceeded the 1962 total. Mortgage acquisitions were also at a new high, likewise exceeding the totals for the previous year. As in most other recent years the mortgage lending of the mutual banks exceeded the net growth in their deposits. These banks financed the difference primarily from net sales of U.S. Government securities. Sales of such issues in 1963 were the largest since 1960.

Life insurance companies. Like other financial intermediaries, life insurance companies grew faster in 1963 than in 1962. Much of the difference in their total asset growth in these years, however, appears to have been due to changes in the market value of their stock holdings; after adjusting for these valuation changes, it appears probable that funds actually becoming available in 1963 were only slightly larger than a year earlier.

The rapid acceleration in mortgage lending that began in late 1962 continued throughout 1963, and advance commitments remained at or near record levels. Despite the emphasis on mortgage lending, takings of domestic corporate debt securities remained near the high 1962 volume while acquisitions of foreign securities increased. The reduction in holdings of U.S. Government securities, on the other hand, was quite sharp, and there was a slight decline in holdings of State and local government securities.

Commercial bank credit. During 1963 commercial banks supplied credit in substantial volume to consumers, businesses, State and local governments, and credit markets generally. Over the year their outstanding loans and investments increased by \$18.6 billion, or 8 per cent. This increase was somewhat below the rate of almost 9 per cent in 1962 but about the same as that in 1961. As in those years, the flow of credit from banks was facilitated by a large movement of funds into time and savings deposits and by the continued ready availability of reserves from the Federal Reserve to back both demand and time deposits—although at a higher cost after midyear.

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Bank reserves. The total reserves of member banks increased by about \$700 million during the year. This amount was little different from that in 1962 after adjusting for reserves released by the reduction that year in reserve requirements against time deposits. This similar reserve expansion supported a slightly smaller credit expansion in 1963, however. Demand deposits rose more relative to time deposits than they had in 1962, so that slightly more of the reserve funds were absorbed by the higher reserve requirements against these deposits.

The Federal Reserve provided more reserves by buying U.S. Government securities in the open market during 1963 than it had the year before, when the reserve requirement reduction had supplied banks with loanable funds. To supplement the reserves that they obtained from the System's open market operations, banks increased their borrowings from the Federal Reserve Banks. After allowance is made for the temporary but sharp rise in borrowings at the end of 1962, member banks obtained more reserves on their own initiative in 1963 than they did the year before. All told, Federal Reserve credit increased by \$3.4 billion during the year.

Factors affecting reserves, other than Federal Reserve operations, absorbed more reserves on balance than in 1962, and this increased the need for open market operations to offset them. There were greater flows of currency into circulation and a larger rise in U.S. Government deposits at the Reserve Banks. On the other hand, the U.S. gold stock declined less than in 1962, and this reduced the need for Federal Reserve operations to offset absorption of reserves from that source.

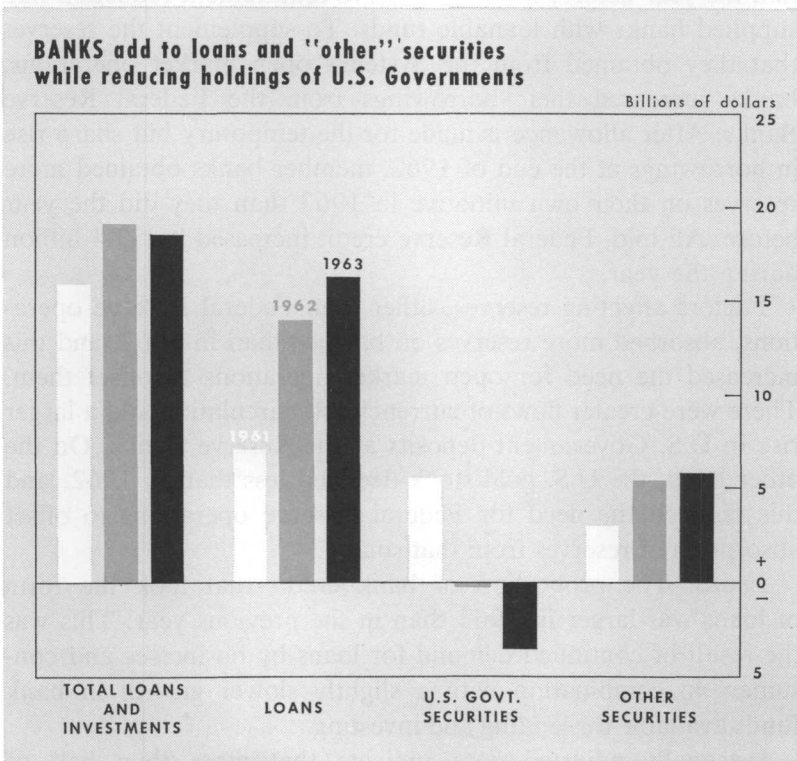
Loans. The proportion of bank credit that took the form of loans was larger in 1963 than in the previous year. This was the result of continued demand for loans by businesses and consumers in combination with a slightly slower growth in bank funds available for lending and investing.

Seasonally adjusted data indicate that more than half of the \$4.5 billion increase in bank loans to business occurred in the fall of the year. A number of influences probably helped

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to cause this bunching. One was inventory accumulation at the manufacturing and distributional levels, which was larger than many had expected. In addition, there were some special situations leading to heavy bank borrowing by business corporations, especially in December. These developments were reflected in more lending than usual to food processors, commodity dealers, trade concerns, and public utilities during the fall. On the other hand, loans to manufacturers were only a little, if any, larger than usual as these firms continued to finance inventory accumulation and other outlays in large part with internal funds.

Commercial banks invested even more heavily in real estate



NOTE.—Changes during year, based on data for all commercial banks for Dec. 31. Figures for 1962 and 1963 partly estimated. Interbank loans excluded.

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loans during 1963 than they had the year before, and a substantial proportion of this investment was on commercial properties, including multifamily residential buildings. Banks also increased their share of the mortgage market even though mortgage holdings of all lenders increased more in 1963 than in earlier years.

Banks also made more consumer loans on balance than in 1962, in line with the general expansion in demand for credit to finance automobiles and other durable goods. In addition, their loans to nonbank financial institutions—principally mortgage and sales finance companies—rose somewhat more than they did that year as these companies sought financing from banks to help accommodate the expansion in consumer and mortgage credit.

Bank loans on securities exhibited rather sharp month-to-month swings. Such lending to U.S. Government security dealers was heavy in February, June, and September in connection with Treasury financing activities, including large advance refundings in late winter and in the late summer.

Investments. With loans absorbing such a large proportion of investable funds in 1963, banks were able to add relatively little to their investment portfolios. Acquisitions were concentrated in non-U.S. Government securities. Holdings of these securities, chiefly State and local government issues, increased by \$5.8 billion during the year. This was a somewhat larger absolute increase than the previous year but was a slightly smaller percentage rise. The rate of increase in bank holdings of municipal securities slowed in the last few months of 1963.

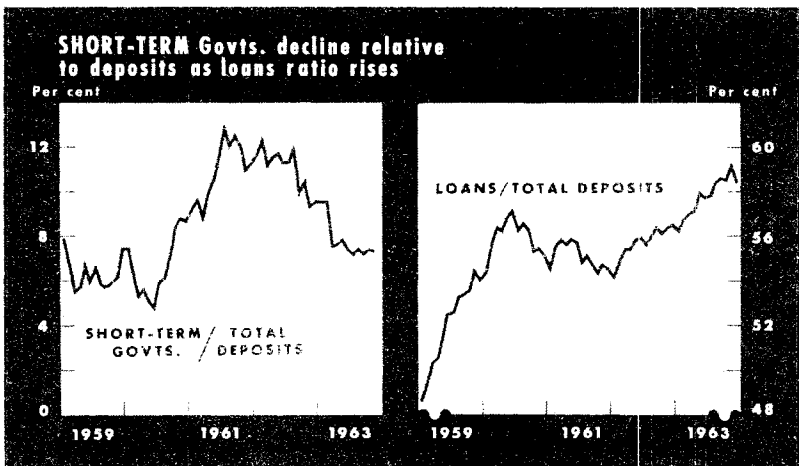
While adding substantially to loans and to holdings of State and local government securities, banks reduced their investment in U.S. Government securities by about 5 per cent, as compared with a decrease of less than 1 per cent in 1962. Although there was evidence of more restrained buying of other securities during the last few months of the year, U.S. Government securities took the burden of the portfolio adjustments made by banks to the somewhat reduced availability of funds during 1963.

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The decline in Government security holdings during the year was concentrated in the shorter-term areas. For banks reporting in the Treasury Survey of Ownership, holdings of issues maturing within 1 year or less declined by \$3.2 billion, and those maturing in 1 to 5 years declined by \$240 million. Holdings of issues maturing in more than 5 years, however, rose by \$300 million over the year.

The shifting away from short-term holdings continued the tendency that began in 1962, when banks had stressed higher-yielding longer-term investments in an effort to maintain earnings in the face of the large increases in their interest-bearing deposits. The participation by banks in two large advance refunding operations of the Treasury contributed to the lengthening of their security holdings during 1963.

Liquidity. The decline in holdings of short-term U.S. Government securities tended to reduce bank liquidity further in 1963. The ratio of such holdings to deposits had declined in 1962 by 1.7 percentage points to 9.5 per cent at the year-end, and in



NOTE.—Based on data for all commercial banks. Loans exclude interbank loans. Short-term U.S. Govt. securities are those maturing within 1 year. Deposits are net of cash items in process of collection.

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1963 it declined another 2 percentage points. Practically all of the decline in 1963 took place in the first half of the year; after June the ratio fluctuated in a narrow range.

Other measures also indicated a decline in bank liquidity during the year. The ratio of loans to deposits rose to about 59 per cent at the end of 1963, some 2.5 percentage points higher than a year earlier, as the uptrend since World War II continued.

Increases in loan-to-deposit ratios were most marked at country banks, where there was more flexibility because ratios were comparatively low, and at reserve city banks outside New York. At New York City banks, where ratios are the highest—around 68 per cent at the year-end—they showed limited change.

Money supply and time deposits. The 1963 increase of 3.8 per cent in the money supply—that is, currency and demand deposits in the hands of the public—was the most rapid rate in 10 years, except for 1958 when it increased by 3.9 per cent. Growth in 1962 had been at a rate of 1.5 per cent. In that year expansion had been restrained by a large-scale shift in the public's preference for liquid assets—to time and savings deposits from money and other assets, in response to the rise in interest rates on those deposits at the beginning of the year.

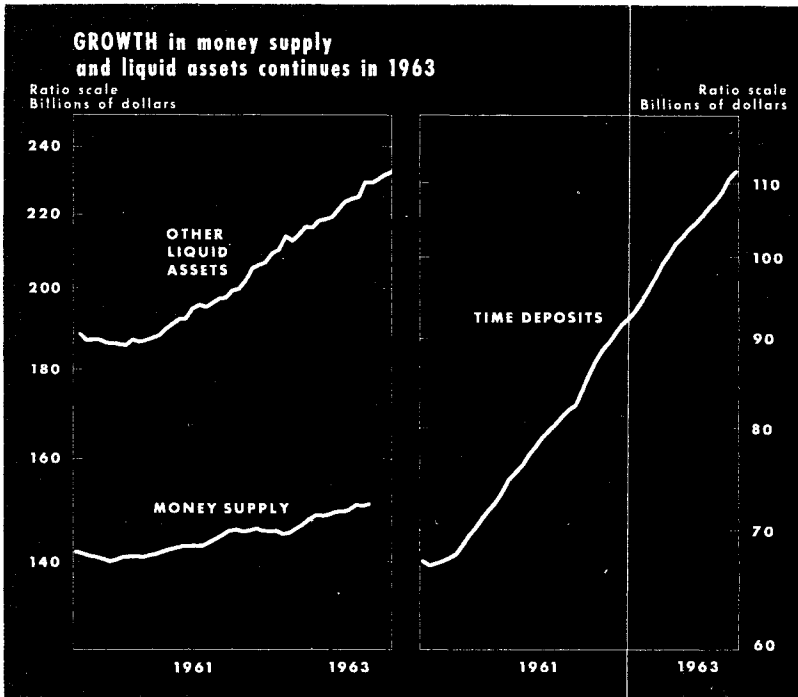
The stock of money in 1963 was also used more intensively than the year before. At centers outside of New York the annual rate of turnover of demand deposits in the fourth quarter was 6.2 per cent higher than a year earlier. This was a smaller rise, however, than the 7.7 per cent increase between the fourth quarters of 1961 and 1962.

Along with the growth in the money supply during 1963, time deposits expanded by \$14.3 billion, or 15 per cent. This was a faster rate than in any previous postwar year except 1962. Outstanding negotiable time certificates reported by large New York City banks increased by \$1.8 billion over the year, compared with an increase of less than half that amount in 1962. Moreover, at all weekly reporting banks time deposits (other than passbook savings accounts) accounted for more than three-fifths of the increase in time and savings deposits combined, a

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much larger proportion than in 1962, when time deposit growth had also been exceptional.

A further impetus to the use of negotiable time certificates came from the mid-July rise to 4 per cent in maximum permissible rates of interest on time deposits maturing in 90 days to 1 year. As a result, banks increased the rates offered for these shorter-term maturities, and they also raised their rates on deposits with maturities of 1 year and over, for which the maximum



NOTE.—Seasonally adjusted. Money supply and time deposits, monthly averages of daily figures. Other liquid assets, end of period. Money supply consists of: demand deposits at all commercial banks (except those due to domestic commercial banks and the U.S. Govt.); foreign demand balances at F.R. Banks; and currency in the hands of the public. Commercial bank and F.R. Bank float excluded. Time deposits are time and savings deposits, other than domestic interbank and U.S. Govt., at all commercial banks. Other liquid assets are holdings by the nonbank public of: deposits in mutual savings banks and the Postal Savings System; shares in savings and loan associations; U.S. Govt. savings bonds; and U.S. Govt. securities maturing within 1 year.

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permissible rate remained at 4 per cent. With the increased attractiveness of both short- and longer-term negotiable certificates, business corporations have continued to invest in them.

Taken together, the money supply and time deposits at commercial banks grew more rapidly than GNP in 1963. With continued substantial growth in other liquid assets in the hands of the public—such as shares in savings and loan associations, deposits in mutual savings banks, and short-term U.S. Government securities—the ratio of total liquid assets to GNP rose from 80.4 per cent in the fourth quarter of 1962 to an estimated 81.7 per cent in the last quarter of 1963. The rise in this ratio, which as already noted often declines in periods of expanding GNP, reflected in part the continued favorable yields on liquid assets and also the continuation of a relatively stimulative monetary policy.

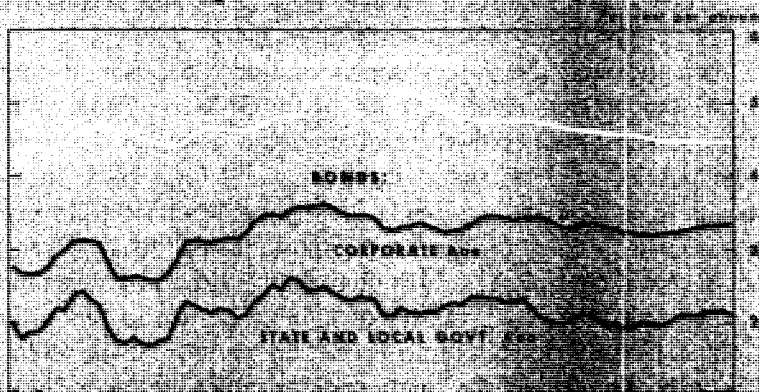
Interest rates. The balancing of demands and supplies in credit markets in 1963 was reflected in moderate increases in interest rates other than on mortgages. Yields on high-quality long-term corporate and State and local government bonds rose throughout the year, but at the year-end they were still somewhat below the levels reached during the first phase of cyclical expansion in 1961. Yields on lower-grade bonds, on the other hand, changed little during the year.

Contributing to the rise in interest rates on corporate and municipal high-grade bonds were the increase in such financing by both domestic and foreign borrowers, the improvement in business sentiment and economic activity, and a shift toward higher interest rate expectations on the part of lenders. Tending to moderate the rise, however, was the continued large flow of funds to financial intermediaries. The impact of this flow was felt more in mortgage markets than in security markets.

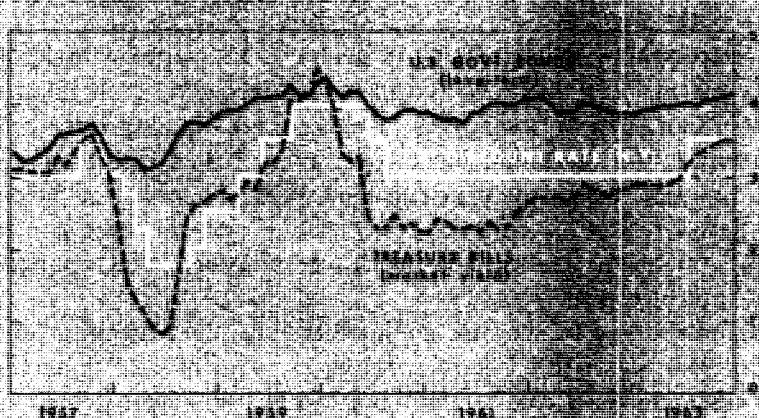
Even though mortgage debt outstanding increased by a record amount, interest rates on mortgages declined somewhat in early 1963 and then stabilized as lenders, who were well supplied with funds, competed vigorously for mortgages. By spring the secondary market yield on 25-year, 5¼ per cent FHA-insured

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MOST PRIVATE long-term interest rates rise in 1963



U.S. GOVERNMENT rates rise too



NOTE.—Monthly averages, except for FHA (based on quotation for 1 day each month). Corporate and State and local govt. bonds, Moody's Investors Service. U.S. Govt. bonds, issues maturing or callable in 10 years or more. Treasury bills, market yields on 3-month bills.

mortgages on homeowner properties had declined to 5.44 per cent, 20 basis points below a year earlier and the lowest yield since 1958. During the rest of 1963 it changed little. Interest rates on conventional mortgages on new and existing homes also changed little after the early part of the year.

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With respect to interest rates on U.S. Government obligations, the average yield on long-term securities—those maturing in 10 years or more—rose during most of the year, after declining on balance during 1962. At the year-end it was around 4.15 per cent. The yield on short-term securities, as typified by the 3-month Treasury bill, changed little in the first half of 1963, after having edged upwards during 1962. In the second half, however, the bill yield rose by about 0.5 of a percentage point to about 3.5 per cent, the level to which the Federal Reserve discount rate had been raised in mid-July. While both short- and long-term rates rose in 1963, they continued well below their previous peaks in early 1960.

BALANCE OF PAYMENTS

In its transactions with the rest of the world, as noted earlier, the United States had an adverse payments balance in 1963 of \$3.3 billion, excluding special transactions, compared with \$3.6 billion in 1962. The adverse balance was particularly large in the first half of 1963, but showed a significant decline in the second half.

Over the year as a whole, the U.S. gold stock declined by \$460 million, while U.S. official holdings of foreign convertible currencies rose by about \$100 million. Foreign holdings of liquid short-term assets in the United States, including marketable U.S. Government securities, increased by \$1.6 billion. In addition, foreign governments and central banks acquired \$640 million of special nonmarketable U.S. Treasury bonds and notes, mostly denominated in their own currencies; they repaid in advance of maturity \$325 million of debts owed to the U.S. Government; and they made net advance payments of \$360 million for U.S. military sales.

On a seasonally adjusted basis the over-all deficit was nearly \$2.3 billion in the first half of 1963 and only \$1 billion in the second. The improvement reflected primarily a reduction in net outflows of long-term and short-term private capital from the

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very high levels reached in the spring and early summer. There was also a moderate improvement in the balance on current account and Government capital account (exclusive of special transactions).

Private capital flows. U.S. investors purchased large amounts of newly issued foreign securities during the first half of the year, as Canadian issues appeared in unprecedented volume after the resolution of the Canadian exchange crisis of 1962 and as issues by overseas borrowers continued the upward trend already evident in 1961. Direct investment by U.S. companies in their subsidiaries abroad continued large up to midyear; in the second quarter it included some short-term financial transactions of oil companies with their foreign affiliates. Outflows of U.S. bank credit, including loans and acceptance credits, increased abruptly in the second quarter, after having been relatively small for about a year. Moreover, in that period U.S. corporations and financial institutions increased their placement of funds in interest-bearing, U.S.-dollar-denominated deposits in Canada and elsewhere and in money market assets denominated in foreign currencies.

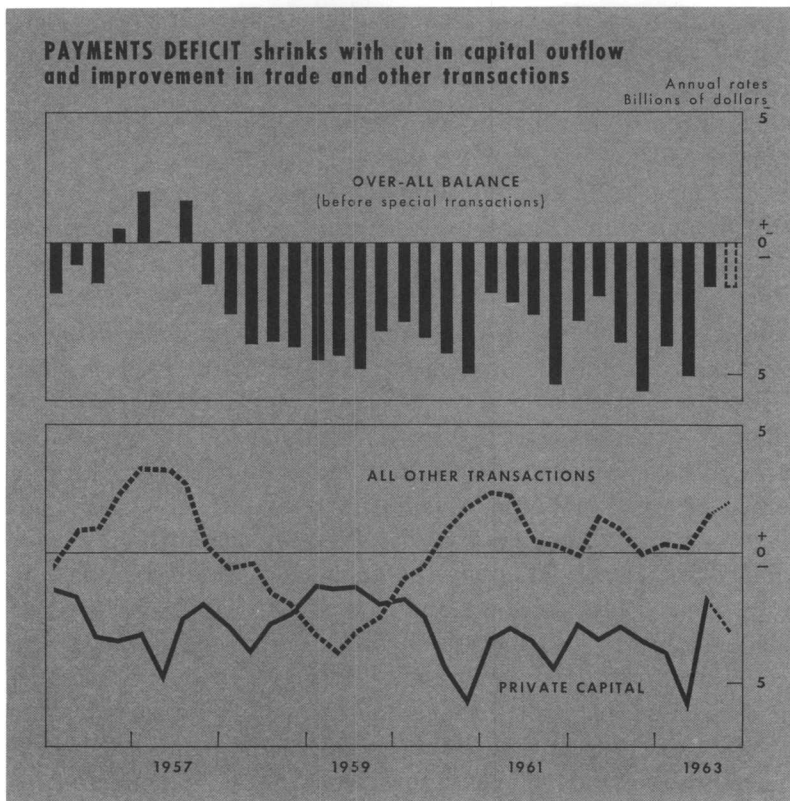
The President's special message to Congress on July 18 that announced the various measures being taken to improve the balance of payments requested the enactment of a temporary tax on purchases of foreign securities from foreigners, to continue through 1965. The tax was designed to increase the effective interest cost to foreign issuers of securities sold to U.S. residents by about 1 percentage point per annum. Exceptions were made for new issues of less developed countries, and a special exemption was proposed for Canada in the mutually agreed expectation that policies of the Canadian authorities would result in a substantial reduction in Canadian borrowing in this country.

Pending enactment of the proposed tax, uncertainties regarding its final form strongly influenced potential borrowers, underwriters, and investors. New foreign issues in the United States declined sharply after July. There were also significant net sales

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of outstanding foreign securities by Americans to foreigners, as gross purchases of such securities diminished.

U.S. money market interest rates and rates paid on time deposits increased after the Federal Reserve policy actions of July, and the spread between these rates and similar rates abroad—including those on U.S.-dollar-denominated deposits—tended to narrow. This narrowing of differentials appears to have helped



NOTE.—Dept. of Commerce data, seasonally adjusted; fourth quarter 1963 estimated by Federal Reserve. Over-all balance equals sum of two balances in lower panel, plus “errors and omissions” (unrecorded transactions and statistical discrepancies) not shown. All other transactions exclude special transactions (U.S. receipts from debt prepayments, advances on U.S. military exports, and sales of nonmarketable U.S. Govt. securities).

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to reduce outflows of liquid funds into deposits and other short-term investments abroad. In the second half there was a net reflux of such funds. Net outflows of bank credit were small in the third quarter but resumed on a large scale in the fourth.

Foreign trade. Our trade balance with foreign countries improved during 1963. Whereas demand pressures had tended to ease in many countries in 1962, economic activity increased strongly from the spring of 1963 onward in most countries. Exports financed by U.S. Government credits and grants were unusually large in the second quarter. Despite the subsequent decline in such financing, total U.S. nonmilitary exports of goods in the second half of the year were at a record seasonally adjusted annual rate of more than \$22.5 billion.

U.S. imports increased at a moderate pace during most of the year, though with a sharper advance in the summer. After July, imports on the average were at an annual rate of about \$17.5 billion. Thus the trade surplus, as measured in the balance of payments accounts, was at an annual rate of \$5 billion in the latter part of 1963, compared with \$4.3 billion for all of 1962.

For the first time in 6 years, some visible progress toward long-run equilibration of external receipts and payments appears to have been made in 1963. The maintenance of a high degree of price stability in the United States since 1959 has played an important role both in the improvement of the trade balance and in strengthening the confidence of international investors and traders in the stability of the U.S. dollar. To some extent, factors of a temporary character contributed to the sharp decline in private long-term capital outflows in the second half of 1963, and in some foreign markets the demand for U.S. exports was rising at a pace that might not be sustained. Nevertheless, a basis for long-run improvement in the balance of payments appears to have been established.

PART II

Records, Operations, and Organization

FEDERAL RESERVE SYSTEM

REPORT OF POLICY ACTIONS OF THE BOARD OF GOVERNORS

January 7, 1963

Amendment to Regulation G, Collection of Noncash Items.

Effective January 1, 1964, a new paragraph was added to Section 207.1 of Regulation G in order to include in the definition of noncash items checks, drafts, and other items with special instructions or requiring special handling.

Votes for this action: Messrs. Martin, Balderston, Mills, Robertson, and Shepardson. Votes against this action: None.

The purpose of the amendment was to minimize the volume of envelope drafts and other items requiring special handling, sent to the Federal Reserve Banks for cash collection, by discouraging the use of such items.

The amendment had been the subject of a notice of proposed rule-making published in the *Federal Register* and was adopted by the Board after consideration of relevant views received from interested persons.

March 28, 1963

Adoption of Regulation S, Bank Service Arrangements.

Effective April 3, 1963, the Board issued Regulation S pursuant to the provisions of the Bank Service Corporation Act.

Votes for this action: Messrs. Balderston, Mills, Robertson, King, and Mitchell. Votes against this action: None.

Under Section 5 of the Bank Service Corporation Act (Public Law 87-856), no State member bank may cause to be performed, by contract or otherwise, any bank services for itself, whether on or off its premises, unless assurances satisfactory to the Board of Governors are furnished to the Board, by both the bank and the party performing such services, that the performance thereof will be subject to regulation and examination by

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the Board to the same extent as if such services were being performed by the bank itself on its own premises. The term "bank services," as defined in Section 1(b) of the Bank Service Corporation Act, includes services such as: check and deposit sorting and posting; computation and posting of interest and other credits and charges; preparation and mailing of checks, statements, notices, and similar items; or other clerical, bookkeeping, accounting, statistical, or similar functions performed for a bank.

Regulation S, designed to implement the requirement with respect to assurances concerning examination and regulation contained in the Bank Service Corporation Act, became applicable to the performance of bank services for any State member bank by a "bank service corporation" in which banks were authorized to invest, by some other organizations (such as an electronic data processing center) not affiliated with any bank, or by another bank. The Regulation, which was prepared in the light of comments received by the Board subsequent to publication of a proposed regulation in the *Federal Register* on December 5, 1962, incorporated, with some modification, the basic provisions of a statement issued by the Board as an initial guide to State member banks immediately following passage of the Bank Service Corporation Act. The Regulation, as adopted, was published in the *Federal Register* on April 3, 1963, which thereupon became the effective date. A similar regulation applicable to nonmember insured banks was adopted by the Federal Deposit Insurance Corporation.

July 16, 1963

Increase of rates on discounts and advances by Federal Reserve Banks, and amendment to Regulation Q, Payment of Interest on Deposits.

Effective July 17, 1963, the Board approved actions taken by the Boards of Directors of the Federal Reserve Banks of Boston, New York, Cleveland, Richmond, St. Louis, Minneapolis, and Dallas establishing a rate of 3½ per cent (an increase from 3 per cent) on discounts and advances to member banks under Sections 13 and 13a of the Federal Reserve Act.

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Votes for this action: Messrs. Martin, Balderston, and Shepardson. Vote against this action: Mr. Robertson.

Pursuant to the policy established by this action, the Board subsequently approved the same rate for the remaining Federal Reserve Banks effective on the following dates:

Philadelphia	July 19, 1963
Chicago	July 19, 1963
San Francisco	July 19, 1963
Atlanta	July 24, 1963
Kansas City	July 26, 1963

Effective on the same dates, the Board approved for the respective Federal Reserve Banks a rate of 4 per cent on advances to member banks under Section 10(b) of the Federal Reserve Act. In addition, the Board approved changes at some of the Banks in rates on advances to individuals, partnerships, and corporations under the last paragraph of Section 13 of the Act.

(In accordance with provisions of the Federal Reserve Act, the Federal Reserve Banks establish rates on discounts for and advances to member banks at least every 14 days, and submit such rates to the Board for review and determination. Prior to this date, no changes had been made in these rates since those referred to on pages 85-86 of the Board's ANNUAL REPORT for 1960.)

Also effective July 17, 1963, the Board approved an increase to 4 per cent in the maximum rate of interest permitted to be paid by member banks on time deposits and certificates of deposit with maturities of 90 days to 1 year. Since January 1962, the permissible rate ceilings had been 3½ per cent on time deposits and certificates with maturities of 6 months to 1 year, and 2½ per cent on those with maturities of 90 days to 6 months. Payment of the higher rates was authorized by a revision of the Supplement to Regulation Q.

Votes for this action: Messrs. Martin, Balderston, Robertson, and Shepardson. Votes against this action: None.

In approving the discount rate change proposed by the Federal Reserve Banks, and amending Regulation Q, the Board was influenced primarily by a desire to minimize short-term capital outflows, which had been encouraged by higher rates of interest prevalent in other countries. Preliminary information indicated that short-term outflows had contributed materially to the sub-

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stantial deficit in the U.S. balance of payments incurred in the second quarter.

The economy had continued a somewhat more vigorous expansion than had generally been anticipated in the second quarter of the year. The index of industrial production continued its rise in June, despite the fact that steel output declined with the disappearance of the strike threat.

In light of the strength of the domestic economy and technical conditions that had developed in the money and credit markets, it appeared that an increase in discount rates would help to relieve the drain on U.S. monetary reserves without putting substantial upward pressure on long-term rates or undue restraint on domestic economic expansion. It was the view of the members of the Board favoring the discount rate increase that, even after the proposed change, the general posture of monetary policy would remain stimulative to domestic expansion and would thus continue to be conducive to fuller utilization of manpower and other resources.

The increase in the maximum rates of interest payable on time deposits and certificates of deposit with maturities of 90 days to 1 year was intended to permit banks to compete effectively for foreign and domestic balances in the light of the market rate structure that had developed and could be anticipated following the discount rate change.

In taking these actions to help stem short-term capital outflows, the Board was encouraged by the fact that other Governmental proposals to reduce the balance of payments deficit were under active consideration and were likely to be announced shortly.

Governor Robertson dissented from the Board's discount rate action because he felt that the probable benefit to the U.S. balance of payments resulting from the increase would be so small as to be considerably outweighed by its potential adverse effects upon domestic economic activity. It was his view that the balance of payments problem should be attacked by measures that dealt directly with its underlying causes. Such basic remedies might appropriately be supported by a progressively less easy

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monetary policy in due course, provided the combination of public and private stimulation of business expansion had proceeded to a point where higher interest rates and restrained credit availability were an appropriate concomitant. If a stimulative tax cut were forthcoming promptly, for example, this stage of economic advance conceivably might be reached in a very few months. But in the interim he felt that a discount rate increase was premature, likely both to create some dampening influences within what needed to be a stimulative domestic monetary environment and, at the same time, to have only trivial effects on international capital flows because of the combination of compensating adjustments in foreign money and exchange rates and the large remaining differentials between foreign and U.S. rates of return on long-term credit and equity capital.

Given action to increase the discount rate, however, and the accompanying push on short rates generally, Governor Robertson believed that banks were going to have to be able to pay a correspondingly higher rate on their negotiable time certificates of deposit if they were not to lose their ability to sell new certificates or even to replace maturing certificates. Therefore, he voted for approval of the increase in the maximum rate of interest payable on certificates with maturities of 90 days to 1 year. He favored a stimulative monetary policy under prevailing economic conditions and feared that failure to amend Regulation Q in this regard would tend to tighten bank credit and dampen domestic business activity.

August 1, 1963

Revision of Regulation M, Foreign Branches of National Banks, (title changed from Foreign Branches of National Banks and of Corporations Organized Under the Provisions of Section 25(a) of the Federal Reserve Act), and amendment of Regulation H, Membership of State Banking Institutions in the Federal Reserve System.

Effective August 1, 1963, the Board adopted a revision of Regulation M and certain conforming amendments to Regulation H.

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Votes for this action: Messrs. Martin, Balderston, Shepardson, and Mitchell. Vote against this action: Mr. Mills.

In announcing its action the Board pointed out that the revision of Regulation M was designed primarily to implement an amendment to Section 25 of the Federal Reserve Act (Public Law 87-588) that had as its purpose improving the usefulness of foreign branches of national banks. The amendment authorized the Board to issue regulations permitting such branches to exercise powers (with certain exceptions) that are usual abroad. The revision of Regulation M was prepared in the light of comments received by the Board subsequent to publication of a proposed revision of the Regulation in the *Federal Register* on January 25, 1963.

The Board's announcement noted that, subject to certain conditions, the revision of Regulation M authorized foreign branches of national banks to exercise the following powers so far as they might be usual in the banking business at the place where such a branch was operating:

1. To issue guarantees and similar agreements, provided that the aggregate unsecured amount thereof for the national bank (including all its branches) does not exceed 50 per cent of the bank's capital and surplus, and that the combined total of unsecured guarantees issued for the benefit of any one customer and of other obligations owed the bank by such customer (with certain exceptions) shall not exceed 10 per cent of the bank's capital and surplus.
2. To accept drafts or bills of exchange, subject only to the usual amount limitations of the Board's Regulation C, Acceptance by Member Banks of Drafts or Bills of Exchange.
3. To invest in the securities (including stock) of the central bank, clearing houses, governmental entities, and development banks of the country in which the branch is located; but a particular branch's total investments of this type (excluding investments required by foreign law) may not exceed 1 per cent of its total deposits.
4. To underwrite and deal in obligations of the national government of the country in which the branch is located, including obligations issued by agencies or instrumentalities of such government if supported by the full faith and credit of the national government; but no bank (including all its branches) may hold for its own account the obligations of any such government exceeding in the aggregate 10 per cent of its capital and surplus.

FEDERAL RESERVE SYSTEM

5. To take liens on foreign real estate in connection with extensions of credit without complying with certain requirements of Section 24 of the Federal Reserve Act.

6. To make loans to executive officers of the branch for the purpose of acquiring residences abroad, if such loans do not exceed \$20,000 for any officer.

The revision also simplified the procedure under which national banks may establish foreign branches by providing that if a national bank has established a branch in any particular foreign country with Board approval, it may establish additional branches in that country after 30 days' notice to the Board with respect to each such branch. In order that the same procedure would apply with respect to the establishment of foreign branches by member State banks, the Board adopted—simultaneously with this revision—an amendment to its Regulation H, conforming the provisions thereof to the provisions applicable to national banks under Regulation M.

Governor Mills dissented from this action on the ground that, although Public Law 87-588 seemed intended to permit foreign branches of U.S. banks to compete on relatively favorable terms with banks in the host country, he considered it the responsibility of the supervisory agency to stand on the side of sound banking if a regulation that would permit such competition resulted in lower banking standards. In his opinion, the extension of authority to foreign branches to guarantee and to accept would condone and encourage unsound banking practices, and it would also open the gate to an increased outflow of dollars and gold from the United States.

August 22, 1963

Revision of Regulation K, Corporations Engaged in Foreign Banking and Financing under the Federal Reserve Act (title changed from Corporations Doing Foreign Banking or Other Foreign Financing under the Federal Reserve Act).

Effective September 1, 1963, the Board adopted a revision of Regulation K.

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Votes for this action: Messrs. Martin, Balderston, Robertson, Shepardson, and Mitchell. Vote against this action: Mr. Mills.

Adoption of the revised Regulation followed a comprehensive review of the rules in effect since January 15, 1957, that were applicable to corporations (the so-called Edge Act and "agreement" corporations) operating under Sections 25 and 25(a) of the Federal Reserve Act. The revision was prepared in light of comments received by the Board subsequent to publication of a proposed revision of the Regulation in the *Federal Register* on March 16, 1963.

In announcing its action the Board stated that the primary objective of the revision was to enable Edge Act and "agreement" corporations to operate more effectively in financing international and foreign commerce. Another important objective was to shorten and simplify the Regulation by deleting provisions that merely reiterated statutory requirements. The revision eliminated the formal distinction between "banking" and "financing" corporations, and the substance of this distinction was also considerably modified.

With respect to substantive matters, the Board pointed out that the revision differed from the former Regulation K in the following major respects:

1. For the first time the Regulation contained a statement of national purpose. A statement of general policy concerning operations in the United States also was added.
2. Prior Board approval was required with respect to the issuance by any corporation of debentures, bonds, or similar obligations. This provision for prior approval replaced detailed provisions of the former Regulation.
3. The procedure for establishing branches or agencies abroad was simplified so that a corporation that had established a branch or agency in a particular foreign country with Board approval could, unless otherwise advised by the Board, establish additional branches or agencies in that country after 30 days' notice to the Board.
4. The procedure by which Edge Act and "agreement" corporations were allowed to invest in the stock of other corporations represented a substantial modification and simplification.

FEDERAL RESERVE SYSTEM

5. The restrictions of the former Regulation were relaxed to allow corporations to accept time deposits from foreign depositors for the purpose of safekeeping or investment.

6. The provisions of the former Regulation were also relaxed to permit a corporation to take over or acquire participations in credits or obligations relating to transactions that it could have financed at inception.

7. The restrictions regarding a corporation's investment in the United States of funds not currently employed in its international business were tightened so as to preclude the purchase of open market commercial paper and domestic "investment securities," other than U.S. Government or State obligations.

8. The guarantee power of corporations was patterned after that of foreign branches of national banks under the recently adopted revision of Regulation M.

Governor Mills dissented from this action because he felt that certain features of the revised Regulation, in particular the broadening of the acceptance and guarantee powers of Edge Act and "agreement" corporations, could lead to considerable risk exposure and unsound banking practices, and also could project a serious outflow of funds from the United States.

November 5, 1963

Increase in margin and retention requirements.

Effective November 6, 1963, the Supplements to Regulation T, Credit by Brokers, Dealers, and Members of National Securities Exchanges, and Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Registered Stocks, were amended (1) to increase the margin requirements from 50 per cent to 70 per cent, these requirements to be applicable both to purchases of securities and to short sales; and (2) to increase from 50 per cent to 70 per cent the amount required to be retained in an undermargined account with a brokerage firm or bank when there was a sale of part of the securities serving as collateral.

Votes for this action: Messrs. Martin, Balderston, Mills, and Shepardson. Votes against this action: Messrs. Robertson and Mitchell.

Margin requirements are established by the Board of Governors pursuant to authority contained in the Securities Exchange

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Act of 1934 "for the purpose of preventing the excessive use of credit for the purchase or carrying of securities." The present change was the first since July 10, 1962, when the requirements were reduced from 70 per cent to 50 per cent for reasons set forth on pages 113-14 of the Board's ANNUAL REPORT for 1962.

In announcing its action, the Board pointed out that since July 1962 stock market credit reported by member brokerage firms of the New York Stock Exchange and by weekly reporting member banks of the Federal Reserve System had risen by \$2.1 billion (43 per cent). Of the increase, nearly \$1.8 billion was in customer net debits of the brokerage firms, which rose by 49 per cent.

The retention requirement had been 50 per cent since June 15, 1959. The effect of the increase to 70 per cent was that in the case of a sale of part of the collateral securing an undermargined account or loan, that is, one in which the customer has an equity amounting to less than the current margin requirement, the amount of the proceeds of the sale that could be withdrawn by the customer would be 30 per cent rather than 50 per cent until the customer's equity equaled the current margin requirement.

Governors Robertson and Mitchell agreed with the majority of the Board that some increase in the margin and retention requirements was justified. However, they would have preferred to raise the requirements to 60 per cent at this time, feeling that such an increase would have been sufficient in light of currently available data on stock market credit, and to review the situation again, on the basis of subsequent developments, to decide whether a further increase seemed necessary.

FEDERAL RESERVE SYSTEM
RECORD OF POLICY ACTIONS
OF THE FEDERAL OPEN MARKET COMMITTEE

The record of policy actions of the Federal Open Market Committee is presented in the ANNUAL REPORT of the Board of Governors pursuant to the requirements of Section 10 of the Federal Reserve Act. That Section provides that the Board shall keep a complete record of the actions taken by the Board and by the Federal Open Market Committee on all questions of policy relating to open market operations, that it shall record therein the votes taken in connection with the determination of open market policies and the reasons underlying each such action, and that it shall include in its ANNUAL REPORT to the Congress a full account of such actions.

In the pages that follow, there are entries with respect to the policy actions taken at the 19 meetings of the Federal Open Market Committee during the calendar year 1963, including the votes on the policy decisions made at those meetings as well as a resume of the basis for the decisions, as reflected by the minutes of the Committee.

It will be noted from the record of policy actions that in some instances the decisions were by unanimous vote and that in other instances dissents were recorded. Further, as this record indicates, the fact that a decision in favor of a general policy was by a large majority, or even that it was by unanimous vote, does not necessarily mean that all members of the Committee were equally agreed as to the reasons for the particular decision or as to the precise operations in the open market that were called for to implement the general policy.

Both the Manager of the System Open Market Account and the Special Manager of the Account for foreign currency operations attend the meetings of the Committee and obtain guidance for the conduct of their operations.

The policy directives of the Federal Open Market Committee are issued to the Federal Reserve Bank of New York as

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the Bank selected by the Committee to execute transactions for the System Open Market Account. In the area of domestic open market activities the Bank operates under two separate policy directives from the Open Market Committee—a continuing authority directive and a current economic policy directive. At the beginning of the calendar year the continuing authority directive in effect was as follows:

1. The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York, to the extent necessary to carry out the current economic policy directive adopted at the most recent meeting of the Committee:

(a) To buy or sell U.S. Government securities in the open market, from or to Government securities dealers and foreign and international accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the System Open Market Account at market prices and, for such Account, to exchange maturing U.S. Government securities with the Treasury or allow them to mature without replacement; provided that the aggregate amount of such securities held in such Account (including forward commitments, but not including such special short-term certificates of indebtedness as may be purchased from the Treasury under paragraph 2 hereof) shall not be increased or decreased by more than \$1 billion during any period between meetings of the Committee;

(b) To buy or sell prime bankers' acceptances of the kinds designated in the Regulation of the Federal Open Market Committee in the open market, from or to acceptance dealers and foreign accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the account of the Federal Reserve Bank of New York at market discount rates; provided that the aggregate amount of bankers' acceptances held at any one time shall not exceed \$75 million or 10 per cent of the total of bankers' acceptances outstanding as shown in the most recent acceptance survey conducted by the Federal Reserve Bank of New York;

(c) To buy U.S. Government securities with maturities of 24 months or less at the time of purchase, and prime bankers' acceptances with maturities of 6 months or less at the time of purchase, from nonbank dealers for the account of the Federal Reserve Bank of New York under agreements for repurchase of such securities or acceptances in 15 calendar days or less, at rates not less than (a) the discount rate of the Federal Reserve

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Bank of New York at the time such agreement is entered into, or (b) the average issuing rate on the most recent issue of 3-month Treasury bills, whichever is the lower; provided that in the event Government securities covered by any such agreement are not repurchased by the dealer pursuant to the agreement or a renewal thereof, they shall be sold in the market or transferred to the System Open Market Account; and provided further that in the event bankers' acceptances covered by any such agreement are not repurchased by the seller, they shall continue to be held by the Federal Reserve Bank or shall be sold in the open market.

2. The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York to purchase directly from the Treasury for the account of the Federal Reserve Bank of New York (with discretion, in cases where it seems desirable, to issue participations to one or more Federal Reserve Banks) such amounts of special short-term certificates of indebtedness as may be necessary from time to time for the temporary accommodation of the Treasury; provided that the rate charged on such certificates shall be a rate $\frac{1}{4}$ of 1 per cent below the discount rate of the Federal Reserve Bank of New York at the time of such purchases; and provided further that the total amount of such certificates held at any one time by the Federal Reserve Banks shall not exceed \$500 million.

The only revisions in this directive during the year affected the limit on changes in holdings of securities in the System Open Market Account during any period between meetings of the Committee, as specified in Section 1(a). As noted in the entries for the respective dates, this limit was raised to \$1.5 billion on June 18, restored to \$1.0 billion on July 30, again raised to \$1.5 billion on October 1, and restored to \$1.0 billion on November 12. The current economic policy directive was changed frequently during the year, as shown in the respective policy record entries. The current economic policy directive that was in effect at the beginning of 1963 instructed the Federal Reserve Bank of New York as follows:

It is the current policy of the Federal Open Market Committee to accommodate moderate further increases in bank credit and the money supply, while aiming at money market conditions that would minimize capital outflows internationally. This policy takes into account the lack of any significant improvement in the U.S. balance of payments and the recent substantial increase in bank credit, but at the same time recognizes

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the unsatisfactory level of domestic activity, the continuing underutilization of resources, and the absence of inflationary pressures.

To implement this policy, operations for the System Open Market Account during the next 3 weeks shall be conducted with a view to offsetting the anticipated seasonal easing of Treasury bill rates, if necessary through maintaining a firmer tone in money markets, while continuing to provide moderate reserve expansion in the banking system.

In the foreign currency area, the Federal Reserve Bank of New York operates under (1) an authorization regarding open market transactions in foreign currencies, (2) a statement of guidelines for System foreign currency operations, and (3) a continuing authority directive on System foreign currency operations.

The authorization regarding open market transactions in foreign currencies in effect at the beginning of 1963 and throughout the year read as follows:

AUTHORIZATION REGARDING OPEN MARKET TRANSACTIONS IN FOREIGN CURRENCIES

Pursuant to Section 12A of the Federal Reserve Act and in accordance with Section 214.5 of Regulation N (as amended) of the Board of Governors of the Federal Reserve System, the Federal Open Market Committee takes the following action governing open market operations incident to the opening and maintenance by the Federal Reserve Bank of New York (hereafter sometimes referred to as the New York Bank) of accounts with foreign central banks.

I. Role of Federal Reserve Bank of New York

The New York Bank shall execute all transactions pursuant to this authorization (hereafter sometimes referred to as transactions in foreign currencies) for the System Open Market Account, as defined in the Regulation of the Federal Open Market Committee.

II. Basic Purposes of Operations

The basic purposes of System operations in and holdings of foreign currencies are:

- (1) To help safeguard the value of the dollar in international exchange markets;

FEDERAL RESERVE SYSTEM

- (2) To aid in making the existing system of international payments more efficient and in avoiding disorderly conditions in exchange markets;
- (3) To further monetary cooperation with central banks of other countries maintaining convertible currencies, with the International Monetary Fund, and with other international payments institutions;
- (4) Together with these banks and institutions, to help moderate temporary imbalances in international payments that may adversely affect monetary reserve positions; and
- (5) In the long run, to make possible growth in the liquid assets available to international money markets in accordance with the needs of an expanding world economy.

III. Specific Aims of Operations

Within the basic purposes set forth in Section II, the transactions shall be conducted with a view to the following specific aims:

- (1) To offset or compensate, when appropriate, the effects on U.S. gold reserves or dollar liabilities of disequilibrating fluctuations in the international flow of payments to or from the United States, and especially those that are deemed to reflect temporary forces or transitional market unsettlement;
- (2) To temper and smooth out abrupt changes in spot exchange rates and moderate forward premiums and discounts judged to be disequilibrating;
- (3) To supplement international exchange arrangements such as those made through the International Monetary Fund; and
- (4) In the long run, to provide a means whereby reciprocal holdings of foreign currencies may contribute to meeting needs for international liquidity as required in terms of an expanding world economy.

IV. Arrangements with Foreign Central Banks

In making operating arrangements with foreign central banks on System holdings of foreign currencies, the New York Bank shall not commit itself to maintain any specific balance, unless authorized by the Federal Open Market Committee.

The Bank shall instruct foreign central banks regarding the investment of such holdings in excess of minimum working balances in accordance with Section 14(e) of the Federal Reserve Act.

The Bank shall consult with foreign central banks on coordination of exchange operations.

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Any agreements or understandings concerning the administration of the accounts maintained by the New York Bank with the central banks designated by the Board of Governors under Section 214.5 of Regulation N (as amended) are to be referred for review and approval to the Committee, subject to the provision of Section VIII, paragraph 1, below.

V. Authorized Currencies

The New York Bank is authorized to conduct transactions for System Account in such currencies and within the limits that the Federal Open Market Committee may from time to time specify.

VI. Methods of Acquiring and Selling Foreign Currencies

The New York Bank is authorized to purchase and sell foreign currencies in the form of cable transfers through spot or forward transactions on the open market at home and abroad, including transactions with the Stabilization Fund of the Secretary of the Treasury established by Section 10 of the Gold Reserve Act of 1934 and with foreign monetary authorities.

Unless the Bank is otherwise authorized, all transactions shall be at prevailing market rates.

VII. Participation of Federal Reserve Banks

All Federal Reserve Banks shall participate in the foreign currency operations for System Account in accordance with paragraph 3 G (1) of the Board of Governors' Statement of Procedure with Respect to Foreign Relationships of Federal Reserve Banks dated January 1, 1944.

VIII. Administrative Procedures

The Federal Open Market Committee authorizes a Subcommittee consisting of the Chairman and the Vice Chairman of the Committee and the Vice Chairman of the Board of Governors (or in the absence of the Chairman or of the Vice Chairman of the Board of Governors the members of the Board designated by the Chairman as alternates, and in the absence of the Vice Chairman of the Committee his alternate) to give instructions to the Special Manager, within the guidelines issued by the Committee, in cases in which it is necessary to reach a decision on operations before the Committee can be consulted.

All actions authorized under the preceding paragraph shall be promptly reported to the Committee.

The Committee authorizes the Chairman, and in his absence the Vice Chairman of the Committee, and in the absence of both, the Vice Chairman of the Board of Governors:

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- (1) With the approval of the Committee, to enter into any needed agreement or understanding with the Secretary of the Treasury about the division of responsibility for foreign currency operations between the System and the Secretary;
- (2) To keep the Secretary of the Treasury fully advised concerning System foreign currency operations, and to consult with the Secretary on such policy matters as may relate to the Secretary's responsibilities;
- (3) From time to time, to transmit appropriate reports and information to the National Advisory Council on International Monetary and Financial Problems.

IX. Special Manager of the System Open Market Account

A Special Manager of the Open Market Account for foreign currency operations shall be selected in accordance with the established procedures of the Federal Open Market Committee for the selection of the Manager of the System Open Market Account.

The Special Manager shall direct that all transactions in foreign currencies and the amounts of all holdings in each authorized foreign currency be reported daily to designated staff officials of the Committee, and shall regularly consult with the designated staff officials of the Committee on current tendencies in the flow of international payments and on current developments in foreign exchange markets.

The Special Manager and the designated staff officials of the Committee shall arrange for the prompt transmittal to the Committee of all statistical and other information relating to the transactions in and the amounts of holdings of foreign currencies for review by the Committee as to conformity with its instructions.

The Special Manager shall include in his reports to the Committee a statement of bank balances and investments payable in foreign currencies, a statement of net profit or loss on transactions to date, and a summary of outstanding unmatured contracts in foreign currencies.

X. Transmittal of Information to Treasury Department

The staff officials of the Federal Open Market Committee shall transmit all pertinent information on System foreign currency transactions to designated officials of the Treasury Department.

XI. Amendment of Authorization

The Federal Open Market Committee may at any time amend or rescind this authorization.

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The guidelines for System foreign currency operations in effect at the beginning of the year were as follows:

GUIDELINES FOR SYSTEM FOREIGN CURRENCY OPERATIONS

1. Holdings of Foreign Currencies

Until otherwise authorized, the System will limit its holdings of foreign currencies to that amount necessary to enable its operations to exert a market influence. Holdings of larger amounts will be authorized only when the U.S. balance of international payments attains a sufficient surplus to permit the ready accumulation of holdings of major convertible currencies.

Holdings of a currency shall generally be kept sufficient to meet forward contracts in that currency (exclusive of contracts made under parallel arrangements with foreign monetary authorities which provide their own cover) expected to mature in the following 3-week period.

Foreign currency holdings above a certain minimum shall be invested as far as practicable in conformity with Section 14(e) of the Federal Reserve Act.

2. Exchange Transactions

System exchange transactions shall be geared to pressures of payments flows so as to cushion or moderate disequilibrating movements of funds and their destabilizing effects on U.S. and foreign official reserves and on exchange markets.

In general, these transactions shall be geared to pressures connected with movements that are expected to be reversed in the foreseeable future: when expressly authorized by the Federal Open Market Committee, they may also be geared on a short-term basis to pressures connected with other movements.

Subject to express authorization of the Committee, the Federal Reserve Bank of New York may enter into reciprocal arrangements with foreign central banks on exchange transactions ("swap" arrangements), which arrangements may be wholly or in part on a standby basis.

The New York Bank shall, as a usual practice, purchase and sell authorized currencies at prevailing market rates without trying to establish rates that appear to be out of line with underlying market forces.

If market offers to sell or buy intensify as System holdings increase or decline, this shall be regarded as a clear signal for a review of the System's evaluation of international payments flows. This review might suggest a temporary change in System holdings of a particular convertible cur-

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rency and possibly direct exchange transactions with the foreign central bank involved to be able to accommodate a larger demand or supply.

Starting operations at a time when the United States is not experiencing a net inflow of any eligible foreign currency may require that initial System holdings (apart from sums that might be acquired from the Stabilization Fund) be purchased directly from foreign central banks.

It shall be the practice to arrange with foreign central banks for the coordination of foreign currency transactions in order that System transactions do not conflict with those being undertaken by foreign monetary authorities.

3. Transactions in Spot Exchange

The guiding principle for transactions in spot exchange shall be that, in general, market movements in exchange rates, within the limits established in the International Monetary Fund Agreement or by central bank practices, index affirmatively the interaction of underlying economic forces and thus serve as efficient guides to current financial decisions, private and public.

Temporary or transitional fluctuations in payments flows may be cushioned or moderated whenever they occasion market anxieties, or undesirable speculative activity in foreign exchange transactions, or excessive leads and lags in international payments.

Special factors making for exchange market instabilities include (i) responses to short-run increases in international political tension, (ii) differences in phasing of international economic activity that give rise to unusually large interest rate differentials between major markets, or (iii) market rumors of a character likely to stimulate speculative transactions.

Whenever exchange market instability threatens to produce disorderly conditions, System transactions are appropriate if the Special Manager, in consultation with the Federal Open Market Committee, or in an emergency with the members of the Committee designated for that purpose, reaches a judgment that they may help to re-establish supply and demand balance at a level more consistent with the prevailing flow of underlying payments. Whenever supply or demand persists in influencing exchange rates in one direction, System transactions should be modified, curtailed, or eventually discontinued pending a re-assessment by the Committee of supply and demand forces.

4. Transactions in Forward Exchange

Occasion to engage in forward transactions will arise mainly when forward premiums or discounts are inconsistent with interest rate differentials and are giving rise to a disequilibrating movement of short-term

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funds, or when it is deemed appropriate to supplement existing market facilities for forward cover as a means of encouraging the retention or accumulation of dollar holdings abroad.

Proposals of the Special Manager to initiate forward operations shall be submitted to the Committee for advance approval.

For such operations, the New York Bank may, where authorized, take over from the Stabilization Fund outstanding contracts for forward sales or purchases of authorized currencies.

5. Exchange Rates

Insofar as practicable, the New York Bank shall purchase a currency through spot transactions at or below its par value, and should lower the rate at which it is prepared to purchase a currency as its holdings of that currency approach the established maximum.

The Bank shall also, where practicable, sell a currency through spot transactions at rates at or above its par value, and should raise the rate at which it is prepared to sell a currency as its holdings of that currency approach zero.

Spot transactions at rates other than those set forth in the preceding paragraphs shall be specially authorized by the members of the Committee designated in Section VIII of the Authorization for Open Market Transactions in Foreign Currencies.

Certain revisions were made in these guidelines at the meeting on May 28, as noted in the entry for that date.

The continuing authority directive with respect to foreign currency operations in effect at the beginning of 1963 was as follows:

The Federal Reserve Bank of New York is authorized and directed to purchase and sell through spot transactions any or all of the following currencies in accordance with the Guidelines on System Foreign Currency Operations issued by the Federal Open Market Committee on February 13, 1962, and amended November 13, 1962:

- Pounds sterling
- French francs
- German marks
- Italian lire
- Netherlands guilders
- Swiss francs
- Belgian francs
- Canadian dollars
- Austrian schillings

Total foreign currencies held at any one time shall not exceed \$1 billion.

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This directive was amended on several occasions during the year, as noted in entries for various dates. In general, the effects of the amendments were (1) to add certain currencies to the list of foreign currencies in which transactions were authorized, (2) to specify certain additional purposes for which foreign currency transactions were authorized, and (3) to modify the amounts and the form of the dollar limitations specified for foreign currency operations.

January 8, 1963

1. Authority to effect transactions in System Account.

Domestic economic activity, although at record levels, remained lower than needed for the full utilization of existing manpower and industrial capacity. Industrial production and employment showed little change in December from the levels reached in mid-1962, while gross national product was estimated to have increased moderately further in the fourth quarter. Unemployment was estimated to have changed little from the advanced November rate. Department store and new automobile sales continued high, although they were below November levels. New orders for machinery and other equipment rose again in November. Commodity prices at wholesale continued stable in December, and consumer prices were unchanged in November.

In the financial area, yields on private and Government securities with a fixed return showed little net change in recent weeks. Offerings of corporate and State and local government securities were in moderate volume in December and were indicated to continue so in January. Stock market prices in December maintained the advanced levels reached following the Cuban crisis, and in early January rose further.

Seasonally adjusted commercial bank credit in December was estimated to have increased sharply further, about in line with the growth in other recent months. Bank loans continued to register a substantial increase. The conventionally defined

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money supply (currency in circulation and privately held demand deposits) rose sharply, and time and savings deposits increased substantially further. Required reserves of member banks averaged more than 3 per cent higher than in December 1961; for the past 4 months they had increased at a seasonally adjusted annual rate exceeding 9 per cent. Excess reserves and member bank borrowing from the Federal Reserve Banks both moved higher as banks made year-end adjustments in their reserve positions, with free reserves declining considerably, and the money market continuing relatively firm. In accordance with the current economic policy directive adopted at the preceding meeting (December 18, 1962), System operations since then had been conducted with a view to maintaining slightly less easy monetary conditions.

The U.S. balance of payments in the fourth quarter of 1962, apart from special receipts, was still in serious deficit, although not on a scale comparable with the large single-month deficit in October. Gold and foreign exchange markets had been relatively calm in recent weeks.

Differences of view with respect to monetary and credit policy, at least for the near future, were quite small at this meeting, with a general consensus in favor of continuing unchanged the policy of slightly less ease adopted at the December 18 meeting, to which credit markets had adjusted gradually and smoothly. Factors taken into account in arriving at the current policy consensus included the Treasury's \$250 million bond offering to underwriters, other pending Treasury financing operations, and the lack of significant change in domestic economic conditions or in the international financial position of the United States.

After some discussion of the wording of the December 18 current policy directive, the phrasing of that directive—but not the substance—was changed somewhat. Accordingly, the following current policy directive was issued to the Federal Reserve Bank of New York:

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It is the Committee's current policy to accommodate further, though more moderate, growth in bank credit and the money supply, while aiming at money market conditions that would minimize capital outflows internationally. This policy takes into account the lack of significant improvement in the U.S. balance of payments and the recent substantial increases in bank credit, demand deposits, and the reserve base, but at the same time recognizes the modest progress of the domestic economy during 1962, the continuing underutilization of resources, and the absence of inflationary pressures.

To implement this policy, System open market operations during the next 3 weeks shall be conducted with a view to maintaining about the same degree of firmness in the money market that has prevailed in recent weeks and to offsetting seasonal downward pressures on short-term interest rates, while providing for moderate reserve expansion in the banking system.

Votes for this action: Messrs. Martin, Balderston, Bryan, Deming, Ellis, Fulton, King, Mills, Shepardson, and Treiber. Vote against this action: Mr. Robertson.

Mr. Robertson, in dissenting, indicated that the Treasury financing program and the continued reserve expansion during the past 3 weeks inclined him toward a position of no change in policy at this time. However, he believed that primary emphasis should not be placed on maintenance of the Treasury bill rate and that no actions should be taken to tighten marginal reserve positions simply in order to resist a decline in the bill rate. Instead, primary emphasis should be placed on insuring the maintenance of an availability of reserves that would stimulate the domestic economy, and in his opinion the wording of the policy directive was inconsistent with this view.

2. Authority to purchase and sell foreign currencies.

The continuing authority directive to the Federal Reserve Bank of New York on System foreign currency operations, last amended October 2, 1962, was further amended, effective immediately, to increase from \$1.0 billion to \$1.3 billion the authorized maximum holdings of foreign currencies at any one

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time. As amended, the continuing authority directive read as follows:

The Federal Reserve Bank of New York is authorized and directed to purchase and sell through spot transactions any or all of the following currencies in accordance with the Guidelines on System Foreign Currency Operations issued by the Federal Open Market Committee on February 13, 1962, and amended November 13, 1962:

Pounds sterling
French francs
German marks
Italian lire
Netherlands guilders
Swiss francs
Belgian francs
Canadian dollars
Austrian schillings

Total foreign currencies held at any one time shall not exceed \$1.3 billion.

Votes for this action: Messrs. Martin, Balderston, Bryan, Deming, Ellis, Fulton, King, Mills, Robertson, Shepardson, and Treiber. Votes against this action: None.

At this date reciprocal currency (swap) agreements totaling \$900 million were outstanding on a standby basis with 9 foreign central banks and the Bank for International Settlements, as follows:

	(In millions of dollars)
Austrian National Bank	50
National Bank of Belgium	50
Bank of Canada	250
Bank of England	50
Bank of France	50
German Federal Bank	50
Bank of Italy	150
Netherlands Bank	50
Swiss National Bank	100
Bank for International Settlements	100

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There were in prospect the execution of a similar agreement with the Bank of Sweden and an enlargement of certain of the existing swap facilities. In addition, the Federal Reserve held a modest quantity of certain foreign currencies that had been acquired from the U.S. Treasury Stabilization Fund at the outset of the Federal Reserve program of foreign currency operations in February 1962. In the circumstances it was considered appropriate to increase the maximum amount of foreign currencies authorized to be held at any one time.

January 29, 1963

1. Authority to effect transactions in System Account.

Statistics available indicated virtually no change in general domestic business conditions from 3 weeks and 6 weeks earlier. Through December industrial activity, nonagricultural employment, and wholesale prices continued at the levels of other recent months. Personal income and retail sales rose further to record levels in December; consumer prices edged down after having leveled off in the autumn. The number of housing units started and the volume of new orders received by producers of machinery and other durable goods declined in December from advanced levels. Partial data suggested that retail sales continued high in January, while the unemployment rate remained in the relatively high range where it had been for many months.

Most business and other projections, including those prepared by the Council of Economic Advisers, reflected caution in appraising economic prospects and suggested little likelihood of an upsurge in activity in 1963 sufficiently strong to bring about a significant reduction in the rate of unemployment.

In contrast to business activity, key financial indicators and projections showed a degree of strength that on occasion in the past had foreshadowed a pick-up in underlying economic activity. There was a further sharp rise in the seasonally adjusted money supply in the first half of January, although indications for

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the second half of the month were for some decline. Time deposits also rose substantially further in the first half of the month. Required reserves of member banks against private deposits were averaging somewhat higher during January than in December. Free reserves also were averaging somewhat higher, but the money market retained a moderately firm tone, with the 3-month bill rate holding slightly above the 2.90 per cent level.

Three major administration messages—economic, budget, and tax—that had been presented to the Congress since the January 8 meeting, emphasized fiscal and other efforts to stimulate economic growth, and this emphasis contributed a note of caution to bond markets and strength to the stock market. Yields on U.S. Government and some other fixed-interest-return securities rose a little, on balance, from their levels in early January. Common stock prices continued the rise of recent months on sizable trading volume, and at the time of this meeting had recovered two-thirds of their decline from December 1961 to June 1962. Corporate security financing in January was indicated to be smaller than in December, while municipal financing was estimated to be larger.

Weekly indicators of U.S. monetary reserves and liquid liabilities suggested an over-all deficit of as much as \$500 million in the U.S. balance of payments for the month of January. The prolonged dock strike possibly contributed to the enlarged deficit, but unusually large outflows of capital—particularly long-term—appeared mainly responsible. Purchases of foreign securities, including large purchases of new Canadian issues, were substantial in January. In addition, some U.S. dollar time deposits were placed in Canadian banks. Gold and foreign exchange markets remained generally quiet.

Members of the Committee were in agreement that no change in policy should be undertaken in the 2 weeks intervening before the February 12 meeting. Influential factors included the large imminent Treasury refunding operation, the lack of observable

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change in domestic business activity, the large expansion in bank credit and money during recent months, and the deterioration in the U.S. balance of payments. Members of the Committee combined these considerations in varying proportions in their evaluations of policy action. But even for those who otherwise might have preferred to shift policy a little, the desirability of maintaining an "even keel" position during the Treasury financing was controlling.

The economic policy directive was re-worded somewhat to recognize the forthcoming Treasury financing and otherwise to make it represent more precisely the currently available facts and Committee considerations. Accordingly, the current directive was issued to the Federal Reserve Bank of New York in the following form:

It is the Committee's current policy to accommodate growth in bank credit and the money supply more moderate than in recent months, while aiming at money market conditions that would minimize capital outflows internationally. This policy takes into account the recent deterioration in the U.S. balance of payments and the recent substantial increases in bank credit, demand deposits, and the reserve base, but at the same time recognizes the limited progress of the domestic economy in recent months, the continuing underutilization of resources, and the absence of inflationary pressures.

To implement this policy, and in view of the forthcoming Treasury financing, System open market operations during the next 2 weeks shall be conducted with a view to maintaining about the same degree of firmness in the money market that has prevailed in recent weeks and to offsetting downward pressures on short-term interest rates, while providing for continued moderate reserve expansion.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bryan, Deming, Ellis, Fulton, Mills, Mitchell, Robertson, and Shepardson. Votes against this action: None.

2. Authority to purchase and sell foreign currencies.

The Committee had authorized, on December 4, 1962, the negotiation of a reciprocal currency (swap) agreement between

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the Federal Reserve and the Bank of Sweden, and the consummation of a \$50 million agreement was announced on January 17, 1963. The consummation of the agreement was accompanied by the addition of Swedish kronor to the list of foreign currencies that the Committee's continuing directive on foreign currency operations authorized the Federal Reserve Bank of New York to purchase and sell in accordance with the guidelines on System foreign currency operations originally issued by the Committee on February 13, 1962, and amended on November 13, 1962. The amendment of the continuing authority directive to add Swedish kronor to the list of foreign currencies was ratified at this meeting.

February 12, 1963

Authority to effect transactions in System Account.

The domestic economic situation at the time of this meeting was little changed from other recent months. Exceptionally inclement weather in many areas affected business activity, as did several important labor disputes. Industrial production, non-agricultural employment, and unemployment in January had about equaled their December levels and were approximately the same as in mid-1962. New orders for durable goods declined again in December. Retail sales were estimated to have been fractionally lower in January than in December but well above levels of the past summer. Automobile sales, however, were higher than in December. The length of the work week in manufacturing had declined further in January. Average hourly earnings of factory workers were unchanged in January and were less than 2 per cent above a year earlier, a small increase as compared with other postwar years. Corporate profits apparently rose appreciably in the fourth quarter of 1962.

The seasonally adjusted money supply declined slightly more in the second half of January than it had risen in the first half, but for the month it averaged somewhat higher than in Decem-

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ber. The rate of growth of time and savings deposits accelerated somewhat during January. Seasonally adjusted bank credit rose further, with the rise concentrated in security holdings. Total reserves, as well as required reserves against private deposits, had declined over the 3 weeks preceding this meeting. Free reserves also had declined, and member bank borrowings from Federal Reserve Banks had averaged somewhat higher. The money market had firmed a little in the past 2 weeks, with yields on 90-day Treasury bills varying in a range between 2.93 and 2.96 per cent, and the Federal funds rate at or just under the discount rate of Federal Reserve Banks.

Capital market financing for February was indicated to be somewhat above the moderate volume in January owing to a considerably larger volume of municipal financing. The February Treasury refunding was regarded as highly successful, and the market was now awaiting an advance refunding operation which the Treasury had indicated would be forthcoming.

Stock market prices, which had risen further in January on active trading, showed little additional rise in early February. Yields on U.S. Government, municipal, and corporate bonds had risen somewhat during the past few weeks as investor caution increased.

The over-all deficit in the U.S. balance of payments was now estimated for the month of January at about \$400 million, a somewhat better showing than indicated by reports at the January 29 meeting. Foreign bond issues and private placements in the U.S. market reached a large volume. Gold and foreign exchange markets were generally quiet, but the pound sterling and the Canadian dollar weakened in late January and early February as a result of political developments.

The Committee was unanimously of the view that no change should be made in monetary policy from that followed in recent weeks. This view reflected a desire to maintain a steady market tone during forthcoming Treasury financing operations. Also, business and financial sentiment was reported as being affected

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by uncertainties surrounding the discussion of tax legislation, by the size of the Federal deficit, and by the continuing balance of payments problem. Developments abroad, notably the French veto of British entrance into the Common Market and the Canadian tension over defense policy, added to the atmosphere of business uncertainty.

While there was agreement that no change in monetary policy was to be made at this time, some technical changes in the wording of the current economic policy directive were deemed appropriate in the light of recent developments. After discussion of these changes, unanimous approval was given to the following directive to the Federal Reserve Bank of New York:

It is the Committee's current policy to accommodate moderate growth in bank credit, while aiming at money market conditions that would minimize capital outflows internationally. This policy takes into account the continuing adverse U.S. balance of payments position and the substantial increases in bank credit, money supply, and the reserve base in recent months, but at the same time recognizes the limited progress of the domestic economy, the continuing underutilization of resources, and the absence of general inflationary pressures.

To implement this policy, and in view of the forthcoming Treasury financing, System open market operations during the next 3 weeks shall be conducted with a view to maintaining about the same degree of firmness in the money market that has prevailed in recent weeks and to offsetting downward pressures on short-term interest rates, while accommodating moderate reserve expansion.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bryan, Deming, Ellis, Fulton, Mitchell, Robertson, and Shepardson. Votes against this action: None.

Although he voted to approve this directive, Mr. Robertson indicated he did not favor continuing the clause in the second paragraph: "and to offsetting downward pressures on short-term interest rates." He felt that retention of this clause, well beyond the period of strong seasonal rate pressures, suggested Committee preoccupation with the maintenance of a particular level of

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bill rates rather than with the promotion of a general monetary atmosphere appropriate to the objectives of the Committee.

March 5, 1963

1. Authority to effect transactions in System Account.

On balance, the domestic economic picture had not changed significantly since the preceding meeting of the Committee. Special influences, such as unusually severe winter weather and strikes in some key industries, had affected some of the statistical readings but most changes, both favorable and unfavorable, were quite small.

Automobile production and sales continued high in February. Total retail sales also continued close to record levels. Personal income increased in January owing to large dividend payments on veterans' insurance, which more than offset a sizable increase in employee contributions to social security. The labor market showed little change, although the seasonally adjusted rate of unemployment edged up in January and again in February.

The industrial production index in January was down fractionally from December but stayed in the narrow range that had prevailed since July 1962. New orders received by durable goods producers, on the other hand, rose appreciably to a level slightly above the October 1962 high.

Consumer prices in January reversed the slight decline experienced in December; they were 1.4 per cent above a year earlier, with higher prices of foods and services mainly responsible. Wholesale commodity prices continued to show little change from the preceding month or from a year earlier.

Yields on corporate bonds showed little change in the weeks immediately preceding the meeting, while municipal bond yields increased moderately in response to continuing heavy dealer inventories. Yields on Treasury intermediate- and long-term issues also rose somewhat, partly reflecting Treasury refunding

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activities. Treasury bill rates dropped slightly below mid-February levels. A highlight of the period was the apparently successful Treasury advance refunding operation—not yet completed—involving a potential exchange of about \$29 billion of outstanding issues, of which public holdings accounted for about \$20 billion.

Capital market financing by corporations and State and local governments was in moderate volume again in February. Stock market prices declined appreciably during the 2 weeks preceding the meeting, after rising vigorously for more than 3 months.

Bank credit rose substantially further in February on a seasonally adjusted basis, reflecting chiefly increases in security loans and loans to finance companies and a much smaller than usual decline in holdings of U.S. Government securities. The seasonally adjusted money supply apparently was maintained close to the January level, while time and savings deposits increased substantially further. Total reserves and required reserves behind private deposits had declined about seasonally over the past 4 weeks. Free reserves averaged somewhat lower, and member bank borrowings higher.

According to tentative preliminary estimates, the balance of payments deficit was much lower in February than in January. However, in view of the influence of the dock strike on the trade figures, the average for the past 2 or 3 months seemed more significant, and this average showed no improvement over 1962. Exchange markets and the London gold market were generally quiet; sterling continued to show counterseasonal weakness.

The Committee was in agreement that monetary policy in the period until its next meeting should continue along the lines followed in recent weeks. As usual, there were shadings of opinion as to the relative importance and usefulness of small changes in monetary policy, in one direction or the other, either for dealing with the domestic economy or for coping with the continuing large deficit in the balance of payments. In terms of the period immediately ahead, however, there was general recognition that

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the continuing Treasury financing operations during most of the period argued against any significant change in policy.

Although the decision was for continuation of the same degree of monetary ease as had prevailed in recent weeks, certain minor technical changes in the wording of the directive were adopted. Accordingly, the following current economic policy directive was issued to the Federal Reserve Bank of New York:

It is the Committee's current policy to accommodate moderate growth in bank credit, while aiming at money market conditions that would minimize capital outflows internationally. This policy takes into account the continuing adverse U.S. balance of payments position and the increases in bank credit, money supply, and the reserve base in recent months, but at the same time recognizes the limited progress of the domestic economy, the continuing underutilization of resources, and the absence of general inflationary pressures.

To implement this policy in a period following a major Treasury financing, System open market operations during the next 3 weeks shall be conducted with a view to maintaining about the same degree of firmness in the money market that has prevailed in recent weeks and to offsetting downward pressures on short-term interest rates, while accommodating moderate reserve expansion.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bopp, Clay, Irons, Mills, Mitchell, Robertson, Scanlon, and Shepardson. Votes against this action: None.

2. Authority to purchase and sell foreign currencies.

Authorization was given to the Federal Reserve Bank of New York to undertake, on an experimental basis, forward purchases up to a combined total of \$25 million equivalent of any or all of the foreign currencies authorized for System operations in order to permit greater flexibility in covering commitments under reciprocal currency (swap) agreements.

Accordingly, the continuing directive to the Federal Reserve Bank of New York with respect to foreign currency operations was amended as follows, effective immediately:

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The Federal Reserve Bank of New York is authorized and directed to purchase and sell through spot transactions any or all of the following currencies in accordance with the Guidelines on System Foreign Currency Operations reaffirmed by the Federal Open Market Committee on March 5, 1963:

Pounds sterling
French francs
German marks
Italian lire
Netherlands guilders
Swiss francs
Belgian francs
Canadian dollars
Austrian schillings
Swedish kronor

The Federal Reserve Bank of New York is also authorized and directed to purchase, in accordance with the Guidelines and for the purpose of allowing greater flexibility in covering commitments under reciprocal currency agreements, any or all of the foregoing currencies through forward transactions, up to a combined total of \$25 million equivalent.

Total foreign currencies held at any one time shall not exceed \$1.3 billion.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bopp, Clay, Irons, King, Mills, Mitchell, Robertson, Scanlon, and Shepardson. Votes against this action: None.

3. Review of continuing authorizations.

This being the first meeting of the Federal Open Market Committee following the election of new members from the Federal Reserve Banks to serve for the year beginning March 1, 1963, and their assumption of duties, the Committee followed its customary practice of reviewing all of its continuing authorizations and directives. The action taken with respect to the continuing authority directive on foreign currency operations has been described in the preceding portion of the entry for this date.

The Committee reaffirmed its continuing authority directive to the Federal Reserve Bank of New York with respect to trans-

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actions in U.S. Government securities, repurchase agreements, and bankers' acceptances, in the form in which that directive was outstanding at the beginning of the year 1963. The language of the directive is set forth in the preface to this record of Open Market Committee policy actions for 1963.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bopp, Clay, Irons, King, Mills, Mitchell, Scanlon, and Shepardson. Votes against this action: None. Abstaining: Mr. Robertson.

Mr. Robertson, who had voted against the adoption of the continuing authority directive in its present form on March 6, 1962, abstained because he continued to feel that the directive was inadequate and did not provide sufficient guidance and restrictions.

The Committee also reaffirmed its authorization regarding open market transactions in foreign currencies and its guidelines for System foreign currency operations, in the form in which both of these were outstanding at the beginning of the year 1963, as set forth in the preface to this record of policy actions.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bopp, Clay, Irons, King, Mills, Mitchell, Robertson, Scanlon, and Shepardson. Votes against this action: None.

The reaffirmation of the authorization for System foreign currency operations was with the understanding that the program continued to be regarded as experimental in nature.

March 26, 1963

Authority to effect transactions in System Account.

Reports indicated that business and financial sentiment with respect to short-run prospects for domestic activity had strengthened since the preceding meeting of the Committee as favorable economic data predominated. A recent survey indicated that

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business planned to increase fixed capital outlays in 1963 by 5 per cent, instead of the 3 per cent increase reported by a survey last autumn. Business plans for inventory holdings called for a stepping-up of expansion in the second quarter of this year, partly as protection against a possible steel strike in the summer. New orders received by machinery and other durable goods producers had risen somewhat further in February; and stock market prices had maintained the higher level to which they rebounded in early March. Also, consumer plans to spend for automobiles, other durable goods, and homes indicated continuing strength of demand.

While these portents of further expansion in activity substantially reduced whatever expectations there had been for an imminent cyclical recession, they were not sufficient to suggest a major improvement in unemployment. In fact, unemployment had increased again in February, reaching a seasonally adjusted rate of 6.1 per cent of the civilian labor force. The rise reflected the fact that the increase in the labor force was greater than the moderate rise in employment.

Industrial production remained essentially unchanged again in February. Construction expenditures declined, but new housing units started increased a little from the reduced January level. Retail sales showed little change in February around the advanced January rate but, with automobile markets continuing strong, sales rose further in early March. Industrial commodity prices continued stable.

In the financial area corporate and municipal security issues in March were relatively large and appeared likely to continue so in April. Nevertheless, yields on corporate bonds had changed little in recent weeks, while yields on State and local government securities had declined. Large-scale Federal refundings and cash borrowings also took place, with yields on U.S. Government securities remaining in a relatively narrow range. Yields on 90-day Treasury bills, at 2.90 per cent, continued below the Federal Reserve discount rate, while yields on long-term Treasury issues

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edged up to an average of 3.94 per cent in the week preceding this meeting.

Seasonally adjusted bank credit expansion continued large in January, February, and early March. Business loans, however, had shown mainly seasonal changes following a rapid increase in late 1962. Real estate and consumer loan demand continued strong.

Free reserves of member banks averaged \$300 million in the 3 weeks ending March 20, little changed from the average for the month of February. The seasonally adjusted money supply rose in the first half of March following a slight drop in February. Time and savings deposits, seasonally adjusted, continued to expand rapidly, but at a somewhat slackened pace in February and the first half of March.

The deficit in U.S. international payments in the first quarter of 1963 was tentatively estimated to be moderately lower than the quarterly average for the years 1962 and 1961. The first-quarter figures were unfavorably affected by the dock strike and a bunching of foreign bond issues but favorably affected by large repayments of bank loans and probably some flows of funds connected with the recent weakness of the pound sterling. Both in 1962 and 1961, however, results of the first quarter had turned out to be considerably better than those for subsequent quarters. (In 1963 the contribution of one favorable but seasonal influence—the reversal of year-end window-dressing operations by foreign banks—was much reduced.) Exchange markets showed, on balance, little net change, except for the pressure on sterling.

The Committee indicated general satisfaction with the degree of monetary and credit ease that had prevailed in recent weeks, and none of the members suggested a major change in policy in either direction. However, in view of the cumulative consequences of large balance of payments deficits, a minority felt it desirable to start moving toward slightly less reserve availability and slightly higher Treasury bill rates. Some other members indicated that they might have been attracted to this policy position except

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for the Treasury financing program under way and ahead. Still others, however, expressed serious doubt that a less easy monetary policy, within the ranges discussed, would have any appreciable effect on the balance of payments position, and they felt that a more pronounced shift would have unfavorable consequences for the domestic economy.

The majority position was clearly for maintaining essentially the status quo during the ensuing 3-week period. Nevertheless, in order to keep the current economic policy directive as accurately descriptive of current conditions and policy as possible, minor technical wording changes were adopted. Accordingly, the following directive was issued to the Federal Reserve Bank of New York:

It is the Committee's current policy to accommodate moderate growth in bank credit, while aiming at money market conditions that would minimize capital outflows internationally. This policy takes into account the continuing adverse U.S. balance of payments position and the increases in bank credit, money supply, and the reserve base in recent months, but at the same time recognizes the limited progress of the domestic economy, the continuing underutilization of resources, and the absence of general inflationary pressures.

To implement this policy in a period of a Treasury bond financing, System open market operations during the next 3 weeks shall be conducted with a view to maintaining about the same degree of firmness in the money market that has prevailed in recent weeks, while accommodating moderate reserve expansion.

Votes for this action: Messrs. Martin, Balderston, Bopp, Clay, Irons, King, Mills, Mitchell, Robertson, Scanlon, and Shepardson. Vote against this action: Mr. Hayes.

Mr. Hayes recognized that the scope for policy change during the forthcoming 3-week period was distinctly limited by the Treasury financing program. However, because of the gravity of the threat to the position of the dollar due to cumulative effects of balance of payment deficits, he would have favored moving

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toward a slightly lesser degree of monetary ease since he was convinced that somewhat higher interest rates and reduced credit availability could bring important benefits, both actual and psychological.

April 16, 1963

Authority to effect transactions in System Account.

The economic situation had improved noticeably in March, with widespread gains registered by various measures of activity and with business sentiment distinctly better. Industrial production rose 1 percentage point to a level fractionally above the September 1962 high. Production of steel increased substantially, along with orders, partly reflecting inventory accumulation in anticipation of a possible strike in the summer. Nonagricultural employment rose further, with increases reported for most major types of industry and activity. The unemployment rate declined appreciably in March to 5.6 per cent of the civilian labor force, but it appeared that both this decline and the rise in the preceding month probably reflected, in part, difficulties in measuring seasonal changes.

Retail sales rose further in March, with automobile markets continuing exceptionally strong. GNP was tentatively estimated to have risen in the first quarter to an annual rate of \$572 billion, a higher level than had been expected earlier.

Industrial material and other wholesale price averages remained little changed in March and early April. Very recently, however, certain producers of steel had announced price increases for a portion of their products, and it was regarded as quite possible that others would follow suit. Stock market prices advanced further in recent weeks to within about 5 per cent of the December 1961 peak, the record level of corporate profits reported for the fourth quarter of 1962 having been a contributing factor.

Against the background of indications of greater business strength and selective commodity price increases, a relatively

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large volume of corporate and municipal bond financing, together with an auction of \$300 million of U.S. Government long-term bonds, had resulted in some tendency toward capital market congestion and higher yields. A sizable portion of the auctioned Treasury bonds were still undistributed. Yields on 3-month Treasury bills, however, remained at or close to 2.90 per cent.

Bank credit expansion (seasonally adjusted) in March was large, as bank holdings of U.S. Government securities declined less than seasonally. While business loans were up only slightly further, expansion was appreciable for most other types of loans.

The seasonally adjusted money supply rose by \$300 million in March, and in the latter part of the month it was about 2.25 per cent higher than a year earlier; however, it had risen at an annual rate of only 1 per cent compared with late December 1962. Time and savings deposits continued to increase rapidly at about the rate of other recent months.

The U.S. balance of payments deficit continued large in the first quarter of 1963. Comparative analysis was difficult, however, mainly because of the conflicting influences of the dock strike in January and the weakness of sterling in March. The net decline in the U.S. gold stock was unusually small in relation to the payments deficit, which, according to fragmentary data, appeared to have worsened again in the first 10 days of April. Gold and foreign exchange markets had been moderately active at times in the past few weeks, with the dollar generally weaker than earlier this year.

Although the domestic economic situation had shown signs of improvement throughout the country in recent weeks, it appeared to the Committee premature to assume that a vigorous sustained expansion was yet under way. This situation, together with factors such as continuing high rates of unemployment and a lack of evidence of general inflationary pressures, led the majority to favor no change of policy in the direction of lesser monetary ease at this stage. In addition, some members who otherwise might have preferred to move toward a slightly lesser degree of

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ease felt that such action would be undesirable at this time because of the aftermath of the Treasury bond auction and impending large refunding operations. Two members, however, favored a shift in monetary policy at this time, one recommending a slightly lesser degree of ease, the other a slightly greater degree of ease.

In line with the majority decision to continue unchanged the policy adopted at the meeting on March 26, the directive issued to the Federal Reserve Bank of New York at that meeting was renewed without change.

Votes for this action: Messrs. Martin, Balderston, Bopp, Clay, Irons, King, Mitchell, Robertson, Scanlon, and Shepardson. Votes against this action: Messrs. Mills and Treiber.

In dissenting from this action, Mr. Mills expressed the view that financial developments were resulting in undesirable downward pressure on the money supply. The substantial expansion of commercial bank credit in 1962 and early 1963 had been accommodated largely by a sharp expansion in time and savings deposits rather than by expansion of the money supply, he said, and there had not been the stimulative effect on economic activity that would have been obtained from expansion in the money supply itself. Considering the normal lag between policy action and the resulting effects, he felt that it was not too early to alter the tone and direction of monetary policy toward slightly greater ease.

Mr. Treiber felt that within the narrow limits of providing an even-keel base for Treasury financing there was some room for seeking a slightly firmer money market. In his judgment, the ample liquidity in the economy and the recent improvement in domestic activity permitted additional attention to be given to this country's continuing and serious balance of payments problem.

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May 7, 1963

Authority to effect transactions in System Account.

The widespread improvement noted in the domestic economy in March continued in April. Employment rose further, and preliminary indications were that there had been a substantial advance in industrial production. The rise in industrial production reflected increased steel output, both for building inventories as a hedge against a possible strike and higher prices and for meeting the increased needs arising from higher current levels of durable goods output. Automobile production and sales, for example, had continued at exceptionally high levels. Some recent information, however, was less favorable. The unemployment rate rose slightly in April from the improved March level. Retail sales, seasonally adjusted, were indicated to have declined in April, and increases previously reported for March and February had been revised downward.

One indication of underlying strength came from a recent survey of business plans for new plant and equipment outlays for 1963 and later years. This survey reported a higher level of prospective business outlays for this year than reported by an earlier survey made last autumn, and confirmed the increase in prospective spending reported several weeks earlier by another survey.

Commodity price averages continued little changed; some items—such as selected steel and aluminum products and sugar—rose, but most others remained stable. The consumer price index advanced $\frac{1}{10}$ of 1 per cent further in March.

Largely in reflection of the gains in business activity, the markets for Government, corporate, and municipal bonds were under some pressure in April. Another complicating factor in the market was the slow redistribution of auctioned U.S. Government bonds that had been acquired by an underwriting syndicate. More recently, however, the market tone had improved somewhat. Since mid-April, average yields on outstanding U.S. Gov-

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ernment long-term bonds had remained just under 4 per cent; intermediate-term security yields had declined somewhat, while 3-month bill yields had fluctuated narrowly around the 2.90 per cent level.

Seasonally adjusted commercial bank credit declined in April following a sharp rise in March, when tax borrowing and Treasury financing operations contributed to bank credit expansion. The seasonally adjusted money supply rose by \$500 million further in April to a level 2.25 per cent above a year earlier; time and savings deposits also rose further but much less rapidly than in other recent months. Free reserves averaged higher in April, while member bank borrowings from Federal Reserve Banks averaged lower.

The balance of payments deficit, according to preliminary data, increased sharply in April and was above the monthly average for the first quarter of the year. The rise in the deficit may have reflected a reaction in the U.S. trade surplus from the bulge in February and March following settlement of the dock strike, cessation of capital inflows attributable to the March pressure on sterling, and increased outflows to Canada as market confidence in the new Canadian Government strengthened. The London gold market continued quiet. In foreign exchange markets, sterling weakened while most continental European currencies, as well as the Canadian dollar, strengthened.

The Committee noted that although the business atmosphere and outlook had improved significantly in recent weeks, unemployment had continued excessively high and the balance of payments deficit disturbingly large. Committee members placed varying interpretations on the relative importance of such factors for current open market policy, but there was rather general agreement that any change in policy that might be made at this time should be of a relatively modest nature. It developed from the discussion that while several members felt that it would be unwise to risk dampening the budding expansion in domestic activity at this juncture by even a slight reduction in the degree

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of monetary ease, a somewhat larger number concluded that the domestic economy had already strengthened sufficiently to permit a move to slightly less ease in order to place greater emphasis on this country's balance of payments problem.

The majority decision, therefore, was to move toward a position of slightly less ease beginning about the middle of May, when current Treasury financing operations would be out of the way; and the Committee's directive was modified to reflect this change in policy and to be more descriptive of the current situation. Accordingly, the following directive was issued to the Federal Reserve Bank of New York:

It is the Committee's current policy to accommodate moderate growth in bank credit, while putting increased emphasis on money market conditions that would contribute to an improvement in the capital account of the U.S. balance of payments. This policy takes into consideration the continuing adverse balance of payments position and its cumulative effects and the improved domestic business outlook, as well as the increases in bank credit, money supply, and the reserve base in recent months. At the same time, however, it recognizes the continuing underutilization of resources.

To implement this policy, System open market operations following the conclusion of the Treasury refunding operation shall be conducted with a view to achieving a slightly greater degree of firmness in the money market than has prevailed in recent weeks, while accommodating moderate reserve expansion.

Votes for this action: Messrs. Martin, Hayes, Ealderston, Irons, King, and Shepardson. Votes against this action: Messrs. Bopp, Clay, Mitchell, Robertson, and Scanlon.

May 28, 1963

1. Authority to effect transactions in System Account.

Domestic economic activity in April had generally advanced further, with advances widespread among principal industrial sectors. While information for May was quite incomplete, avail-

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able data indicated that expansion in activity had continued. Although higher prices were posted for certain products, prices remained little changed on the average.

Industrial production in April rose by almost 2 percentage points to a new high, with about one-third of the total rise accounted for by higher steel production. The April index, at 122, was 4 per cent above a year earlier. Housing starts also advanced in April. Nonfarm employment continued to rise, with manufacturing accounting for much of the increase. Rapid growth in the labor force, however, left the unemployment rate about unchanged despite the gain in employment.

Retail sales in April and early May appeared to have changed little. Sales by automobile dealers maintained a high level, and recent surveys of consumer buying intentions for autos, other durable goods, and houses suggested that spending plans were continuing to show strength. New orders, sales, and unfilled orders received by producers of durable goods rose appreciably in April. Although much of the rise reflected heavy buying of steel, new orders rose moderately in nearly all industries, including machinery.

New security financing by corporations and State and local governments in the preceding weeks had been moderate, and the calendar through June indicated that offerings would be fairly light in the corporate area, although more substantial for State and local issues. Retail distributions of new issues were reported as slow, however, and dealers' inventories quite large. Bond yields declined somewhat through mid-May but moved up thereafter, while downward pressure on mortgage rates continued. Common stock prices held at a level a little below the late 1961 peak, and the volume of stock market credit reached a new high.

Treasury bill rates were steady in early May but moved higher after midmonth, partly in response to a somewhat lower margin of free reserves available to member banks; the 3-month rate advanced from about 2.90 per cent to 2.97 per cent. Treasury bond yields fluctuated in a narrow range after early May, with

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substantial purchases of coupon issues by the Treasury for its investment accounts a steady factor.

The seasonally adjusted money supply rose moderately further in the first half of May to a level 2.4 per cent above a year earlier. In the April-early May period time deposits at commercial banks increased considerably less rapidly than earlier in 1963.

Reflecting, in part, action of the System Account pursuant to the directive issued at the preceding Committee meeting, free reserves moved lower after mid-May. Borrowings from the Federal Reserve Banks rose to an average of \$281 million in the week ending May 22, up from an average of \$134 million during the preceding 3 weeks.

The balance of payments deficit for April, while somewhat smaller than had been indicated by the earlier preliminary figures, was substantial. Moreover, tentative and fragmentary figures for the first 3 weeks of May indicated continued sizable net transfers to foreigners, and foreign borrowing in U.S. markets continued on a large scale. In these circumstances the dollar remained weak against the major continental European currencies. Trading on the London gold market was quite active, although the price changed little.

Discussion at this meeting centered on reviewing economic and market developments in the light of the slight shift in monetary policy toward less ease that had been adopted at the May 7 meeting of the Committee. This review found quite general agreement that a moderate further strengthening of domestic economic activity had occurred. Business sentiment, although perhaps a bit more cautious than earlier, apparently remained optimistic. The performance of the economy, however, was still below capabilities, with unemployment persisting at unsatisfactory levels and with other indications of continuing inadequate resource utilization. The balance of payments problem continued to be serious, and the position of the dollar in foreign exchange markets had weakened.

Most members of the Committee felt that the lessened credit

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ease accomplished since the preceding meeting was constructive and that the existing market tone and degree of reserve availability should be continued for the next 3 weeks. Some members, in fact, would have been inclined, if anything, to favor action to lessen credit ease further. Others, however, continued to question the desirability of the restraint already imposed, although only one member urged a return at this time to the degree of ease prevailing at the time of the previous meeting.

The case for maintaining the current position, or for moving toward a lesser degree of ease, reflected particularly the gravity of the U.S. international financial position and some indication of a deterioration of lending and investing standards at home. The case for a greater degree of ease reflected a desire to provide further stimulus to the domestic economy, along with doubt as to the effectiveness of modest changes in monetary policy for dealing with the balance of payments problem. One member held that a policy of less ease was neither a necessary nor desirable means of improving the quality of credit under present conditions of low resource utilization. It was clear from the entire discussion, however, that a large majority felt that policy should not be changed again at this time, one way or the other.

The consensus therefore was to maintain, but not intensify, the slightly lesser degree of ease established pursuant to the May 7 policy action. It was felt that the effects of that change were not yet fully apparent and that additional time for market adjustments was desirable, especially in the light of the uncertainties stemming from legislative consideration of the debt ceiling. Accordingly, the following directive was issued to the Federal Reserve Bank of New York:

It is the Committee's current policy to accommodate moderate growth in bank credit, while putting increased emphasis on money market conditions that would contribute to an improvement in the capital account of the U.S. balance of payments. This policy takes into consideration the continuing adverse balance of payments position and its cumulative effects and the improved domestic business outlook, as well as the increases in bank credit, money supply, and the reserve base in recent

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months. At the same time, however, it recognizes the continuing underutilization of resources.

To implement this policy, System open market operations shall be conducted with a view to continuing the degree of firmness in the money market that has prevailed recently, while accommodating moderate reserve expansion.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bopp, Clay, Irons, King, Mills, Scanlon, and Shepardson. Vote against this action: Mr. Mitchell.

2. Authority to purchase and sell foreign currencies.

The guidelines for System foreign currency operations, as reaffirmed on March 5, 1963, were amended as follows:

In Section 2, the following new paragraph was inserted after paragraph 3:

Drawings made by either party under a reciprocal arrangement shall be fully liquidated within 12 months after any amount outstanding at that time was first drawn, unless the Committee, because of exceptional circumstances, specifically authorizes a delay.

In Section 4, the following two new paragraphs were added:

The New York Bank may also, where authorized, purchase currencies through forward transactions for the purpose of allowing greater flexibility in covering commitments under reciprocal currency agreements.

The New York Bank may further, where authorized, purchase and sell currencies through forward as well as spot transactions for the purpose of settling commitments denominated in one currency by means of utilizing the Bank's holdings of another currency.

The effect of the amendment to Section 2 was to recognize, within the context of a specific application, the principle embodied in the guidelines that the use of foreign currency credit facilities available under reciprocal currency arrangements should be geared to market swings that were expected to prove reversible in the relatively near future. Indebtedness incurred by the System through drawings under reciprocal arrangements was clearly intended to be of a short-term nature, and in no sense to provide

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longer-term financing for persistent U.S. balance of payments deficits. However, the guidelines had not heretofore specified precisely the time period implied in the reversible principle underlying such drawings. The amendments to Section 4 were designed to provide flexibility in settling System commitments.

The continuing authority directive to the Federal Reserve Bank of New York on foreign currency operations, which had previously been amended on March 5, 1963, to authorize the purchase of foreign currencies through forward transactions within specified limitations, was further amended at this meeting to authorize the purchase and sale of foreign currencies through forward as well as spot transactions for the purpose of settling commitments denominated in one currency by means of utilizing System holdings of another currency. The directive was also amended to increase from \$1.3 billion to \$1.75 billion the limit on total holdings of foreign currencies at any one time. At this date reciprocal currency agreements outstanding between the Federal Reserve System and foreign banks aggregated \$1.1 billion, and it was anticipated that the reciprocal currency arrangement with the Bank of England would shortly be raised from \$50 million to \$500 million to enlarge the facilities for dealing with temporary reversible flows of funds between the two countries and further reinforce international liquidity by augmenting the availability of foreign exchange in case of need.

Accordingly, the continuing directive was issued in the following form:

The Federal Reserve Bank of New York is authorized and directed to purchase and sell through spot transactions any or all of the following currencies in accordance with the Guidelines on System Foreign Currency Operations reaffirmed by the Federal Open Market Committee on March 5, 1963, as amended May 28, 1963:

- Pounds sterling
- French francs
- German marks
- Italian lire
- Netherlands guilders
- Swiss francs

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Belgian francs
Canadian dollars
Austrian schillings
Swedish kronor

The Federal Reserve Bank of New York is also authorized and directed to purchase, in accordance with the Guidelines and for the purpose of allowing greater flexibility in covering commitments under reciprocal currency agreements, any or all of the foregoing currencies through forward transactions, up to a combined total of \$25 million equivalent.

The Federal Reserve Bank of New York is further authorized and directed to purchase and sell, in accordance with the Guidelines and for the purpose of utilizing its holdings of one currency for the settlement of commitments denominated in other currencies, any or all of the foregoing currencies through forward as well as spot transactions, up to a combined total of \$50 million equivalent.

Total foreign currencies held at any one time shall not exceed \$1.75 billion.

Votes for these actions: Messrs. Martin, Hayes, Balderston, Bopp, Clay, Irons, King, Mills, Mitchell, Scanlon, and Shepardson. Votes against these actions: None.

June 18, 1963

1. Authority to effect transactions in System Account.

Expansion in domestic activity was reported to have continued in May and early June. The industrial production index advanced again in May, with gains widespread among industries and products. Employment also increased and hours of work at factories lengthened, but the unemployment rate rose as teenagers entered the labor market. Retail sales were unchanged from the level of the preceding 3 months, and commodity prices continued to show only small mixed changes. Stock market prices showed little change on balance.

Business confidence remained strong; a recent survey found the planned rise in outlays for new plant and equipment in 1963 to be practically the same as reported earlier, but with relatively more of the increase anticipated in the second half of the year.

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Expectations of higher sales and inventories than had been indicated earlier were also reported. Stockpiling against a possible steel strike appeared about at an end, however, and the steel industry was expected soon to become a contractive influence on the economy, at least temporarily, as production was brought into closer balance with consumption.

In the financial area, market adjustments to the mid-May shift in System policy toward slightly less monetary ease continued moderate. Yields on Treasury securities had risen somewhat, but a Treasury offering of a 4 per cent intermediate-term bond met with an exceptionally strong market reception. Corporate yields on new issues changed little, while yields on municipal securities increased.

In May, seasonally adjusted bank credit rose substantially, offsetting a comparable decline in April. Real estate and consumer loans continued to expand rapidly; the rise in business loans was less sharp. The seasonally adjusted money supply was unchanged in May, in part because of an unusually large increase in Treasury deposits. Time and savings deposits rose more rapidly than in April, but more slowly than earlier in the year. Free reserves of member banks averaged somewhat lower after mid-May than earlier.

The U.S. balance of payments deficit in April and May continued at about the advanced level of the first quarter, with capital outflows remaining a major factor. Gold and foreign exchange markets were generally quiet, although the dollar was relatively weak against most major foreign currencies.

At this meeting of the Committee, attention was focused on the failure of the balance of payments deficit to show improvement; on the role of capital outflows in the continuing large deficits; and on the contribution that monetary policy might make, either alone or in conjunction with other Governmental actions, toward a solution of the problem. The majority view was that market adjustments to the mid-May shift in policy were still in process and that no further change in open market policy

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was appropriate at this time. One minority position was that monetary policy should move a little further toward firmness; this position was based on the view that while the domestic economy continued to strengthen, the balance of payments drain remained serious and could be alleviated somewhat through a higher structure of domestic interest rates, particularly short-term rates. Another minority view, which favored returning to the degree of monetary ease existing before the May decision, was based largely on the feeling that an easier credit posture would encourage the domestic economy to expand more rapidly and that this in turn would help the balance of payments situation.

Although no expectations of a boom in domestic conditions were expressed, neither were there reports from Federal Reserve districts of any significant weakening of business and financial expectations for maintenance of activity at current advanced levels. A majority agreed that, with unemployment persisting at high rates, domestic conditions did not require a further lessening of monetary ease at this time. Further monetary action—possibly dramatic action—might be required soon, however, if the international financial situation did not show signs of betterment.

By majority vote, the current economic policy directive to the New York Reserve Bank was reissued in the same form as approved at the preceding meeting of the Committee.

Votes for this action: Messrs. Martin, Bopp, Clay, Irons, Mills, Scanlon, and Shepardson. Votes against this action: Messrs. Hayes, Balderston, and Mitchell.

Messrs. Hayes and Balderston dissented because they felt that the Committee should move further in the direction of slightly less ease, while Mr. Mitchell dissented because he favored a return to the greater degree of ease that had existed prior to the policy shift of mid-May.

2. Amendment of continuing authority directive.

In accordance with the recommendation of the Account Manager, Section 1(a) of the continuing authority directive to

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the Federal Reserve Bank of New York was amended to raise from \$1 billion to \$1.5 billion the limit on changes in holdings of securities in the System Open Market Account between meetings of the Committee. With this amendment, Section 1(a) read as follows:

(a) To buy or sell U.S. Government securities in the open market, from or to Government securities dealers and foreign and international accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the System Open Market Account at market prices and, for such Account, to exchange maturing U.S. Government securities with the Treasury or allow them to mature without replacement; provided that the aggregate amount of such securities held in such Account (including forward commitments, but not including such special short-term certificates of indebtedness as may be purchased from the Treasury under paragraph 2 hereof) shall not be increased or decreased by more than \$1.5 billion during any period between meetings of the Committee.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bopp, Clay, Irons, Mills, Mitchell, Scanlon, and Shepardson. Votes against this action: None.

July 9, 1963

Authority to effect transactions in System Account.

Economic activity had continued to expand moderately through June, but business sentiment appeared to have become a little less buoyant than earlier, probably reflecting some uncertainty over the timing and magnitude of inventory curtailments following the steel labor settlement. A threatened rail strike also may have been a factor.

GNP was indicated to have increased substantially again in the second quarter. Retail sales in June, however, showed little change at the level prevailing since February. The industrial production index apparently was at least as high in June as in May, as reductions in steel output were offset by gains elsewhere. The construction and housing situation appeared strong.

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The labor market strengthened a little. The unemployment rate declined slightly to 5.7 per cent in June from 5.9 per cent in May; young people had entered the labor market in smaller numbers than expected. New and unfilled orders in the machinery industry rose in May, but a survey of capital appropriations by large manufacturers indicated a decline in the first quarter, following 2 quarters of sharp increases. Business inventory accumulation in the second quarter apparently increased less than expected, and Federal Government expenditures were below projected levels.

In the financial area, bank credit expansion in June was exceptionally large, with bank holdings of U.S. Government securities up substantially, including a sizable proportion of the recent \$1.9 billion issue of Treasury 7-year bonds. Holdings of other securities also increased further, and loan growth was substantial. The seasonally adjusted money supply rose moderately further in June, and time and savings deposits expanded again, but not so rapidly as in most other months this year. Bank reserve positions were somewhat less easy as member banks obtained more of their reserves by borrowing from Federal Reserve Banks.

The money market had firmed since the preceding meeting of the Committee, with the 3-month bill rate moving up sharply in early July to about 3.20 per cent from around a 3 per cent rate earlier, reflecting widespread market expectations of a change in the Federal Reserve Bank discount rate. Yields on other maturities of U.S. Government securities also moved upward. Yields on corporate bonds continued to show little change, however, while yields on municipals, which had risen sharply from mid-May to mid-June, tended to stabilize.

The balance of payments deficit for the second quarter was estimated to be somewhat above even the high first-quarter rate. The trade surplus in April and May was much larger than in the first quarter, and the volume of foreign securities issued in the U.S. capital market declined from the unusually high first-quarter level. But the effect of these favorable developments on the

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payments balance was more than offset by a rise in U.S. bank lending to foreigners and other short-term capital outflows, including unreported transactions. Foreign exchange markets had been moderately active in recent weeks, with some seasonal easing of exchange market pressure on the dollar.

There was extensive discussion at this meeting of the Committee about the proper course of monetary policy in the light of the serious and persistent balance of payments deficit and the urgent need for additional measures to deal with it. At the same time it was recognized that the domestic economy was not expanding at a rate sufficient to bring about full employment soon and that a more rapid rate of growth was highly to be desired.

In considering these problems, special attention was given to reports of additional Governmental measures under consideration to improve the international financial position, and to the role monetary policy might play within the context of a broad corrective effort. It was generally accepted that the large outflow of short-term funds was amenable in some degree to curtailment by a monetary policy directed toward higher short-term interest rates. Judgments differed, however, as to whether short-term rates sufficiently higher to be effective could be brought about without materially affecting the over-all availability of domestic credit or without causing long-term rates to increase somewhat as well. Similarly, there were differences of view as to the likely consequences of higher short-term rates for the domestic economy, which some members felt was not so robust as might appear.

The majority view was that the use of monetary tools was justified in an effort to help improve the balance of payments position. On the question of timing, however, there was some feeling that any further action could properly await additional testing of the strength of the economy and evidence of market reactions to the broader Governmental programs contemplated and yet to be announced. Another view called for prompt action to take advantage of recent widespread market expectations regarding a change in monetary policy, in the belief that this would make

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for more orderly markets and that everything possible should be done to guard against any possible balance of payments crisis before it became imminent.

Some of the discussion related to the open market policy that might appropriately be followed if early action were taken by the Federal Reserve System to increase the discount rate; several Reserve Bank members of the Committee reported that they intended to recommend to the directors of their respective Banks within the near future that a higher discount rate be established. There was considerable feeling, in such circumstances, that it would be inappropriate for open market operations to permit a sharp decline from existing market rates, which reflected expectations of a discount rate increase, only to have market rates rise again if the discount rate should be increased.

After weighing all of the foregoing considerations, a majority favored conducting open market operations in the next 3 weeks with a view to maintaining the degree of firmness in the money market existing at the time of this meeting. A minority believed that a return to an easier and more stimulative monetary position would be appropriate.

In accordance with the majority view, the following current economic policy directive was issued to the Federal Reserve Bank of New York:

It is the Committee's current policy to accommodate moderate growth in bank credit, while putting increased emphasis on money market conditions that would contribute to an improvement in the capital account of the U.S. balance of payments. This policy takes into consideration the continuing adverse balance of payments position and its cumulative effects and the high level of domestic business activity, as well as the increases in bank credit, money supply, and the reserve base in recent months. At the same time, however, it recognizes the continuing underutilization of resources.

To implement this policy, System open market operations shall be conducted with a view to continuing the present degree of firmness in the money market.

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Votes for this action: Messrs. Martin, Hayes, Balderston, Bopp, Clay, Irons, King, Mills, Scanlon, and Shepardson. Votes against this action: Messrs. Mitchell and Robertson.

Messrs. Mitchell's and Robertson's dissenting votes reflected their view that the Committee should take prompt steps to moderate the money market firming that had occurred in the period since the preceding meeting, and move gradually toward a still easier monetary policy that, along with the tax reduction under consideration by Congress, would be more conducive to an acceleration of domestic economic growth. They recognized fully the gravity of the U.S. balance of payments problem but thought that it should be dealt with by vigorous application of specific remedies, including further efforts to bring about a reduction of existing discriminatory barriers to U.S. exports. They viewed firming money market conditions at this time as continuing the Committee's recent trend toward reducing the incentive for domestic borrowing, and they were concerned that it might induce a backwash of reaction that would worsen rather than help the balance of payments problem over the months immediately ahead.

July 30, 1963

1. Authority to effect transactions in System Account.

The domestic economy had continued to expand at a moderate pace. In the second quarter, GNP was estimated on a preliminary basis at a \$579 billion seasonally adjusted annual rate, as compared with \$572 billion in the first quarter. Industrial production in June rose further to an index level of 125, despite a decline in steel output.

Housing starts, although off somewhat in June from the advanced May level, were substantially above a year earlier. Non-agricultural employment rose further, average hours of work at factories remained high, and the unemployment rate declined slightly. Retail sales in June were at the level prevailing since

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winter, but in July a modest rise appeared likely. Consumer prices increased in June, with higher food prices the major factor, and industrial prices in wholesale markets firmed.

Despite the generally favorable tone of the statistics, more crosscurrents and uncertainties in the economy were apparent than earlier, with some questioning of the continuation of the current rate of expansion. The persistent balance of payments deficit contributed to the uncertainties, and programs designed to deal with it had been announced by the President in mid-July.

The recent action increasing the Federal Reserve discount rate to $3\frac{1}{2}$ per cent had been widely anticipated, particularly following reports of a further deterioration in the balance of payments in the second quarter. Yields on U.S. Government securities rose during the first half of July, with Treasury bills showing the greatest response. The 3-month bill rate rose about $\frac{1}{4}$ of 1 percentage point to $3\frac{1}{4}$ per cent, and intermediate- and long-term bond yields increased somewhat. After the discount rate announcement yields receded slightly, but on the shortest maturities yields subsequently moved back to about the $3\frac{1}{4}$ per cent level. Federal funds rates, after oscillating sharply during the period when differing Reserve Bank discount rates were in existence, moved up into a $3\frac{1}{4}$ to $3\frac{1}{2}$ per cent range. Corporate and municipal bond yields were not affected significantly.

Credit at weekly reporting member banks declined much more than usual in the first 3 weeks of July following an exceptionally large increase in June, both months being affected by the earlier timing of Treasury financing operations this year. Required reserves against private deposits rose more than seasonally in the 4 weeks ended July 24. Free reserves averaged somewhat less than in the preceding 4 weeks, while both excess reserves and borrowings were larger.

The seasonally adjusted money supply increased sharply in the first half of July, following a somewhat smaller rise in June. Time and savings deposits at commercial banks increased in the first half of July at about the second-quarter rate; the mid-

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month increase to 4 per cent in the maximum permissible rate of interest payable on time deposits with maturities between 90 days and 1 year was followed by a sharp rise in time deposits at weekly reporting member banks.

The U.S. balance of payments deficit proved to have increased sharply in June and for the second quarter. Excluding net receipts from special Government transactions, the seasonally adjusted deficit for the quarter was expected to come to about \$1.25 billion, considerably larger than the deficit for the first quarter. The increase was traceable to an enlarged capital outflow, especially of short- and medium-term bank credit.

In the week and a half after the increase in the discount rate and the announcement of a proposed interest equalization tax on American purchases of foreign securities, the U.S. dollar strengthened against the Canadian dollar and very slightly against sterling, but showed little or no general improvement against other currencies.

The discussion at this meeting showed that the range of views as to the appropriate policy to be followed for the next 3 weeks was relatively narrow. To a considerable extent, the differences of opinion reflected varying judgments as to whether open market operations should focus more on the levels of short-term rates or on target levels for the availability of bank reserves. Judgments also differed on whether short-term rates should preferably remain about where they were for the period immediately ahead, or whether they should be encouraged to move up slightly further, in the context of a higher discount rate, to clarify to the market the present posture of System policy. It developed that a majority of the Committee favored attaining a slightly greater degree of firmness in the money market, while continuing to provide for moderate expansion in bank reserves, and the following current policy directive therefore was issued to the Federal Reserve Bank of New York:

It is the Committee's current policy to accommodate moderate growth in bank credit, while putting increased emphasis on money market condi-

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tions that would contribute to an improvement in the capital account of the U.S. balance of payments. This policy takes into consideration the continuing adverse balance of payments position and its cumulative effects and the high level of domestic business activity, as well as the increases in bank credit, money supply, and the reserve base in recent months. At the same time, however, it recognizes the continuing underutilization of resources.

To implement this policy in the context of a higher discount rate, System open market operations shall be conducted with a view to attaining a slightly greater degree of firmness in the money market, while accommodating moderate expansion in aggregate bank reserves.

Votes for this action: Messrs. Martin, Hayes, Balderston, Irons, Mills, and Shepardson. Votes against this action: Messrs. Bopp, Mitchell, Robertson, and Scanlon.

2. Amendment of continuing authority directive.

The Account Manager suggested that under present conditions the continuing authority directive to the Federal Reserve Bank of New York, which had been amended on June 18, 1963, to raise from \$1 billion to \$1.5 billion the limit on net changes in the System Open Market Account in the period between Committee meetings, might appropriately be changed to restore the former figure of \$1 billion. Accordingly, the Committee amended Section 1(a) of that directive by inserting "\$1 billion" and deleting "\$1.5 billion."

Votes for this action: Messrs. Martin, Hayes, Balderston, Bopp, Irons, Mills, Mitchell, Robertson, Scanlon, and Shepardson. Votes against this action: None.

August 20, 1963

Authority to effect transactions in System Account.

According to preliminary figures on industrial production, retail trade, employment, new orders, and private construction, the domestic economy demonstrated somewhat more vigor in July than had been generally anticipated. The industrial pro-

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duction index rose nearly 1 percentage point, to 126.5 per cent of the 1957-59 average, from a June figure that had been revised upward, and the gains were widespread among industries and market groupings.

The labor market also showed some improvement as non-agricultural employment rose further, factory hours of work were maintained at high levels, and the rate of unemployment declined slightly. The number of major labor market areas classified in substantial labor surplus categories had been reduced to the smallest total since mid-1960. Retail trade, which had been on a plateau for some time, showed evidence of advancing in both June and July, with sales in July more than 2 per cent above the May level. According to a recent survey, consumer buying plans also had strengthened. Industrial prices remained relatively stable on average, while stock market prices had risen to the year's high and were close to the record high of December 1961.

The impact of the mid-July increase in the Reserve Bank discount rate, other monetary actions, and the President's program to deal with the deficit in the balance of payments had now been reflected more substantially in the financial sector. Treasury short-term bill rates had risen somewhat further and were about one-third of a percentage point above the 3 per cent level prevailing at the beginning of July. Other money market rates had also risen, and Federal funds recently had been trading quite consistently at $3\frac{1}{2}$ per cent. In longer-term markets yields on Treasury bonds remained practically unchanged at about 4 per cent for most issues, while yields on new issues of corporate and municipal bonds had declined several basis points. Although the volume of corporate and municipal financing continued to be light, dealers had nevertheless encountered some sluggishness in investor demand.

Bank credit, seasonally adjusted, declined substantially in July following a large rise in June, but the average expansion for the 2 months was about the same as that for earlier months

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this year. The seasonally adjusted money supply rose \$900 million in July but increased only slightly further in the first half of August, according to preliminary estimates. Time and savings deposits increased considerably further in July and early August, with the rate of expansion in time deposits accelerating after mid-July when the ceiling on time deposits with maturities of 90 days to 1 year was raised to 4 per cent. Free reserves averaged a little lower in the 4 weeks to mid-August than in the preceding 4-week period.

International transactions in July apparently resulted in a small surplus in the U.S. balance of payments. However, this reflected advance debt repayments by two European countries and reversal of midyear window-dressing operations of some European banks; without these transactions, there would have been a deficit of about \$200 million to \$250 million. Taking the months of June and July together, and excluding special Government receipts, the deficit was at an annual rate of about \$3.5 billion. Fragmentary data for early August indicated no significant change. In the exchange markets the U.S. dollar improved slightly vis-a-vis the Canadian dollar, weakened against the Swiss franc, and was little changed against other major currencies.

The discussion of open market policy for the period immediately ahead related essentially to whether the Committee's directive should continue to call for System Account operations with a view to attaining a slightly greater degree of firmness in the money market or whether operations should be conducted with a view to maintaining the prevailing degree of firmness. Upon consideration of recent economic and financial developments, including the increase in short-term rates during the past several weeks, and in view of prospective large-scale Treasury financing operations, it was the conclusion of the Committee that it would be preferable for the present degree of market firmness to continue unchanged for the time being, pending further evaluation of System policy in the light of de-

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velopments affecting the domestic economic situation and the balance of payments. The following current economic policy directive was issued to the Federal Reserve Bank of New York:

It is the Committee's current policy to accommodate moderate growth in bank credit, while putting increased emphasis on money market conditions that would contribute to an improvement in the capital account of the U.S. balance of payments. This policy takes into consideration the continuing adverse balance of payments position and its cumulative effects and the high level of domestic business activity, as well as the increases in bank credit, money supply, and the reserve base in recent months. At the same time, however, it recognizes the continuing underutilization of resources.

To implement this policy, System open market operations shall be conducted with a view to maintaining the prevailing degree of firmness in the money market, while accommodating moderate expansion in aggregate bank reserves.

Votes for this action: Messrs. Martin, Balderston, Bopp, Clay, Irons, Mills, Mitchell, Robertson, Scanlon, Shepardson, and Treiber. Votes against this action: None.

September 10, 1963

1. Authority to effect transactions in System Account.

Preliminary figures for August suggested no major change in the domestic business situation, with prospects favoring a continuation of an upward movement at a moderate pace. The unemployment rate edged down, although at 5.5 per cent it was not significantly different from a year earlier. It appeared probable from incomplete information that industrial production in August had changed little from the July level, with sharp declines in auto output—associated with the model change-over—and in steel production approximately offset by rises in other lines. Weekly data suggested that retail sales may have risen slightly further. Scattered reports of price increases for some industrial commodities were about balanced by re-

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ports of declines for others, and the over-all average of commodity prices remained stable.

With respect to prospective developments, the latest survey of business plans indicated that plant and equipment expenditures would rise substantially over the balance of the year. Stock price averages touched new highs, perhaps influenced by both brighter business prospects and the expectation of a tax cut. The end of the immediate threat of a rail strike at least temporarily removed a potentially serious impediment to business activity.

Credit conditions at commercial banks also showed relatively little change. Banks continued to acquire large amounts of municipal and Government agency securities and to expand their mortgage and consumer loans relatively rapidly. Business loans, however, remained sluggish. The money supply, seasonally adjusted, declined slightly in August, but seemingly began to rise again in early September. Through August, growth in the money supply in 1963 had been at an annual rate of 2.5 per cent, compared with a 1.5 per cent increase in 1962 as a whole.

Conditions in the money and capital markets at the time of this meeting were influenced by a Treasury advance refunding operation that had been announced earlier in September. Prior to the announcement, the rate on 3-month Treasury bills had been fluctuating between 3.38 and 3.40 per cent, and yields on long-term Government, corporate, and municipal securities were all between $\frac{1}{8}$ and $\frac{1}{4}$ of a percentage point above their lows earlier in the year. The refunding operation put some downward pressure on bill rates in the last few days before this meeting and was accompanied by some upward adjustments in yields on longer-term Government and corporate bonds.

According to the tentative weekly figures, the August deficit in the U.S. balance of payments, like the July deficit, was below the rate for the first 2 quarters, after allowance for seasonal variations. The evidence available suggested that the improve-

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ment thus far in the third quarter might have been confined to the capital account.

The Committee was unanimous in the view that no change should be made in its credit policy while the Treasury refunding operation was in process. Some members expressed an inclination to seek a slightly greater degree of firmness in money market conditions after the refunding, or at least to resolve any uncertainties on the side of less ease, on the ground that improving domestic business conditions offered an opportunity for monetary policy to make some further contribution to improvement in the balance of payments situation. In the opinion of others, however, present policy was appropriate even apart from the desirability of maintaining stable monetary conditions during the refunding. Some members also favored a continuation of present policy on the grounds that it was preferable to make any desired changes at Committee meetings rather than to project them into a period between meetings. After discussion, a consensus was reached favoring no change for the full 3-week period ahead. The Committee then issued the following current economic policy directive to the Federal Reserve Bank of New York:

It is the Committee's current policy to accommodate moderate growth in bank credit, while putting increased emphasis on money market conditions that would contribute to an improvement in the capital account of the U.S. balance of payments. This policy takes into consideration the continuing adverse balance of payments position and its cumulative effects and the high level of domestic business activity, as well as the increases in bank credit, money supply, and the reserve base in recent months. At the same time, however, it recognizes the continuing underutilization of resources.

To implement this policy, and taking account of the current Treasury refunding operation, System open market operations shall be conducted with a view to maintaining the prevailing degree of firmness in the money market, while accommodating moderate expansion in aggregate bank reserves.

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Votes for this action: Messrs. Martin, Hayes, Balderston, Clay, Irons, King, Mitchell, Robertson, Scanlon, Shepardson, and Wayne. Votes against this action: None.

2. Authority to purchase and sell foreign currencies.

Upon recommendation of the Special Manager of the System Open Market Account, the Committee amended the continuing authority directive for System foreign currency operations to increase from \$25 million to \$50 million the authorization for purchases of foreign currencies through forward transactions for the purpose of allowing greater flexibility in covering commitments under reciprocal currency agreements. With this amendment the directive issued to the Federal Reserve Bank of New York read as follows:

The Federal Reserve Bank of New York is authorized and directed to purchase and sell through spot transactions any or all of the following currencies in accordance with the Guidelines on System Foreign Currency Operations reaffirmed by the Federal Open Market Committee on March 5, 1963, as amended on May 28, 1963:

Pounds sterling
French francs
German marks
Italian lire
Netherlands guilders
Swiss francs
Belgian francs
Canadian dollars
Austrian schillings
Swedish kronor

The Federal Reserve Bank of New York is also authorized and directed to purchase, in accordance with the Guidelines and for the purpose of allowing greater flexibility in covering commitments under reciprocal currency agreements, any or all of the foregoing currencies through forward transactions, up to a combined total of \$50 million equivalent.

The Federal Reserve Bank of New York is further authorized and directed to purchase and sell, in accordance with the Guidelines and for the purpose of utilizing its holdings of one currency for the settlement of

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commitments denominated in other currencies, any or all of the foregoing currencies through forward as well as spot transactions, up to a combined total of \$50 million equivalent.

Total foreign currencies held at any one time shall not exceed \$1.75 billion.

Votes for this action: Messrs. Martin, Hayes, Balderston, Clay, Irons, King, Mitchell, Robertson, Scanlon, Shepardson, and Wayne. Votes against this action: None.

October 1, 1963

1. Authority to effect transactions in System Account.

The Board's index of industrial production fell back 1 percentage point in August to 126, from a July high of 127. The decline reflected decreases in steel and auto production, where special temporary factors were at work. Nonagricultural employment also was reduced a little in August, and total personal income rose less than in most earlier months. In September the seasonally adjusted unemployment rate continued at about 5.5 per cent.

Retail sales were maintained in August at the advanced level of the preceding month, according to the latest data, but preliminary indications suggested that sales had declined in September. New housing starts fell in August, but the June-August average remained considerably higher than a year earlier.

Price advances for industrial goods had become more widespread, but with few exceptions the increases were modest and there continued to be offsetting declines. Through mid-August the monthly index for industrial commodities had changed little, and the subsequent weekly indexes continued stable. The consumer price index, which had risen appreciably in June and July, showed no change in August.

Despite the fact that some key measures had recently leveled off or shown modest declines after earlier rapid advances, GNP in the third quarter was indicated to be substantially above the

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\$580 billion annual rate reported for the second quarter of the year—perhaps as high as \$589 billion.

In capital markets, corporate and municipal financing volume was relatively small in September. It appeared likely that corporate financing would decline further in October, but that State and local government financing would be sharply higher. Yields on new corporate bond issues had stabilized in recent weeks, while yields on municipal bonds had increased moderately further. Both were at the highest levels in over a year. Common stock prices in early September breached their late 1961 high, but most recently declined moderately.

In the Government securities market, long-term yields edged off from the highs reached in early September when the Treasury's advance refunding was announced. Yields on 3-month bills remained around the 3½ per cent level.

Preliminary estimates indicated that bank credit expanded considerably in September—by over \$2 billion after seasonal adjustment—with all of the rise in loans. About half of the estimated increase was in security loans, reflecting in large part dealer borrowing in connection with the Treasury's advance refunding. Business loan growth also was somewhat larger than earlier in the year.

The seasonally adjusted money supply in the first half of September was estimated to have risen by about \$400 million from the August average, following a decline of \$200 million in August. Growth in time and savings deposits had continued large but at a slower rate than in August. Free reserves, although down sharply in the latest week, averaged about the same over the past 4 weeks as they had in the preceding 4 weeks.

The balance of payments apparently had improved somewhat in the third quarter, but the deficit evidently was still large. Industrial activity abroad continued its upward course.

While there were some differences of opinion within the Committee on monetary policy for the next 3 weeks, the range among types of policies contemplated was relatively narrow. Some

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members favored seeking slightly less ease in the money market, on the grounds that the balance of payments problem remained serious while prospects for domestic economic activity appeared to them to be relatively encouraging. Others thought such a shift would be inappropriate in view of the continuing underutilization of domestic resources. After discussion, a decision against any change in policy at this time was reached by the Committee. The following current policy directive, which differed from the one adopted at the preceding meeting only by deletion from the second paragraph of the earlier reference to the Treasury re-funding operation, was issued to the Federal Reserve Bank of New York:

It is the Committee's current policy to accommodate moderate growth in bank credit, while putting increased emphasis on money market conditions that would contribute to an improvement in the capital account of the U.S. balance of payments. This policy takes into consideration the continuing adverse balance of payments position and its cumulative effects and the high level of domestic business activity, as well as the increases in bank credit, money supply, and the reserve base in recent months. At the same time, however, it recognizes the continuing underutilization of resources.

To implement this policy, System open market operations shall be conducted with a view to maintaining the prevailing degree of firmness in the money market, while accommodating moderate expansion in aggregate bank reserves.

Votes for this action: Messrs. Martin, Bopp, Clay, Irons, Mitchell, Robertson, and Scanlon. Votes against this action: Messrs. Hayes, Balderston, Mills, and Shepardson.

Messrs. Hayes, Balderston, Mills, and Shepardson dissented because they favored seeking slightly less ease in the money market. Mr. Hayes commented that even a small modification in policy of the sort he favored would, in his judgment, have some significance; he did not feel that all policy changes had to be dramatic.

2. Amendment of continuing authority directive.

In accordance with the recommendation of the Account Manager, Section 1 (a) of the continuing authority directive issued to the Federal Reserve Bank of New York was amended to raise from \$1 billion to \$1.5 billion the limit on changes in holdings of securities in the System Open Market Account between meetings of the Committee. A similar action had been taken at the meeting of June 18, 1963, but the former figure was restored at the meeting of July 30, 1963. With the action at this meeting, the wording of Section 1 (a) shown in the entry for June 18, 1963, was again adopted.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bopp, Clay, Irons, Mitchell, Mills, Robertson, Scanlon, and Shepardson. Votes against this action: None.

3. Authority to purchase and sell foreign currencies.

On March 5, 1963, the Committee had authorized the Federal Reserve Bank of New York to undertake forward purchases of foreign currencies, within a specified dollar limit, for the purpose of permitting greater flexibility in covering commitments under reciprocal currency (swap) agreements. On May 28, 1963, forward and spot transactions were authorized for the additional purpose of settling commitments denominated in one currency by use of System holdings of another, within a separately specified dollar limit. At this meeting the Committee authorized purchases of foreign currencies through spot transactions and sales through forward transactions for the purpose of restraining short-term outflows of funds induced by arbitrage considerations. This authority was considered likely to prove useful when relationships among spot and forward foreign currency prices and interest rate differentials provided incentives for arbitrage operations involving potentially heavy outflows of short-term funds.

Concurrently with this action, the dollar limitations on forward operations for each of the two specific purposes previously auth-

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orized were removed, and a new dollar limit of \$150 million equivalent was specified for all three types of authorized forward operations taken together, in order to provide greater flexibility in these operations.

These actions were reflected in the following amended continuing authority directive for transactions in foreign currencies, issued to the Federal Reserve Bank of New York:

The Federal Reserve Bank of New York is authorized and directed to purchase and sell through spot transactions any or all of the following currencies in accordance with the Guidelines on System Foreign Currency Operations reaffirmed by the Federal Open Market Committee on March 5, 1963, as amended May 28, 1963:

Pounds sterling
French francs
German marks
Italian lire
Netherlands guilders
Swiss francs
Belgian francs
Canadian dollars
Austrian schillings
Swedish kronor

The Federal Reserve Bank of New York is also authorized and directed to operate in any or all of the foregoing currencies, in accordance with the Guidelines and up to a combined total of \$150 million equivalent, by means of:

- (a) purchases through forward transactions, for the purpose of allowing greater flexibility in covering commitments under reciprocal currency agreements;
- (b) purchases and sales through forward as well as spot transactions, for the purpose of utilizing its holdings of one currency for the settlement of commitments denominated in other currencies; and
- (c) purchases through spot transactions and sales through forward transactions, for the purpose of restraining short-term outflows of funds induced by arbitrage considerations.

Total foreign currencies held at any one time shall not exceed \$1.75 billion.

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Votes for this action: Messrs. Martin, Hayes, Balderston, Bopp, Clay, Irons, Mitchell, Mills, Robertson, Scanlon, and Shepardson. Votes against this action: None.

October 22, 1963

1. Authority to effect transactions in System Account.

The domestic business situation and outlook appeared generally favorable at the time of this meeting. Increases in September were recorded for new orders received by durable goods producers, new housing starts, and average hours of work. These series are among those that had tended in the past to move ahead of over-all activity. There was a note of caution in the economic appraisals, however, as some key measures, such as industrial production and the rate of unemployment, were unchanged in September, and retail sales declined. Weekly data for early October suggested that more recently retail trade was recovering and output was rising in the auto industry. GNP in the third quarter was estimated to have advanced by \$9 billion, on a seasonally adjusted annual rate basis, to \$588.5 billion.

Despite numerous announcements of price increases, the index of wholesale prices remained in the narrow range prevailing for several years. Stock market prices rose appreciably to about their previous peak on heavy trading volume. Stock market credit increased sharply in September.

Security financing by State and local governments was light in September, but estimates for October suggested sharp expansion. Corporate financing remained moderate in September, but contrary to earlier estimates was now expected to be somewhat larger in October. Yields on corporate and municipal bonds had declined slightly from their September highs. A more cautious tone had developed in the U.S. Government securities market. Yields on all maturities of Government securities edged up during the first half of October and at midmonth were generally at their highest levels of the year. On the day preceding this meeting the

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3-month Treasury bill rate closed at 3.46 per cent, 9 basis points above its level of 3 weeks earlier. The upward pressure on bill rates reflected, in part, sizable Treasury additions to bill supplies. It was reported that the Treasury planned to announce shortly the terms on which it would refinance \$7.6 billion of securities maturing November 15, 1963.

Bank credit, which had increased sharply in September, declined in early October mainly because of loan repayments by security dealers and finance companies. Business loans in early October continued to expand more rapidly than usual at this time of the year. Both the money supply and commercial bank time and saving deposits, seasonally adjusted, were estimated to have increased more rapidly in the first half of October than in the month of September. Free reserves at member banks averaged about \$50 million in the 4 weeks ending October 16, compared with nearly \$150 million in the preceding 4 weeks.

The balance of payments deficit showed a marked decline in the third quarter, on the basis of preliminary estimates. The improvement reflected primarily sharp reductions in capital outflows stemming in part from the effects of the proposed interest equalization tax and increases in domestic interest rates, especially short-term rates, that were associated with the July rise in Federal Reserve Bank discount rates. Economic activity in most foreign countries continued to expand.

With respect to monetary policy for the next 3 weeks, the Committee favored maintaining an "even keel" in the money market in view of the imminent Treasury financing. Some members, however, expressed concern about recent rates of increase in member bank reserves and in the public's liquid asset holdings and about the outlook for commodity prices. Others emphasized the marked improvement in the third quarter balance of payments figures, which they felt reduced the urgency of achieving greater money market firmness for the sake of moderating capital outflows. They also noted the continuing margin of underutilized

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domestic resources and had questions about the sustainability of the recent rate of growth in aggregate demand.

While the consensus favored no change in policy, the first paragraph of the current economic policy directive was revised to reflect the improved balance of payments position and the recent further expansion in the domestic economy. The second paragraph also was revised, to include a reference to the forthcoming Treasury financing and to employ language that, in the opinion of a majority, specified more clearly than the previous language the desired degree of money market firmness. The directive was issued to the Federal Reserve Bank of New York in the following form:

It is the Federal Open Market Committee's current policy to accommodate moderate growth in bank credit, while maintaining conditions in the money market that would contribute to continued improvement in the capital account of the U.S. balance of payments. This policy takes into consideration the fact that domestic economic activity is expanding further, although with a margin of underutilized resources; and the fact that the balance of payments position is still adverse despite a tendency to reduced deficits. It also recognizes the increases in bank credit, money supply, and the reserve base of recent months.

To implement this policy, and taking into account the imminent Treasury refinancing, System open market operations shall be conducted with a view to maintaining the degree of firmness in the money market that has prevailed in recent weeks, while accommodating moderate expansion in aggregate bank reserves.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bopp, Clay, Mills, Mitchell, Robertson, Scanlon, Shepardson, and Shuford. Votes against this action: None.

2. Authority to purchase and sell foreign currencies.

The Committee authorized the Federal Reserve Bank of New York to undertake negotiation of a standby reciprocal currency (swap) arrangement with the Bank of Japan in the amount of \$150 million.

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Votes for this action: Messrs. Martin, Hayes, Balderston, Bopp, Clay, Robertson, Scanlon, Shepardson, and Shuford. Votes against this action: Messrs. Mills and Mitchell.

It was agreed that the reciprocal currency arrangement with Japan, when negotiated, would complete the set of such arrangements that the Committee presently contemplated. Note was taken of the fact that Japan, unlike other countries with which the System had entered into reciprocal currency arrangements, had not yet removed all restrictions on payments and transfers for current international transactions. A majority of the Committee believed, however, that it was appropriate to negotiate the arrangement at the present time because Japan was a country of major importance in international trade and finance and because the remaining restrictions on current account transactions were relatively minor and could be expected to be removed soon.

Mr. Mills indicated that in addition to substantive criticisms and objections to a reciprocal currency arrangement with Japan, his reasons for dissenting went beyond this particular transaction. He believed that there was an undesirable drift away from the original and more orthodox objectives in the System's foreign currency operations and by his dissent he also desired to crystallize awareness of this tendency within the Committee. Mr. Mitchell's dissent was based on a question as to whether the agreement with Japan was entirely compatible with what he understood to be the original purpose of the System's reciprocal currency arrangements—to ameliorate the balance of payments problem of the United States. He doubted that the short-term international financial position of the United States was sufficiently strong as yet to undertake assisting other countries with their balance of payments problems, or that short-term credits made available as a result of the swap arrangement would be basically helpful to the Japanese.

It was the view of the majority, on the other hand, that the arrangement was desirable because capital flows between Japan

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and the United States were subject to reversals in direction, and, more generally, because the reciprocal currency arrangements were best viewed as a mutual defense under which short-term credit would be extended by either party when required by the other.

In a related action the Committee modified the amounts and form of the dollar limitations specified in the continuing authority directive for System foreign currency operations. In place of the previous limit of \$1.75 billion on total foreign currency holdings at any one time, two separate limits were specified: a limit of \$1.95 billion on foreign currencies held under reciprocal currency arrangements, and a limit of \$150 million on foreign currencies held as a result of outright purchase. The former figure was equal to the sum of the amounts currently specified by the Committee for all individual authorized reciprocal currency arrangements, and therefore represented the maximum of System covered holdings of foreign currencies under these arrangements, in the remote possibility that they might all simultaneously be fully drawn on. The limit of \$150 million on forward transactions that had been previously specified was retained.

Reflecting these actions, the directive issued to the Federal Reserve Bank of New York read as follows:

The Federal Reserve Bank of New York is authorized and directed to purchase and sell through spot transactions any or all of the following currencies in accordance with the Guidelines on System Foreign Currency Operations reaffirmed by the Federal Open Market Committee on March 5, 1963, as amended May 28, 1963; provided that the aggregate amount of foreign currencies held under reciprocal currency arrangements shall not exceed \$1.95 billion equivalent at any one time, and provided further that the aggregate amount of foreign currencies held as a result of outright purchases shall not exceed \$150 million equivalent at any one time:

Pounds sterling
French francs
German marks
Italian lire
Netherlands guilders

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Swiss francs
Belgian francs
Canadian dollars
Austrian schillings
Swedish kronor
Japanese yen

The Federal Reserve Bank of New York is also authorized and directed to operate in any or all of the foregoing currencies in accordance with the Guidelines and up to a combined total of \$150 equivalent, by means of:

- (a) purchases through forward transactions, for the purpose of allowing greater flexibility in covering commitments under reciprocal currency agreements;
- (b) purchases and sales through forward as well as spot transactions, for the purpose of utilizing its holdings of one currency for the settlement of commitments denominated in other currencies; and
- (c) purchases through spot transactions and sales through forward transactions, for the purpose of restraining short-term outflows of funds induced by arbitrage considerations.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bopp, Clay, Mills, Mitchell, Robertson, Scanlon, Shepardson, and Shuford. Votes against this action: None.

Messrs. Mills and Mitchell voted favorably on this directive despite their opposition to a reciprocal currency arrangement with the Bank of Japan because the Committee earlier had approved negotiation of such an arrangement in an action to which their dissents were already recorded.

November 12, 1963

1. Authority to effect transactions in System Account.

Information available for October indicated a pick-up in domestic economic activity and broad stability in price indexes, but a continued high rate of unemployment. Industrial production was estimated at or fractionally above the September level,

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and retail sales had risen to a new high, with automobile markets especially strong. Construction activity continued steady at a level about 5 per cent above a year earlier.

Business sentiment appeared more optimistic than earlier. A private survey of business plans for 1964, released November 8, indicated an increase of 4 per cent in fixed capital outlays relative to 1963. In past business expansions this survey had tended to underestimate the amount of change actually realized.

Seasonally adjusted commercial bank credit expanded only moderately further in October, and growth so far this year had been somewhat slower than in the corresponding period of 1963. Business loan demand again was strong, and banks continued to make substantial sales of U.S. Government securities.

The private money supply, seasonally adjusted, increased substantially further in October. The rise was associated with an unusually large decline in U.S. Government deposits at commercial banks. Time and savings deposits also increased at a rate somewhat greater than in other recent months.

Stock market prices declined moderately in early November, after reaching new highs in late October. The October rise was associated with a large trading volume and a further increase in stock market credit. Effective November 6, the Board of Governors increased margin requirements from 50 per cent to 70 per cent.

Corporate and municipal financing increased sharply in October from the moderate volume of preceding months, but was expected to drop back in November. Yields on U.S. Government securities continued to rise and except for the longest maturities were at their highest levels since the spring of 1960. Rates on 3-month Treasury bills recently had moved above the 3½ per cent discount rate and prior to this meeting were 3.55 per cent. These rate increases were attributable to a combination of factors: a large volume of short-term issues by the Treasury in the last 10 days of October; continued bank liquidation of Government securities; increased optimism about the

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business outlook; and an expectation, widely held in financial markets, that money market conditions might soon become somewhat firmer.

The third-quarter international payments deficit, sharply reduced from the second quarter by declines in direct investment, in new foreign security issues, and in outflows of short-term money market funds, was estimated at a seasonally adjusted annual rate of about \$2 billion. (This estimate excluded the effects of special Government transactions and of the July reflux of window-dressing credits.) Abroad, activity was continuing to expand, but it seemed possible that limited availability of manpower and other resources in several major European countries in the face of expanding demands might result in slower rates of real growth, stronger inflationary trends, and more restrictive monetary policies in those countries.

The Committee believed that circumstances did not warrant a change in monetary policy at this time and agreed that over the next 3 weeks reserves should be supplied to accommodate the expected seasonal expansion in demand for bank credit.

Within this consensus, however, several members expressed concern about the recent increases in short-term interest rates, especially the rise in the rate on 3-month Treasury bills to a level somewhat above the discount rate. They felt that these increases were undesirable because they reinforced market expectations of imminent discount rate action and, if continued, would contribute to upward pressures on both domestic longer-term yields and interest rates abroad. Some other members felt that the recent increases in short-term rates and the firming of other credit market indicators were appropriate in view of the substantial recent expansion of the reserve base and the high level of liquidity in the economy. They expressed the view that a firmer policy posture might be warranted in the near future.

The current economic policy directive issued to the Federal Reserve Bank of New York differed from the one adopted at the previous meeting of the Committee only by deletion of a

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reference, no longer applicable, to Treasury financing. It read as follows:

It is the Federal Open Market Committee's current policy to accommodate moderate growth in bank credit, while maintaining conditions in the money market that would contribute to continued improvement in the capital account of the U.S. balance of payments. This policy takes into consideration the fact that domestic economic activity is expanding further, although with a margin of underutilized resources; and the fact that the balance of payments position is still adverse despite a tendency to reduced deficits. It also recognizes the increases in bank credit, money supply, and the reserve base of recent months.

To implement this policy, System open market operations shall be conducted with a view to maintaining the degree of firmness in the money market that has prevailed in recent weeks, while accommodating moderate expansion in aggregate bank reserves.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bopp, Clay, Irons, Mitchell, Robertson, Scanlon, and Shepardson. Vote against this action: Mr. Mills.

Mr. Mills dissented because he felt that present policy was undesirably restrictive for viability of the domestic economy. He thought that measures required to combat any further balance of payments difficulties should be taken in the area of fiscal controls, and he favored increasing the supply of reserves to relieve some of the existing upward pressure on interest rates and to reduce what he considered to be a threat to appropriate growth in the money supply.

2. Amendment of continuing authority directive.

In accordance with a suggestion of the Account Manager, Section 1(a) of the continuing authority directive to the Federal Reserve Bank of New York was amended to reduce the limit on net changes in the System Open Market Account in any period between meetings of the Committee to \$1 billion from the \$1.5 billion that had been established at the meeting on October 1. Earlier in the year the limit had been \$1 billion,

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except for the period between the meetings of June 18 and July 30, when it was \$1.5 billion.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bopp, Clay, Irons, Mills, Mitchell, Robertson, Scanlon, and Shepardson. Votes against this action: None.

3. Authority to purchase and sell foreign currencies.

Since early September the U.S. Stabilization Fund had been engaged in a program of spot purchases of Italian lire for two purposes: to help the Italian authorities cushion the abrupt decline that had been occurring in their monetary reserves, and to accumulate funds for repayment of the Treasury's bonded debt denominated in lire and maturing over the period from March 1964 to September 1965. However, the resources of the Stabilization Fund for this type of operation were limited. The Special Manager of the System Account recommended that the Federal Reserve Bank of New York be authorized to make spot purchases of Italian lire, at a rate above par if necessary, for purposes of immediate forward sale to the Treasury at the same rate, in order to assist in achieving the two objectives underlying recent Treasury lire purchases. He also recommended that authority be granted to conduct similar operations in other foreign currencies in which the Treasury had outstanding indebtedness to facilitate Treasury repayment of these debts. The Committee concluded that such operations appeared sufficiently likely to be useful to warrant their approval on an experimental basis, and the continuing authority directive for System foreign currency operations was amended by the addition of the following paragraph:

The Federal Reserve Bank of New York is also authorized and directed to make purchases through spot transactions, including purchases from the U.S. Stabilization Fund, and concurrent sales through forward transactions to the U.S. Stabilization Fund, of any of the foregoing currencies in which the U.S. Treasury has outstanding indebtedness, in accordance

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with the Guidelines and up to a total of \$100 million equivalent. Purchases may be at rates above par, and both purchases and sales are to be made at the same rates.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bopp, Clay, Irons, Mills, Mitchell, Robertson, Scanlon, and Shepardson. Votes against this action: None.

November 26, 1963

Authority to effect transactions in System Account.

This meeting was held by telephone on the first business day following the death of President Kennedy. It was called for the purpose of considering whether action by the Committee was required to deal with any actual or potential unsettlement in domestic financial markets or in foreign exchange markets stemming from the President's death.

Reports by the Manager and the Special Manager of the System Open Market Account indicated that there was no evidence of adverse market developments as of late morning. The Account Manager reported that the Government securities market had opened with a confident tone, and that prices at the opening were unchanged or slightly higher on securities of various maturities. The stock market already had made a good recovery in early trading. The Special Manager noted that gold and foreign exchange markets were steady, and that where necessary central banks were acting to maintain foreign exchange rates at their previous levels.

The Committee decided that it was desirable, as a precautionary measure, to revise its current economic policy directive in order to insure that the Federal Reserve Bank of New York would have ample authority to deal with any unsettlement that might develop. The revision was confined to the second paragraph, and the directive was issued in the following form:

It is the Federal Open Market Committee's current policy to accom-

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moderate moderate growth in bank credit, while maintaining conditions in the money market that would contribute to continued improvement in the capital account of the U.S. balance of payments. This policy takes into consideration the fact that domestic economic activity is expanding further, although with a margin of underutilized resources; and the fact that the balance of payments position is still adverse despite a tendency to reduced deficits. It also recognizes the increases in bank credit, money supply, and the reserve base of recent months.

To implement this policy, System open market operations shall be conducted with a view to cushioning any unsettlement that might arise in money markets stemming from the death of President Kennedy and to maintaining about the same conditions in the money market as have prevailed in recent weeks, while accommodating moderate expansion in aggregate bank reserves.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bopp, Clay, Irons, Mitchell, Robertson, Scanlon, and Shepardson. Vote against this action: Mr. Mills.

Mr. Mills dissented for the same reasons he had dissented from the directive adopted at the meeting of November 12, 1963; he thought the Committee should modify its policy to one of greater ease.

December 3, 1963

1. Authority to effect transactions in System Account.

Information on economic and financial developments since the death of President Kennedy, while quite incomplete, suggested that the economy had shown little tendency to depart from the path of continued moderate advance in over-all activity and broad stability of commodity prices. Business and consumer confidence appeared to have remained firm and widespread. Unsettlement in sensitive commodity and security markets had been minimal, and corporate stock prices had quickly recovered from the losses suffered on November 22. Speculative switching out of dollars into other currencies or gold had been limited.

More complete data on domestic activity in October confirmed

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earlier indications of a distinct pick-up in that month, with gains noted in such measures as industrial production, nonfarm employment, personal income, housing starts, and retail sales. New orders for durable goods and capital appropriations by manufacturers also were reported to have risen. Scattered data for November added to the impression of some continued over-all expansion. However, the unemployment rate in October remained at the 5.5 per cent level of other recent months and gave no sign of declining in November.

In financial markets, the yield on 90-day Treasury bills had declined several basis points to a level slightly below the 3½ per cent discount rate during the week preceding this meeting, but more recently it had risen again and had closed at 3.53 per cent on the previous day. Yields on long-term U.S. Government securities were steady. The volume of corporate and municipal financing was moderate in November, but yields on new corporate issues increased to the highest level in more than a year.

Bank credit expansion was large in the first 3 weeks of November, and business loans showed a marked rise. The seasonally adjusted money supply rose sharply again in November, and time and savings deposits also expanded further.

The balance of payments deficit in October and the first 3 weeks of November was somewhat above the third-quarter rate but substantially below the rates for the first 2 quarters.

The Committee concluded that it was appropriate to continue the policy it had been following in recent weeks, in light of these domestic and international developments and in view of the fact that only a short time had elapsed for appraisal of business and financial reactions following the death of President Kennedy. The directive adopted at the meeting of November 26, 1963, was therefore renewed without change.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bopp, Clay, Irons, Mitchell, Robertson, Scanlon, and Shepardson. Vote against this action: Mr. Mills.

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Mr. Mills, who had voted against the directives adopted at the two preceding meetings, dissented from this action also, because he continued to believe that the Committee should adopt a policy of greater ease.

2. Authority to purchase and sell foreign currencies.

The Committee amended the first paragraph of its continuing authority directive for foreign currency operations to increase the limit on the aggregate amount of foreign currencies held under reciprocal currency (swap) arrangements at any one time from \$1.95 billion to \$2.05 billion. With this amendment, the first paragraph of the continuing authority directive read as follows:

The Federal Reserve Bank of New York is authorized and directed to purchase and sell through spot transactions any or all of the following currencies in accordance with the Guidelines on System Foreign Currency Operations reaffirmed by the Federal Open Market Committee on March 5, 1963, as amended May 28, 1963; provided that the aggregate amount of foreign currencies held under reciprocal currency arrangements shall not exceed \$2.05 billion equivalent at any one time, and provided further that the aggregate amount of foreign currencies held as a result of outright purchases shall not exceed \$150 million equivalent at any one time:

Pounds sterling
French francs
German marks
Italian lire
Netherlands guilders
Swiss francs
Belgian francs
Canadian dollars
Austrian schillings
Swedish kronor
Japanese yen

Votes for this action: Messrs. Martin, Hayes, Balderston, Bopp, Clay, Irons, Mills, Mitchell, Robertson, Scanlon, and Shepardson. Votes against this action: None.

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The previous limit of \$1.95 billion, which had been established at the meeting of October 22, 1963, was equal to the sum of the amounts authorized for individual swap arrangements at that time. On November 22, 1963, Committee members had approved increases of \$50 million each in the swap lines with the Swiss National Bank and the Bank for International Settlements, effective November 25, 1963. This action, which was ratified by the Committee at this meeting, raised the sum of the individual swap lines to \$2.05 billion. The purpose of the amendment to the continuing authority directive was to make the limit on aggregate foreign currency holdings under swap arrangements again equal to this sum.

December 17, 1963

Authority to effect transactions in System Account.

At this meeting optimism about the economic outlook was reported to be widespread and to have increased recently as prospects for a tax cut early in 1964 appeared to have brightened. Preliminary estimates of GNP for the fourth quarter suggested growth at about the same rate as earlier in the year.

Some grounds for caution in assessing the outlook were noted, however. Results of the latest survey of business plans for capital outlays showed less strength in this area than had been widely anticipated; they indicated that fourth-quarter outlays were not expected to be quite so large as had been reported earlier and that there probably would be little change from the fourth quarter to the first quarter of 1964. Also, in November some key measures, such as industrial production and retail sales, showed little or no improvement from October or from levels that had been reached in July. The unemployment rate rose to 5.9 per cent in November from 5.5 per cent in October.

The wholesale price index for industrial commodities was unchanged from October to November, and less complete weekly indexes suggested that stability continued into early December.

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The consumer price index rose slightly in October and remained about 1 per cent above a year earlier.

Yields on 3-month Treasury bills continued to fluctuate around the 3½ per cent level, but those on Treasury notes and bonds edged up after late November to new 1963 highs. Corporate bond yields also rose on a large volume of new financing, while yields on municipal securities declined on unusually small volume. Common stock prices rose further to near their October peak.

Bank earning assets continued to expand in late November and early December, but figures for city banks suggested some recent softening of earlier strong private credit demands. A good part of the substantial increment in business loans at city banks in this period represented special financing arrangements and acquisitions of bankers' acceptances. Holdings of U.S. Government securities rose more than usual for this period, as banks were allotted practically all of a \$1 billion Treasury bill issue for which 50 per cent payment in the form of tax-and-loan-accounts credit was permitted.

The money supply apparently changed little in the last half of November and the first half of December, and growth in time and savings deposits appeared to have slowed. Free reserves on average were about the same in the 4 weeks ending December 11 as in the preceding 4 weeks. During part of the early December period, however, the money market was unexpectedly easy, with Federal funds trading in substantial volume below the 3½ per cent discount rate on several days. Banks met the demands for funds associated with December tax and dividend dates with little or none of the strains they often experience at this season.

Estimates of the U.S. balance of payments for the fourth quarter, based in part on preliminary figures for the first 2 weeks of December, suggested that the deficit would be above the reduced third-quarter rate but below the rate of the first half.

It was the judgment of the Committee that no change should be made in monetary and credit policy at this time. Factors seen

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as militating against a shift toward less ease included the moderate pace of business expansion in November, the absence of evidence of general inflationary pressures, and the continued high level of unemployment. Some members expressed the view that the widespread optimism about business prospects was disproportionate to actual recent gains in activity; they felt that more evidence on the continuing vigor of the expansion was necessary before a policy shift would be appropriate. Difficulties of gauging the outlook during the present holiday season were noted. The prospect of considerable churning in the money market over coming weeks, as seasonal demands for credit decline and the customary return flow of currency to commercial banks occur, was advanced as an argument against modifying policy in either direction at the present time.

The Committee concluded that it was no longer necessary to retain the clause relating to unsettlement in money markets stemming from the death of President Kennedy that had been included in the second paragraph of the current economic policy directives adopted at the two preceding meetings. With this clause deleted, the directive issued to the Federal Reserve Bank of New York read as follows:

It is the Federal Open Market Committee's current policy to accommodate moderate growth in bank credit, while maintaining conditions in the money market that would contribute to continued improvement in the capital account of the U.S. balance of payments. This policy takes into consideration the fact that domestic economic activity is expanding further, although with a margin of underutilized resources; and the fact that the balance of payments position is still adverse despite a tendency to reduced deficits. It also recognizes the increases in bank credit, money supply, and the reserve base of recent months.

To implement this policy, System open market operations shall be conducted with a view to maintaining about the same conditions in the money market as have prevailed in recent weeks, while accommodating moderate expansion in aggregate bank reserves.

Votes for this action: Messrs. Martin, Bopp, Clay, Daane, Irons, Mitchell, Robertson, Scanlon, and Shepardson. Votes against this action: Messrs. Hayes and Mills.

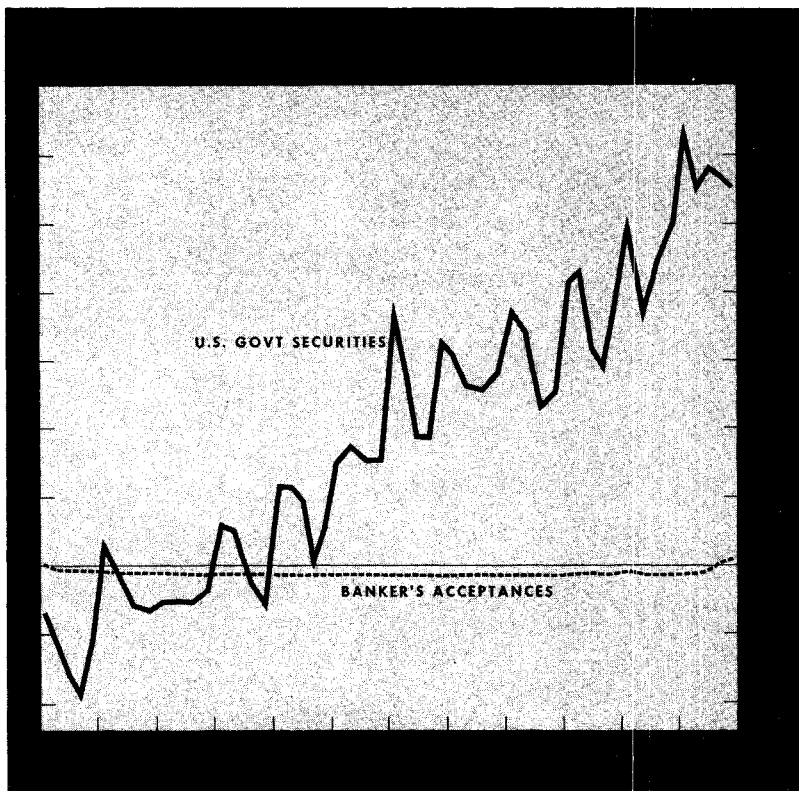
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Mr. Hayes dissented from this action because he favored a modest shift in policy toward less ease. He thought such a shift appropriate not only because of the continuing adverse balance of payments but also because he considered recent growth rates of bank credit and nonbank liquidity to be excessive from a domestic viewpoint, and to have potentially undesirable consequences for credit standards. He observed that if the Committee did not modify policy at this meeting, successive Treasury financings tentatively scheduled for early 1964 might militate against such action being taken in the near future.

Mr. Mills, who continued to favor a policy of greater ease, noted that the actual level of reserve availability in the period since the preceding meeting was consistent with his view of a viable and constructive credit policy. He dissented from the action on the directive, however, because he did not believe that a continuation of recent monetary conditions was compatible with the language of the directive.

OPERATIONS OF THE SYSTEM OPEN MARKET ACCOUNT

The following two reports describe the actions taken by the System Account Management during 1963 to carry out the policies of the Federal Open Market Committee. The first one is a chronological review of operations in domestic securities. In providing the reserve base for rapid expansion in commercial bank credit and for substantial growth in the money supply—and in view of the public's changing preferences for currency, demand deposits, and time deposits—the System Account Management acquired \$2.8 billion, net, of U.S. Government securities during the year.



NOTE.—Cumulative changes in Wed. figures for Treasury issues and acceptances both on an outright basis and under repurchase agreement.

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These acquisitions not only offset the contractive effect on member bank reserves of a comparatively small decline in the U.S. gold stock and an unusually large rise in the amount of currency held outside the Treasury, the Federal Reserve, and member banks, but also contributed to continued expansion in the aggregate reserves of member banks. The growth in credit and money that was encouraged by this expansion of reserves took place at somewhat higher interest rates, as the policy directives of the Federal Open Market Committee continued during the year to seek conditions that would actively encourage domestic economic growth while minimizing outflows of capital from the United States to foreign financial centers.

The report on operations in domestic securities was prepared by Robert W. Stone, Manager of the System Open Market Account, who supervises these operations. It is written from the vantage point of the Trading Desk at the Federal Reserve Bank of New York, where operations in these securities are effected to carry out the policy directives of the Federal Open Market Committee. The report stresses the factors—including variations in reserve elements, money market tendencies, and Treasury financings—that the System Account Management takes into account in the day-to-day provision of bank reserves.

The second report is a review of Federal Reserve operations in foreign currencies. The Federal Reserve has been buying and selling such currencies since early 1962 as part of the efforts to defend the dollar and strengthen the world payments system. During 1963 the volume of Federal Reserve operations in foreign currencies increased substantially. The reciprocal currency, or swap, network linking the Federal Reserve with foreign central banks and the Bank for International Settlements was extended to cover additional central banks, and existing swap lines were considerably enlarged. As a result, the facilities that are available through this network were more than doubled.

The Federal Open Market Committee also authorized during the year a broader range of operating techniques, including

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various types of transactions in the forward market. The reinforcement of the swap lines and the actual foreign exchange transactions exerted a strongly stabilizing influence on both gold and foreign exchange markets, which remained calm in the face of several potentially dangerous developments during the year.

The report on foreign currency operations was prepared by Charles A. Coombs, Special Manager of the System Open Market Account, who supervises the Federal Reserve's operations in such currencies. All these operations for the System Account are carried out, under the authorization of the Federal Open Market Committee, by the Federal Reserve Bank of New York, which also handles foreign currency transactions for the U.S. Treasury. This report begins on page 171.

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REVIEW OF OPEN MARKET OPERATIONS IN DOMESTIC SECURITIES

For the purpose of this review of operations in domestic securities, the year is divided into five broad periods, with divisions indicating shifts in policy or in general background factors to which Federal Reserve operations are continuously adapted.

January and February: Consolidating the slight shift toward less ease. As 1963 began, Federal Reserve open market operations undertook to consolidate the policy shift toward slightly less ease that had been adopted by the Federal Open Market Committee on December 18, 1962. The broad policy objective continued to be the accommodating of moderate growth in bank credit in keeping with domestic economic objectives, while aiming at money market conditions that would minimize capital outflows internationally. In more specific terms, policy was designed to offset anticipated seasonal downward pressures on short-term interest rates.

Operations in January were complicated by a pre-year-end build-up of excess reserves that flooded the market at the very start of the period, and by the unusually high level of Federal Reserve float that persisted through the month. Nevertheless, after these influences had produced a brief period of ease in early January, the money market gradually firmed as the Federal Reserve aggressively absorbed redundant reserves. Thus the effects of the policy shift, which had been felt in the closing week or two of 1962, were reasserted, and by the end of February the traces left by that shift on indicators of reserve availability were clear.

From January 10 through the end of February, the bulk of the trading in Federal funds took place at the 3 per cent discount rate, rather than in the 2¾ to 3 per cent range that had prevailed in the latter part of 1962, as shown in the chart on page 145. Free reserves averaged about \$340 million, compared with about \$400 million during the last half of 1962, and average member bank borrowings increased to \$135 million from about \$100 million. Reflecting in part the influence of the policy shift, the rate on 3-month Treasury bills did not un-

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dergo its customary seasonal decline, but ranged from a low of 2.86 per cent on January 3 to a high of 2.96 in early February, before dipping to 2.90 at the end of February.

The wide swings in reserve availability stemming from the movements in market factors necessitated substantial open market operations during January and February. Although the net result of Federal Reserve transactions was a withdrawal of

SYSTEM OPERATIONS IN GOVERNMENT SECURITIES DURING 1963

(In millions of dollars)

Type of operation	Jan. 2- Feb. 27	Feb. 28- May 15	May 16- July 31	Aug. 1- Oct. 23	Oct. 24- Dec. 31	Total
Outright purchases:						
Treasury bills:						
Market.....	345	971	1,824	746	1,330	5,216
Foreign.....	400	258	769	259	389	2,075
Coupon issues.....	32	494	321	464	198	1,509
Outright sales:						
Treasury bills:						
Market.....	550	447	907	820	506	3,231
Foreign.....	237	338	192	285	78	1,130
Coupon issues.....	35	14	15	40	.....	104
Redemptions.....	71	101	660	375	24	1,232
Repurchase agreements:						
Purchases.....	1,408	1,985	1,951	1,584	1,968	8,895
Sales.....	1,613	2,017	1,912	1,728	1,957	9,226
Net increase.....	-322	791	1,179	-195	1,320	2,773

\$322 million of reserves from the banking system during the period as a whole, outright transactions in Government securities, including both purchases and sales, totaled about \$1.7 billion. New repurchase agreements in this period totaled \$1.4 billion, and \$1.6 billion of agreements were terminated.

The larger-than-seasonal release of bank reserves by market factors during the opening weeks of the year was countered by the withdrawal through January 23 of about \$957 million of reserves as a result of Federal Reserve operations in Government securities. A total of \$342 million of repurchase agree-

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ments terminated at the start of the year, and from January 2 through January 23 the Federal Reserve sold \$580 million of Treasury bills, including \$444 million in the market, and also sold \$35 million of short-term coupon issues to foreign accounts. With market factors persistently providing funds in excess of expectations, no Federal Reserve action was taken to inject reserves during this period.

The tendency for free reserves to exceed expectations posed difficult problems early in 1963 for the System Account Management in its efforts to achieve the Federal Open Market Committee's objective of "offsetting the anticipated seasonal easing of Treasury bill rates . . ." These difficulties were aggravated by a substantial movement of reserves from country banks to the money centers. Country banks had accumulated average excess reserves of more than \$700 million during the statement week ended January 2, partly as a result of heavy borrowings early in the statement week in preparation for the December 31 statement date. Since these banks did not end their reserve settlement period until January 9, they supplied their accumulated excess funds to reserve city banks in the week ended January 9, thus providing an abundant supply of reserves in the money centers. Meanwhile, the reserve positions of the banks in New York City improved as dealer loans contracted when more attractive financing terms became available elsewhere. The money market turned easier despite Federal Reserve sales of \$200 million of Treasury bills on January 7 and 8, and the effective rate for Federal funds declined to 2 per cent by January 9. No action to absorb reserves was taken on that day since reserve availability was expected to contract sharply in the next statement week and sales would only have necessitated larger purchases in that week.

Following the "double settlement" date on January 9 (that is, the final day of a reserve-averaging period for country as well as reserve city banks), Federal Reserve operations successfully offset an easier tendency in the money market and helped reverse a decline in Treasury bill rates which had tem-

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porarily brought the 91-day issue as low as 2.86 per cent on January 3. By January 23, despite a broad seasonal demand, rates for Treasury bills were above year-end levels. In achieving this result the Federal Reserve's policy shift and the techniques used to implement it were augmented by an increase in the supply of short-term securities. The Treasury sold \$2.5 billion of 1-year bills on January 9 to replace a \$2 billion maturing issue and auctioned \$1 billion of June tax anticipation bills for cash on January 30. Partly reflecting these new issues, dealer inventories of bills, while substantially reduced from the record totals in December, remained relatively high. As money market conditions grew firmer in response to the policy shift, these inventories had to be financed at a higher cost.

The size of dealers' positions in bills facilitated Federal Reserve operations in late January and early February, when month-end reserve needs were enlarged by the sharp decline in float from the abnormally high level it had reached earlier in January. Although the Federal Reserve supplied about \$1.1 billion of reserves in the 2 weeks ended February 6, the 3-month Treasury bill rate—which the System Account Management had continuously in mind in conducting operations on that scale—rose to 2.96 per cent in early February. The sizable financing needs of dealers enabled the Federal Reserve to make new repurchase agreements totaling about \$900 million during the 2-week period, and about \$500 million of these agreements remained outstanding on February 6. Meanwhile the System Account Management also made some outright purchases in the market. In the period through February 6 it bought \$324 million of Treasury bills. These purchases were confined to the shortest maturities in order to minimize the impact of such buying on the 3-month rate. The Account Management also purchased an additional \$270 million of Treasury bills from foreign accounts and bought \$31.5 million of coupon issues in the market. In view of its concern with short-term interest rates, the Federal Reserve supplied reserves gingerly, and without attempting to anticipate reserve needs; it relied on market conditions to indicate the emer-

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gence of such needs, and moved only when these had been clearly indicated by the performance of the market itself.

Over the balance of February, the Federal Reserve withdrew \$461 million of reserves net. It made some new repurchase agreements to meet temporary needs and to offset dealer withdrawals of existing agreements, but over the 3 weeks ended February 27 it permitted the repurchase balance to decline by some \$357 million. It confined its market purchases of bills in this interval to \$20 million of short-dated issues on one day, while it sold or redeemed a total of \$255 million of Treasury bills, partly as a means of dealing with renewed downward pressure on bill rates. This pressure developed as demand for Treasury bills expanded, beginning in mid-February. Outright buying, attracted by the higher rate level that had emerged, was augmented by demand from sellers of coupon issues eligible for exchange in the Treasury's February refunding and advance refunding operations. Dealers' holdings of Treasury bills declined by about \$1 billion from record levels in December to just over \$2 billion in late February. The 3-month bill rate dipped temporarily to a low of 2.87 per cent, but closed on February 28 at 2.90 bid as caution reappeared with the approach of the pressures that typically accompany the mid-March period of heavy liquidity needs.

The markets for intermediate- and longer-term Government securities were dominated by a series of major Treasury debt operations during January and February. As the year opened, market attention was focused on the scheduled sale on January 8 of \$250 million of Treasury bonds of 1988-93 through competitive bidding among underwriting syndicates. Following the Treasury's December 20 announcement, four syndicates had been formed to bid on the issue. This first trial of a new technique for marketing long-term securities was highly successful. The winning bid, setting a net interest cost to the Treasury of about 4.008 per cent, topped the second-place bid by only \$275 for the entire \$250 million amount.

The public reoffering of the new 4 per cent bonds at par was

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greeted by such an enthusiastic investor response that the issue was reported oversubscribed only a few hours after the auction, and the new bonds immediately moved to a premium. The success of the financing also stimulated a general rise in prices of outstanding Treasury issues that persisted through mid-January. Thereafter, prices receded in a more cautious atmosphere as the market looked ahead to the approaching February refinancing and, more generally, appraised the prospect of the large volume of new Treasury borrowing that was implicit in the President's budget and tax messages.

On January 30 the Treasury announced the terms of its refunding of \$9.5 billion of February 15 maturities. At the same time it indicated that the market could expect an advance refunding operation soon after February 15 and a second long-term auction by competitive bidding in early April. The prospect of these operations dampened interest in longer maturities, and prices of these issues continued to drift lower through mid-February; prices of shorter maturities, however, held firm. The February refunding operation, which was confined to relatively short-term issues, was highly successful. The maturing issues, which were exchangeable into the new securities offered by the Treasury, moved to premiums of $\frac{5}{32}$ to $\frac{6}{32}$ during the subscription period. The public exchanged 96 per cent of its \$5.5 billion of maturing issues for \$2.8 billion of 1-year $3\frac{1}{4}$ per cent certificates and for \$2.5 billion of the reopened $3\frac{3}{4}$ per cent bonds of August 1968. The Federal Reserve exchanged its \$3.8 billion of the maturing issues for the $3\frac{1}{4}$ per cent certificate.

On February 20 the Treasury announced the terms of its generally anticipated advance refunding operation. These terms provided public holders of \$10.6 billion of 1963-64 maturities and \$9.7 billion of 1965-66 issues with the option of exchanging them for somewhat longer maturities. This large and rather complex operation was highly successful, exceeding the most optimistic estimates. The public exchanged about \$8 billion of 1963-66 issues for \$4.3 billion of new $3\frac{5}{8}$ per cent notes of 1967, \$2.6 billion of a reopened issue of $3\frac{7}{8}$ per cent bonds

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of 1971, and \$1.1 billion of a reopened issue of 4 per cent bonds of 1980. In all, it converted 38 per cent of its holdings, and the Treasury achieved a significant amount of debt extension.

The advance refunding operation again proved to be a powerful stimulant to market activity, generating an enormous variety of portfolio adjustments. Trading volume in the Government securities market, which typically averages between \$1.5 billion and \$2 billion per day, soared to a daily average of between \$3 billion and \$3.5 billion from the time of the Treasury's announcement on February 20 to the close of the subscription books for institutional subscribers on February 28. (Individual subscribers were allowed an additional week through March 8.) Dealers accommodated readily the large-scale switching of money and securities, and in doing so accumulated a substantial underwriting position in the new refunding securities.

Against the background of this heavy volume of activity, accomplished within the confines of fairly narrow price movements, the entire market displayed a steady tone at the close of February. Earlier price movements and adjustments to the terms of the refunding, however, had reduced prices of longer maturities over the 2 months by about $\frac{3}{8}$ to $\frac{3}{4}$ point. These declines raised the average yield on long-term Treasury bonds to 3.94 per cent from 3.87 on December 31, 1962. Shorter maturities, due or callable through 1967, on the other hand, were generally unchanged to slightly higher in price.

Prices of tax-exempt obligations, after a brief period of firmness in early January, also drifted lower as higher interest rate expectations emerged. Commercial bank demand was not so substantial as in early 1962, and dealers' advertised inventories rose to \$516 million by the end of February. During this 2-month period new offerings of these issues amounted to \$1.8 billion, a heavy volume. Despite the progressively higher yields on these new offerings, investor demand remained rather sluggish. On February 28 the average yield on Moody's Aaa-rated tax-exempt issues stood at 3.02 per cent, 8 basis points above the December 31 level.

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Corporate bond prices reacted relatively mildly to the factors affecting the other sectors of the capital market. Quotations moved irregularly, but a generally firm tone was maintained throughout the January-February period. New public offerings were not large—a total of \$600 million—and were largely digested by the close of February, although initial receptions were mixed. There were also private placements of about \$530 million in this period. At the end of February, the average yield on Moody's Aaa-rated corporate issues was 4.19 per cent, compared with 4.22 at the end of 1962.

March through mid-May: Seasonal reserve expansion. Within the framework of the somewhat firmer money market conditions achieved earlier, the Federal Reserve turned in March to meeting seasonal reserve needs. During the interval from March to mid-May it provided almost \$800 million of reserves net to member banks. Reserve availability remained such that the market mechanism readily accommodated the very large flows of funds and securities associated with the mid-March Federal income tax date for corporations and the April 1 Cook County (Illinois) personal property tax date, as well as the flows generated by the several Treasury financing operations during that period. Federal funds typically traded at the 3 per cent discount rate. Member bank borrowings were about \$140 million on the average during the period, about the same as in the opening months of the year. There were only brief intervals of more comfortable money market conditions, mainly around the end of country bank reserve-computation periods.

Continuing concern over the level of short-term rates, for balance of payments reasons, required careful execution of the Federal Reserve's operations to supply reserves. Treasury bill rates were subject to recurrent downward pressures following the \$5.8 billion reduction in the supply of Government securities maturing in less than 1 year that resulted from the Treasury advance refunding operation in February and March. The Federal Reserve's general approach to operations, as on other occasions, was to minimize market purchases of Treasury bills and

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to achieve the maximum rate impact from bill sales during periods when market factors were temporarily adding to reserve availability.

As shown in the table on page 130, the Federal Reserve made, and terminated during the period, about \$2 billion of repurchase agreements either to meet short-term reserve needs or to meet somewhat longer-run needs on a temporary basis on occasions when outright purchases might have had a particularly adverse impact on rates.

At the same time, the expanded supply of coupon issues available in the wake of the Treasury's advance refunding enabled the Federal Reserve to meet a substantial portion of member banks' reserve needs through purchases of \$494 million of these securities from March to mid-May. Gross market purchases of \$971 million of Treasury bills were partly offset by sales and redemptions, and outright holdings of bills rose \$343 million net. Bill purchases in the key 3-month maturity area were minimized, however, and the Account Management often executed purchases unobtrusively by responding to unsolicited offerings by dealers—instead of using the “go-around” technique in which it openly solicits simultaneous offerings from all dealers.

Treasury bill rates moved within a narrow range in this interval despite periods of strong demand. Downward rate pressures were offset not only by the use of the technical operating devices indicated above, but also, and more importantly, by debt management actions that partly offset the reduction in supplies of short-term issues produced by the advance refunding. The Treasury added \$100 million to the regular weekly auctions of 6-month bills for 8 consecutive weeks beginning March 25; it sold \$1.5 billion of June tax anticipation bills in March; and it raised \$500 million of new money in the 1-year bill auction on April 15. The 3-month bill rate ranged from a low of 2.86 per cent to a high of 2.92 over the 2½ months, and closed at 2.90 on May 15, unchanged from February 28. The 6-month bill rate, reflecting the additions to supply, rose 5 basis points to 2.99 per cent by May 15. As a result there was a slight

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widening of the unusually narrow spread between the two maturities that had prevailed earlier.

Heavy downward pressures on bill rates developed at the start of the period, in early March, at a time when the Federal Reserve found it necessary to supply large amounts of reserves. The downward pressures on rates reflected in part the reduction in the supply of short-term securities as a result of the advance refunding, and in part a persistent demand, including stockpiling of bills by Chicago banks in preparation for the April 1 Cook County tax date. The Federal Reserve's need to provide reserves, and to do so with a minimum downward impact on rates, thus posed difficult problems. Since the books on the Treasury's advance refunding operation were to remain open for individual investors until March 8, it was desirable to avoid purchases of coupon issues as a means of supplying reserves. Moreover, the size of dealer financing needs made it feasible to meet only a modest portion of reserve needs through repurchase agreements. Nevertheless, after making use of repurchase agreements where possible, and after buying bills from foreign accounts, the Federal Reserve was able to meet the balance of reserve needs through gradual and unobtrusive bill purchases in the market that had little impact on rates. Such bill purchases amounted to \$114 million over the 2 weeks ended March 13.

The Federal Reserve reversed direction around mid-March and sold or redeemed more than \$200 million of bills to counteract slightly easier tendencies that emerged in the money market after the March 15 tax date. Reserves shifted to the money centers at that time as dealer borrowing contracted after settlement for issues offered in the advance refunding, and money flowed to city banks with the approach of the country banks' settlement date on March 20, augmenting the accumulation of temporary deposits of corporate tax payments in money market banks.

Meanwhile, the 3-month Treasury bill rate moved to 2.86 per cent in early March (equal to the year's low of January 3) before edging up with the approach of the March dividend and tax dates. Dealers' holdings rose as they bought bills being offered

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by corporations and as they absorbed a large share of the \$1.5 billion of new June tax anticipation bills auctioned by the Treasury without tax- and loan-account credit on March 14. The 3-month bill closed on March 15 at 2.88 per cent.

In late March and early April, reserve needs were inflated as the combination of a sharp decline in float and an unusually large currency outflow drained funds from the banking system. In addition, preparations for both the March 31 quarterly bank-statement publishing date and the April 1 Cook County tax date placed demands on the money market. Federal Reserve efforts to increase reserves through repurchase agreements were largely unsuccessful as dealers found sufficient demand for securities in their portfolios and sufficient availability of alternative financing sources to permit them to make sizable withdrawals before maturity of existing agreements. Indeed, although the System Account Management made \$304 million of new agreements with dealers during the week ending April 3, these were more than offset by terminations in that week. And while \$142 million of reserves were provided through purchases of coupon securities, further activity in these issues was limited by the approach of the second long-term bond auction on April 9.

The Federal Reserve also supplied some reserves by purchasing \$59 million of Treasury bills from foreign accounts. However, the reserve needs still remaining were such that it was necessary to purchase \$358 million of bills directly in the market. A plentiful supply of short-term Treasury bills, which had returned to the market following the March 15 tax date, and again around the month-end, permitted the Federal Reserve to concentrate its buying operations in short bills, thus minimizing the rate impact in the 3-month area. This rate impact was also minimized by the acceptance of unsolicited dealer offerings of blocks of bills, and the Federal Reserve conducted only one "go-around" of the entire market during the period.

Toward the end of the April 3 statement week an easier money market tone emerged, reflecting some overpreparation by money center banks for the quarterly statement date, the completion

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of operations in connection with the Cook County tax date, and the customary biweekly flow of funds to money centers at the end of country bank reserve computation periods. The effective Federal funds rate dropped to 1½ per cent on Wednesday, April 3, but no overt action was taken to absorb reserves since the accumulation appeared to be only temporary. The Federal funds rate returned to 3 per cent early in the next statement week.

Meanwhile, Treasury bill rates fluctuated within a narrow range (2.90 to 2.92 per cent for the 3-month issue) in late March and early April, despite strong investor demand, particularly by State and local government funds. The downward rate impact of the Federal Reserve's purchases was limited by the use of the kinds of devices indicated above. Moreover, the Treasury's action in increasing the size of both the weekly and the quarterly bill offerings tended to shore up bill rates. Intensified pressures toward lower rates developed in the second half of April, when the impact of persistent demand was augmented by the prospect of further investor buying associated with the May 15 refunding. However, Federal Reserve sales and redemptions of more than \$600 million of short-term securities in the 3 weeks ended April 24, together with further increases in the size of the Treasury's weekly bill offerings, largely offset these downward rate pressures. On April 24, rates on 3-month bills were 2.89 per cent and on 6-month bills were 2.99.

Following the rather heavy sales made through April 24, the Federal Reserve turned in late April to offsetting the month-end reserve drains. As May 1 (the end of a statement week) approached, market factors began to absorb funds considerably more rapidly than had been expected, producing increased firmness in the money market. This, coupled with the outlook for a further contraction in the reserve base in the next statement week (ending May 8), required the System Account Management to accelerate its program of supplying reserves. The result was the most substantial operations of the year to date—the provision of \$857 million of reserves in the week ended May 1.

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With the Treasury bill market still sensitive to downward rate pressure, the Federal Reserve would have preferred not to buy bills in the market, but to use other means of supplying reserves; as on some earlier occasions, however, the opportunities to do so were somewhat limited. Because the Treasury's May refunding operation was in process, purchases of coupon securities were avoided, lest an undue influence be exerted on the financing. A total of \$116 million of bills were purchased from foreign accounts, but this was much less than the aggregate reserve need. It was possible to make more than \$520 million of new repurchase agreements with nonbank dealers, but there were substantial early withdrawals of such agreements. This left sizable reserve needs to be met through market purchases of Treasury bills. At first the Federal Reserve executed these bill purchases quite unobtrusively, by responding to unsolicited offerings; but as the withdrawal of repurchase agreements accelerated in the face of a continuing large reserve need, the Federal Reserve solicited offerings of bills in a market "go-around." Over the May 1 week as a whole, the total amount of bills bought in the market was \$390 million. On May 1 the rate on 3-month bills closed at 2.90 per cent, while the 6-month issue was quoted at 2.99.

Treasury bill rates held steady despite the substantial Federal Reserve purchases. Awards of new bills to dealers had been particularly heavy in the auction on April 29. With the increase in dealer portfolios that resulted from these heavy awards and from dealer acquisitions of securities during the Treasury's May refunding operation, a cautious atmosphere emerged in the market. The caution in the bill market also reflected an increase in the cost of carrying dealer portfolios that accompanied the firmer money market produced as reserves shifted away from the money centers. (Sizable calls by the Treasury on its balances at major commercial banks, reversing earlier redeposits, accelerated the shift.) In addition, such reserve needs as appeared in the first half of May were met outside the bill market. Coupon issues amounting to \$123 million were purchased, and new repurchase agreements totaling \$105 million were used to deal with pres-

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tures that emerged on the May 15 settlement date for the Treasury financing. Finally, at times during the May 2-15 period the Federal Reserve had opportunities to withdraw reserves. It sold about \$40 million of bills in the week ended May 15, and the 3- and 6-month bills closed at bid quotations of 2.90 and 2.99 per cent respectively.

In the capital markets, prices moved generally lower during the period from March through mid-May, after a brief showing of strength at the start of the period. In the market for Treasury notes and bonds, prices improved in the wake of the successful advance refunding, and this strength persisted through the first week in March in response to a continuing interest in the new bonds. Furthermore, there was good demand for outstanding issues, and offerings that appeared on swaps against the new bonds were readily absorbed. This atmosphere soon disappeared, however, and after early March a lower price trend emerged. This trend was partly an aftermath of the advance refunding, which swelled the available market supply of securities. More fundamentally, however, it reflected a shift in market psychology regarding the interest rate outlook—a shift that was rooted in the favorable performance of the economy, the unfavorable trend in the balance of payments, and an expanding volume of new corporate and municipal security offerings.

The technical condition of the market was particularly vulnerable just after the advance refunding. Substantial portfolio adjustments, accomplished by means of the refunding, tended to reduce subsequent buying activity, with the result that demand was limited by this factor as well as by the above-noted change in interest rate expectations. Offerings from short-term holders of the issues sold in the refunding, together with offerings by dealers out of their substantial underwriting positions, could be redistributed only at gradually declining prices. Modest private investment demand for long-term Treasury issues during March was augmented by purchases for Treasury investment accounts and for the Federal Reserve. This buying was under-

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taken at declining prices, and by early April prices were $\frac{3}{8}$ to 1 point below those of a month earlier.

Market atmosphere was still hesitant as the date (April 9) approached for the Treasury's second offering of long-term bonds by competitive bidding. In view of the shift in outlook, underwriting bids were less aggressive than in January. The winning bid for the \$300 million of $4\frac{1}{8}$ per cent bonds of 1989-94 set a net interest cost to the Treasury of 4.093 per cent, about 8 basis points above the January auction, and the reoffering of the new bonds at $100\frac{3}{4}$ (4.082 per cent) attracted only a limited investor response. About 40 per cent of the issue was distributed the first day—in contrast to the rapid sell-out of the bonds awarded in January—and sizable amounts of bonds remained unsold when the syndicate was terminated on April 25.

The market for Treasury notes and bonds recovered somewhat by late April, and the steadier tone that emerged was maintained when the Treasury announced on April 24 that it would confine its May refunding to the short-maturity area. Holders of \$9.5 billion of maturing issues were given the option of exchanging them either for a $3\frac{1}{4}$ per cent certificate or for additional $3\frac{5}{8}$ per cent notes of February 1966. The operation had little impact on the market in terms either of price movements or of trading activity. The results were highly successful, with more than 90 per cent of the public holdings of the maturing issues being exchanged—\$2.4 billion for the $3\frac{1}{4}$ per cent certificate and \$3.2 billion for the $3\frac{5}{8}$ per cent note. The Federal Reserve exchanged its \$3.3 billion of May maturities for the $3\frac{1}{4}$ per cent certificate.

With the refunding completed, the market looked forward to a respite from the rather steady succession of Treasury financing operations since the start of the year. Confidence in current rate levels for the near term was bolstered by the reduction in the Canadian bank rate on May 7, and renewed demand brought the recently issued $4\frac{1}{8}$ per cent bonds of 1989-94 almost back to the original reoffering level by May 15. The average yield on long-term Treasury bonds, which had risen to 3.99 per

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cent in mid-April, stood at 3.96 on May 15, only 2 basis points above the level at the beginning of March.

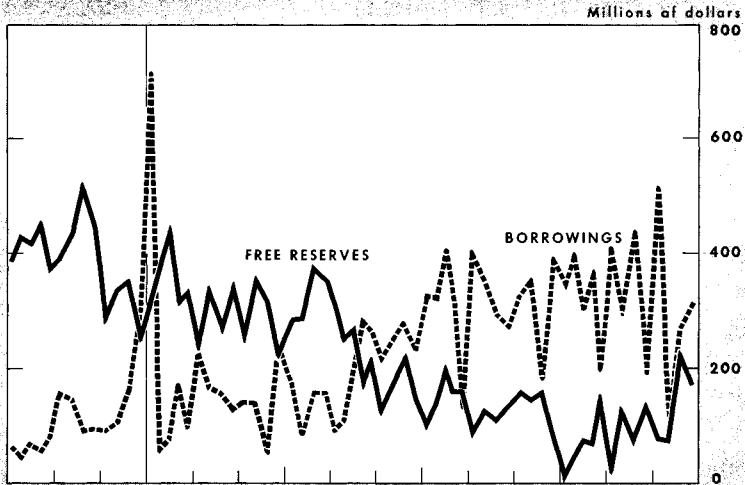
The markets for corporate and municipal obligations followed much the same pattern as the Treasury market during the period: an early firm tone gave way to weakness that prevailed through late April, after which prices steadied and then moved narrowly. Moody's index of Aaa-rated corporate bonds rose 2 basis points from February 28 to 4.21 per cent on May 15, roughly equaling the level at the end of 1962, while the index of Aaa-rated tax-exempt bonds declined 5 basis points to 2.97 per cent over the period.

Mid-May through July: Policy shift toward less ease. After settlement for the Treasury's refinancing operation on May 15, Federal Reserve operations turned to achieving and maintaining a slightly greater degree of firmness in the money market. This shift toward somewhat less monetary ease—the third within a year—followed the decision of the Federal Open Market Committee at its May 7 meeting to put increased emphasis on money market conditions that would contribute to an improvement in the capital account of the U.S. balance of payments. In line with the emphasis on raising short-term interest rates, the discount rate of the Federal Reserve Banks was increased to 3½ per cent, seven banks making the change on July 17 and the others following in the next 9 days. At the same time, in order to maintain and encourage the improvement in business conditions, the Federal Reserve continued to accommodate moderate growth in bank credit; in the period from May 16 through July 31 it provided \$1.2 billion of reserves net.

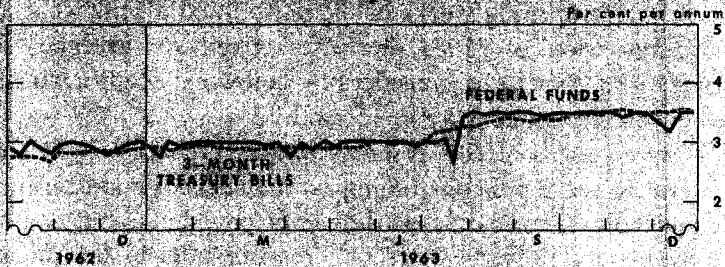
In pursuit of the above objectives, a substantial volume of activity was undertaken. The Federal Reserve made almost \$2 billion of new repurchase agreements, purchased about \$320 million of coupon issues, and bought, sold, or redeemed more than \$4.3 billion of Treasury bills outright. Operations in bills resulted in a net addition of more than \$800 million to the Federal Reserve's holdings. During the same period the 3-month bill

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FREE RESERVES decline, borrowings up in 1963



SHORT-TERM rates rise after midyear



NOTE.—Member bank free reserves are excess reserves less borrowings from the Federal Reserve (shown separately). Federal funds rate is the rate paid by member banks in borrowing excess reserves from other member banks. Weekly averages of daily figures except for Treasury bills, which is average issuing rate.

rate rose from 2.90 to 3.27 per cent in response to the May shift in open market policy and the July change in the discount rate. The change in open market policy was also clearly reflected by the various indicators of reserve availability. Free reserves averaged around \$170 million from mid-May through July, compared with \$310 million during the first 4½ months of the year; and except for a brief time in mid-July following the discount rate

change, the Federal funds rate held at the discount rate. An increased margin of unsatisfied demand for Federal funds was reflected in a rise in average borrowing from the Federal Reserve Banks to about \$275 million from \$140 million during the earlier part of the year.

The Federal Reserve's operations during the first few weeks of the period were complicated by a stubborn tendency for reserves to fall short of expectations, at times by a considerable margin. While sizable "misses" in projections are not unusual, the errors are rarely so consistently in one direction as they were in this interval. Given the unreliability of current reserve estimates, the System Account Management was guided to a considerable extent by the tone and feel of the market in implementing the May policy shift. The tone and feel were consistently firmer than one would have expected on the basis of the reserve estimates. This disparity counseled a rather restrained approach to reserve absorption in the opening weeks of the period and a somewhat aggressive provision of funds thereafter. Even so, average free reserves turned out to be considerably below expectations in the statement weeks ended May 8, 15, and 22.

The lower levels of free reserves underscored the slight shift in Federal Reserve policy. Coming on the heels of good business news and poor reports on the balance of payments, and emphasized by Federal Reserve sales of Treasury bills in the market on May 17 and 20, the low reserve levels helped to make it clear to the market that policy was changing. By late May most market participants and observers were convinced that a shift had taken place. Accordingly, the main task after May 22 was to allow the firmer money market conditions already achieved to produce a slightly higher level of short-term rates than existed before May 15, while at the same time avoiding any stringency in the market.

A substantial volume of operations was required to offset late-May reserve drains, which were accentuated by the currency outflow associated with the Memorial Day holiday. Hence, in the period from May 28 to June 5, the Federal Reserve provided about \$630 million of reserves to the banking system. Purchases

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of coupon securities by the Federal Reserve were limited, since the need to stay within the public debt limit was forcing Treasury trust-fund cash accumulation into already outstanding marketable issues rather than into newly created issues. Some use was made of repurchase agreements, but the bulk (\$515 million) of the reserve need was met through outright purchases of Treasury bills in the market. So far as possible, the Federal Reserve bought the shortest maturities, and it operated unobtrusively by accepting unsolicited offerings; full market "go-arounds" were conducted on only two days. The rate impact of the Federal Reserve's purchases was limited not only by the use of such techniques, but also by the growing general awareness of the policy shift, by a renewed gold outflow, and by the firmer money market conditions that had developed, which had increased dealers' financing costs. The 3-month bill rate, in fact, reached 3.03 per cent in the weekly auction on June 3, despite the heavy buying by the System Account Management.

The Federal Reserve alternately absorbed and supplied reserves in response to changes in market factors during the mid-June dividend and tax-date period in order to preserve a consistently firm tone in the money market. On June 10 and June 17, the respective dividend and tax dates, it made repurchase agreements to facilitate the heavy flows of funds through the money market. The market mechanism worked so smoothly that member bank borrowing rose only slightly around the tax date, even though the usual money flows on that date were augmented by payment for \$735 million of bonds sold by the Federal home loan banks. Moreover, demand for Treasury bills expanded at the higher rate levels that had emerged, and the inflow of bills to the market during the tax-date period was absorbed without any significant further increase in rates.

On the June 17 tax date, the Federal Reserve re-entered the market as a substantial provider of funds. From mid-June through early July member banks' reserve needs expanded sharply, first because of enlarged required reserves against tax-date borrowing and commercial bank payment for the new 4

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per cent Treasury bonds of 1970, and then because of the needs for reserves around the month-end and the July 4 holiday. From June 17 to July 5 the Federal Reserve supplied a net total of \$1.5 billion of reserves, including \$1.1 billion in the statement week ended July 3. The System, still concerned with the level of bill rates, once again sought to minimize its market purchases of Treasury bills. Thus it bought \$285 million of coupon issues between June 17 and July 5, made more than \$1 billion of new repurchase agreements (of which \$377 million were still outstanding on July 5), and bought \$300 million of bills directly from foreign accounts. Sizable needs remained, however, and in meeting these needs the Federal Reserve bought more than \$670 million of bills in the market—again employing techniques aimed at minimizing the rate impact of such large purchases.

Treasury bill rates did not decline during the period of heavy Federal Reserve purchases. Commercial bank selling partly offset that buying, and some nonbank buying as well. Moreover, dealers had to finance a sizable portion of their large needs by borrowing at New York City banks at relatively high rates, and this discouraged any reduction in bill rates. Furthermore, shortly after the Federal Reserve had completed its heavy buying program, bill rates began to rise sharply as expectations of an increase in the discount rate developed and were reinforced by further gold outflows and by official statements indicating that higher short-term rates would aid the balance of payments.

Contributing further to the cautious tone that had so quickly developed in the bill market, the published level of average free reserves dipped below \$100 million for the week ended July 3. This reflected in considerable measure the carrying forward into that week of a substantial downward revision (\$69 million) of the previous week's free reserve figure. In the following week, the Federal Reserve sold bills to recapture reserves released by the postholiday reflux of currency. Against this general background, as well as a widely noted prediction of imminent discount rate action contained in a bond market advisory letter on July 8, the average issuing rate for the 91-day bill rose sharply

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to 3.16 per cent on that day, 15 basis points above the previous week. The quarterly sale of \$2 billion of 1-year bills on the next day resulted in an average rate of 3.582 per cent, 52 basis points higher than in the April auction of \$2.5 billion of similar bills. By July 11 the 3-month rate had climbed further to 3.24 per cent bid, following testimony before a congressional committee by the Secretary of the Treasury, which was also regarded as pointing to a discount rate boost.

The announcement on July 16 of an increase in the discount rate at seven Federal Reserve Banks came as little surprise to the market. A mild initial upward adjustment in money market rates was soon reversed as an expanded demand at the higher rate levels converged on the market and encountered dealer inventories that had been reduced from the levels of late June. Scarcities of particular bill issues developed, especially of short issues; unsatisfied demand for these issues spilled over to longer bills and exerted downward pressure on rates throughout the bill list. These downward pressures were reinforced by the emergence of significantly easier money market conditions in the few days following the discount rate rise. Thus, while the 3-month bill rate moved up to 3.24 per cent on July 17, the day after the change in the discount rate was announced, it moved lower thereafter and reached 3.18 per cent 3 days later. Rates moved upward over the balance of July, with the 3-month issue closing on July 31 at 3.27 per cent bid, up 37 basis points from mid-May. The 6-month rate rose to 3.40 per cent bid by July 31.

The particular timing of the discount rate increases by the various Federal Reserve Banks posed some complications for Federal Reserve open market operations in the period immediately before the change and extending through July 24. In the first place, anticipations of the rate increase by both dealers and commercial banks resulted in a substantial shift in reserves toward the money centers as dealers' inventories, and hence their borrowings at money-center banks, contracted. Moreover, many banks, particularly those in the money centers, lightened their holdings of short-term securities and issued more

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certificates of deposit following the increase in Regulation Q ceilings to 4 per cent on deposits of 90 days and over (announced at the same time as the discount rate increase). In addition, an unusual accumulation of reserves by country banks in the statement week ended July 17, and large pre-week-end borrowings on July 18 and 19 in those Federal Reserve districts where the discount rate was still 3 per cent, created a supply of excess reserves that flooded the market during the week ended July 24. As indicated earlier, the money market turned sharply easier in response to these factors. The effective Federal funds rate dropped from $3\frac{1}{4}$ per cent on Friday, July 18, to $\frac{3}{4}$ per cent by Wednesday, July 24, even though the average level of free reserves was relatively low at \$159 million.

The Federal Reserve, meanwhile, had been engaged since July 8 in withdrawing reserves that had been supplied to the market by the reflux of currency after the July 4 holiday and by the mid-July expansion in float. By July 18 it had absorbed more than \$1 billion of reserves through sales and redemptions of \$842 million of Treasury bills and terminations of substantial amounts of repurchase agreements. The reserve outlook with which the System Account Management was working at the time the money market turned easy (July 18-24) indicated that rather large open market purchases would be needed in the statement week ending July 31. This confronted the System Account Management with a dilemma: If it made further large sales in order to bring about a firming of market conditions, it would soon afterward have to buy back the securities it had sold, and the purchase of these securities would put downward pressure on the bill rate; on the other hand, if it took no action to firm up the market, the bill rate would continue to move lower—an anomalous situation in the wake of a discount rate increase designed to raise bill rates. Under these circumstances, it was decided to refrain from additional sales and to ride through the week or so of ease in the expectation that the market would turn firm when the reserve needs that loomed ahead began to make themselves felt.

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As expected, a firmer tone returned to the money market in late July, with the Federal funds rate moving to and holding at 3½ per cent. Temporary reserve excesses disappeared after the reserve settlement date for country banks on July 24; and with market factors draining reserves, the Federal Reserve supplied over \$700 million of reserves in the week ended July 31. However, in supplying these funds, the Federal Reserve did not attempt to anticipate reserve needs, but rather sought to stay one step behind the reflection of those needs in the market in order to avoid any reversion to the easy conditions that had existed in the previous week. This approach—in which reserve needs were met, but on a slightly delayed basis—minimized the impact of operations on short-term rates. This was a particularly useful result since the Treasury's August refunding made it desirable to avoid the purchase of coupon issues and since only \$166 million of new repurchase agreements could be made. The needed reserves were thus supplied largely through outright purchases of bills, considerable amounts of which, however, were acquired from foreign accounts.

Meanwhile, the capital markets reacted only mildly to the shift in Federal Reserve policy. Long-term Treasury bond yields rose from 3.96 per cent on May 15 to a peak of 4.03 in early July, but the market subsequently recovered and by July 31 the average yield on long-term bonds was back to 3.99 per cent. At no time did any significant deterioration in market psychology occur, and selling of bonds by investors was generally limited.

A cautious atmosphere had emerged in the market for Treasury notes and bonds around mid-May, and prices moved lower for several weeks as market awareness of the Federal Reserve policy shift was crystalized by a stream of reports and statements indicating more favorable business news on the one hand and further balance of payments deficits and associated gold outflows on the other. Some outright selling and maturity-shortening swaps appeared during this period, but the selling was not heavy, and price declines were moderated by some private investment

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demand and by the already mentioned purchases for the Treasury trust accounts undertaken because of the debt limit problem.

Although the underlying bond market atmosphere was still cautious, the change in rate expectations that was generated by the May shift in policy and by the factors that induced the shift appeared to have about run its course by early June. At that time the Treasury announced a cash offering of about \$1¼ billion of 4 per cent bonds of 1970. Initially the market's reaction to the offering was favorable, and it became increasingly enthusiastic as the subscription date (June 11) approached. The fact that commercial banks were permitted to make payment by credits to tax and loan accounts made the offering particularly attractive to them, while the Treasury's announcement that subscriptions up to \$100,000 would be allotted in full also attracted considerable interest. The new bonds thus elicited an extraordinary response as expectations of small allotments induced subscribers to pad their subscriptions liberally.

On June 14 the Treasury announced that an overwhelming \$16.5 billion of subscriptions had been received and that it would allot 5 per cent on subscriptions of more than \$100,000, thus raising to \$1.9 billion the total amount to be issued. The number of subscriptions on which it was necessary to make full allotments (subscriptions of \$100,000 or less) was so large that these allotments amounted to \$1.4 billion—more than the total amount initially offered. Had the size of the issue not been increased, many needs would not have been satisfied.

The entire market strengthened with the extraordinarily favorable response to the Treasury offering, and although sizable amounts of the new bonds soon appeared in the market, these were readily absorbed by a broad demand, both outright and on swaps out of 1968-70 maturities. Prices moved narrowly over the balance of June, with the new 4 per cent bonds closing at a premium of $10\frac{1}{32}$ over the offering price.

In contrast to the strong reaction in the short-term market, the long-term market experienced only a mild and brief reaction to the expectations in early July concerning the discount rate. When

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the change was actually announced on July 16 it had relatively little impact on longer maturities. The technical position of the market was favorable, for dealers had lightened their own inventories considerably in May and early June, and selling by investors had been limited. More generally, the reaction of investors and dealers alike appeared to hinge on the widespread feeling that official action was aimed primarily at short-term rates for balance of payments reasons and was designed not to impede domestic expansion.

Various official statements tended to support this view; and the President's request for a tax on foreign securities sold in the United States was thought to promise an easing of the burden placed on monetary policy by the deficit in the balance of payments. Accordingly, the market for Treasury issues recovered after mid-July, with additional encouragement stemming from the Treasury's confinement of its August refunding to the short-term area, and from the reinvestment in intermediate-term Treasury issues of the proceeds of a large tax-exempt bond offering.

The Treasury's offering of a $3\frac{3}{4}$ per cent 15-month note to holders of \$6.6 billion of August 15 maturities was well received. The public's holdings of this maturity were small—\$2.5 billion—and the proportion converted was more than 90 per cent. The Federal Reserve turned in its \$4.1 billion holdings of rights for the new note. The new $3\frac{3}{4}$ per cent note rose to $100\frac{5}{32}$ bid in "when issued" trading, while other outstanding issues continued to edge higher, offsetting in good part the losses sustained early in July.

The markets for corporate and municipal obligations moved more or less parallel with the market for Treasury obligations during June and July. Price declines, however, were more pronounced in the tax-exempt sector, where dealers cut prices sharply in an effort to reduce inventories in the face of a continued heavy volume of new offerings. Over the 2-month period \$1.8 billion of new issues were brought to the market, about \$500 million more than in the same period in 1962. Despite an increase in investment buying, prices moved lower through early

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July before recovering later in the month. The July 16 announcement of an increase in Regulation Q ceilings, which was expected to generate an increased inflow of time deposits and hence additional demand by commercial banks for municipal securities, contributed to the recovery of that market. Average yields on Moody's Aaa-rated tax-exempt bonds rose to 3.11 per cent in early July and closed at 3.08 on July 31, up 8 basis points from the end of May.

A seasonally light calendar of new issues in the corporate bond market enabled dealers to reduce inventories in June and early July as prices edged lower, and this market also recovered in late July. About half of the \$1.8 billion of new issues were publicly offered. Average yields on Moody's Aaa-rated corporate bonds rose 6 basis points from May 31 to 4.29 per cent on July 31.

August through late October: A further shift toward less ease. As evidence of deterioration in the nation's balance of payments position accumulated and domestic economic conditions improved, the Federal Open Market Committee on July 30 instructed the System Account Management to edge further toward firmness in the money market, reinforcing the discount rate rise. Balance of payments considerations were particularly important in motivating the shift, and operations were directed at augmenting the effect of the discount rate increase in producing a higher level of short-term rates. At the same time the policy directive continued to call for "accommodating moderate expansion in aggregate reserves" to support further domestic economic expansion.

In accordance with these basic objectives, and to produce the desired degree of firmness in the money market, Federal Reserve operations reduced member banks' free reserves somewhat at the start of August. The money market then remained consistently firm through late October, with reserves alternately supplied and withdrawn in response to seasonal movements in market factors. In all, Federal Reserve operations withdrew \$195

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million of reserves net from August 1 through October 23. Gross transactions in Treasury bills were again sizable, aggregating about \$2.5 billion. In working toward short-term rate objectives the Federal Reserve sold or redeemed a net of \$475 million of Treasury bills, but at the same time it provided \$424 million of reserves through net purchases of coupon issues. It also used the repurchase mechanism extensively to meet temporary needs or to adjust the timing of outright operations to market conditions. Such agreements withdrew \$144 million of reserves on balance, but about \$1.6 billion of new contracts were made during the period.

The gradual firming in the money market as a result of the Federal Reserve's policy shift of July 30 was reflected in a decline in average free reserves to about \$100 million and an increase in average borrowings from the Federal Reserve to about \$325 million in the period from August to late October. The Federal funds rate generally held at the 3½ per cent discount rate. The occasional dips from that level reflected mainly the precautionary build-up of excess reserves through pre-week-end borrowings. These temporary easings were most notable following the September 15 tax date and again in early October. Treasury bill rates rose gradually in response to the firmer money market conditions and the impact of additional Treasury financing in the bill area. The 3-month bill rate reached 3.49 per cent by October 17, an increase of almost 30 basis points from the August 2 level.

The achievement of slightly higher short-term rates was complicated at the start of August by a strong and broadly based demand for bills, including large-scale corporate buying. With reserve distribution still tending to favor banks in the money centers, funds moved into the bill market from that source also. These demands pressed on a relatively light supply of bills in dealers' hands, and rates moved lower. The System Account Management at this time faced the prospect of supplying reserves to the banking system to offset drains from market factors, particularly the late-July decline in float. Once again the Manage-

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ment resorted to the technique of supplying reserves on a slightly delayed basis, waiting until reserve needs had clearly emerged and were exerting some pressure on the market. In providing reserves it made extensive use of coupon issues, \$193 million of which were purchased from August 1 to 8. On one occasion during this period, the System Account Management undertook swap operations, selling Treasury bills to foreign accounts to keep this buying out of the market, and offsetting the reserve effect of these sales by purchasing coupon issues in the market.

The desired firming in bank reserve positions was accomplished fairly quickly, partly because reserves shifted away from the money centers after the first few days of August. Indeed, accumulated reserve deficiencies culminated in a sharp increase in borrowings from the Federal Reserve Banks. Such borrowings amounted to more than \$1 billion on August 7. Demand for bills from nonbank sources tapered off, and commercial bank selling of bills, coupled with sales by the Federal Reserve to offset the mid-August expansion in float, reversed the direction of bill rates and increased dealers' positions. Market psychology was also affected at the time by widespread discussion of a possible official desire for higher rates following the report that the second-quarter balance of payments deficit had risen to a seasonally adjusted annual rate of about \$5 billion. The 3-month bill rate moved from a low of 3.20 per cent on August 2 to 3.37 on August 21, when the market's expectations of a new short-term cash offering were confirmed by the Treasury's announcement that \$1 billion of 1-year bills would be auctioned on August 27. This was the first of a new monthly series of 1-year bills to replace the quarterly series of such bills.

With the end of August approaching, the System Account Management faced the problem of meeting reserve drains associated with the decline in float late in the month and the pre-Labor Day currency outflow, and of doing so without reversing the recent progress that had been made in raising the bill rate. The Federal Reserve relied heavily on repurchase agreements and purchases of coupon issues in meeting these reserve needs. It

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also purchased about \$247 million of Treasury bills in the market, chiefly short maturities that became available as corporate repurchase agreements with dealers matured. Treasury bill rates moved down for a brief period in early September, partly as a reflection of Federal Reserve buying and partly as a result of demand growing out of an advance refunding operation that the Treasury undertook early in that month. This drop in bill rates was soon reversed, however, as the mid-September dividend and tax dates approached.

Operations during mid-September were geared mainly to accommodating large shifts of money and securities associated with the tax and dividend payment dates and with the Treasury's advance refunding. Projections of reserves were frequently wide of the mark, and the Federal Reserve continued to be guided by the tone and feel of the market. In carrying out its operations, it attempted to maintain the consistently firm market conditions that were desired by the Federal Open Market Committee, while permitting net reserve availability to rise when reserve needs were at their peak and then to move down as those needs receded. Over the 2 weeks ended September 25 Federal Reserve operations at times supplied and at times withdrew reserves and for the period resulted in a net withdrawal of \$416 million.

In late September and early October, reserve needs were enlarged by an unusually rapid decline in float. To meet these needs the Federal Reserve provided over \$1 billion of reserves from September 26 through October 7. The impact of these operations on short-term rates was minimized by the purchase of \$103 million of coupon issues, the increase of repurchase agreements outstanding by \$554 million, and the purchase of \$125 million of bills that were available from foreign accounts. The remaining need was filled through market purchases of \$283 million of short-term bills, which were readily available in the market.

From October 8 to October 23, the Federal Reserve was concerned with offsetting the midmonth bulge in reserve availability in a period when market expectations were undergoing a marked shift in the direction of higher rates. During this period it ab-

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sorbed about \$900 million of reserves. However, such operations were undertaken cautiously in view both of the heavy tone prevailing in the securities market and of the tendency for reserves to fall short of the estimates. Initially, the Federal Reserve absorbed reserves through the termination of repurchase agreements aggregating \$554 million; later, as market factors expanded reserves further, holdings of Treasury bills were reduced by \$346 million. Redemptions accounted for most of this decline; only \$98 million of Treasury bills were sold directly to the market.

Meanwhile, the rate on 3-month Treasury bills fluctuated around the 3.40 per cent level from mid-September to the end of that month. In early October the rate began to climb once more in response to expectations of further additions to the supply of bills that the market would be called on to distribute. These expectations were partially confirmed by the Treasury's auction of \$2 billion of March tax anticipation bills on October 9; these partially replaced \$2.5 billion of 1-year bills that matured October 15. In the uncertain atmosphere that had developed, investment demand for bills was confined to the shortest maturities. Meanwhile, market supplies of longer bills were inflated by the new issue of tax bills as well as by the monthly issue of 1-year bills sold at the end of September. Under these conditions, the 3-month rate rose to 3.46 per cent by October 16.

On that date, the Treasury announced that it would auction a "strip" of \$1 billion of bills (adding \$100 million to each of 10 outstanding issues of bills). This offering was initially interpreted as indicating an official desire for still higher rates, partly because the "strip" sale technique had been used in the past to push rates upward. In response to the new offering, rates on outstanding bills moved still higher, with the 3-month bills reaching 3.49 per cent on October 17. Demand was stimulated at the higher rate levels, however, and under the force of that demand the 3-month bill rate declined to 3.44 per cent by October 23, while the 6-month issue closed that day at 3.61. The relatively wide spread of 17 basis points between the two issues indicated the weight of an increased supply in longer maturities.

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In the capital markets, interest rates also edged higher from August to late October, although the movement was more irregular and smaller than in the short-term area. Activity in the Government securities sector was dominated by the Treasury's September advance refunding operation and the subsequent redistribution of dealer holdings to buyers in a weakening market atmosphere. Yields on high-grade bonds generally rose by about 3 to 8 basis points during the period and reached new high levels for the year.

Activity in the market for Treasury issues was relatively light prior to the advance refunding. The firm tone that had developed in July continued through early August as moderate offerings of coupon issues were absorbed in part by Federal Reserve purchases and in part by dealer and investor demand, including the reinvestment in Treasury issues of the proceeds of a major tax-exempt issue. Prices moved irregularly over the balance of August as some uncertainties were created by discussions of the heavy second-quarter balance of payments deficit and by expectations of an advance refunding.

On September 4 the Treasury announced a massive debt extension operation, combining a pre-refunding and a junior advance refunding. Public holders of almost \$20 billion of Government securities maturing from 1964 through 1967 were given the opportunity to extend maturities at higher rates. Holders of pre-refunding rights (that is, eligible issues maturing in 1964) were entitled to exchange them into any of three issues: a 3½ per cent bond of 1968, a 4 per cent bond of 1973, and the reopened 4½ per cent bond of 1989-94. Holders of the junior refunding rights (that is, eligible issues maturing in 1966 and 1967) were entitled to exchange them for the 1973 and 1989-94 maturities.

Despite some surprise at the magnitude of the operation and at the inclusion of a long-term bond, the market's reception of the announcement was quite favorable. Long-term bond prices adjusted lower initially, but a good demand developed for rights and "when issued" securities, and this gave rise to lively trading

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during the subscription period, which extended from September 9 to September 13. The market for outstanding bonds stabilized at the new price levels, and offerings—which arose mainly on swaps for the securities being offered by the Treasury—were readily absorbed by professional short-covering, some Treasury buying for trust accounts at the lower price levels, and private investment demand.

The total amount of eligible securities exchanged was \$6.5 billion, or 28 per cent of public holdings; exchanges included \$1.6 billion for the $3\frac{7}{8}$ per cent bonds of 1968, \$3.7 billion for the 4 per cent bonds of 1973, and \$1.3 billion for the $4\frac{1}{8}$ per cent bonds of 1989-94. The market took the results in stride, although there was some surprise at the large demand for long-term bonds. The volume of offerings coming into the market remained light, and after some initial hesitation prices edged higher in response to a good investment and professional demand for both new and outstanding issues.

Prices fluctuated narrowly over the balance of September and into early October, when a more cautious atmosphere emerged throughout the market. Signs of strength in the economy generated uncertainty about long-term interest rates, and the general upward price movement that had been under way in the Government bond market since mid-September came to a halt. The cautious atmosphere was heightened by some congestion in the short-term market, in which the Treasury raised \$2.5 billion in September and October. The brighter business outlook was reflected in a range of economic indicators, including a rise in stock prices to new high levels; furthermore, scattered price increases led to discussion of the possible emergence of inflationary tendencies. In this general atmosphere, the somewhat lower free reserve figures recorded in October, coupled with a 3-month bill rate close to the $3\frac{1}{2}$ per cent discount rate, prompted market discussion of a possible further shift in Federal Reserve policy.

Expanded offerings of the longer-term bonds issued in the advance refunding came into the market well before dealer

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holdings had been distributed. With investment demand for other intermediate- and long-term issues quite limited, these offerings could be absorbed only at declining prices. Treasury trust account purchases at declining prices had the additional effect of slowing the price decline, but the shift in market psychology and outlook was such that dealers continued to reduce their inventories, which as noted above had been swollen by sizable holdings of the advance refunding issues. As in the short-term area, the market tended to stabilize toward the end of October, but a cautious atmosphere prevailed. On October 23 the Federal Reserve average of long-term bond yields stood at 4.07 per cent, 8 basis points above the July 31 level.

Prices of corporate bonds, meanwhile, moved narrowly from August through October, except for a sharp initial price reaction when the Treasury's advance refunding offering of 4 $\frac{1}{8}$ per cent bonds was announced. The narrow yield spread between the offering rate on the new Treasury bonds and rates on outstanding high-grade corporate issues prompted upward yield adjustments of as much as 10 basis points on recently marketed corporate bonds. The improved technical position of the market, coupled with an expansion in demand and a light calendar of new offerings in September, permitted a partial recovery. Prices moved irregularly thereafter, weakening again toward the close of October. Borrowing through the corporate bond market in the 3 months totaled \$2.5 billion, compared with \$2.2 billion in the same period of 1962. Moody's Aaa corporate bond series rose 3 basis points from late July to 4.32 per cent on October 31.

Tax-exempt obligations weakened in September as heavy inventories and an expanding calendar of new offerings added to the price declines in this sector. After a brief period of stability in early October, prices began to decline again later in the month as caution and uncertainty dominated all segments of the capital market. New State and local government offerings during the period aggregated about \$2.4 billion, compared with \$1.6 billion in the same period of 1962. Average yields on

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Moody's Aaa municipal bonds rose to 3.16 per cent by October 31, an increase of about 8 basis points over the 3 months.

Late October through December: Policy steady, with further economic expansion. The Federal Reserve's policy posture held steady in the final months of the year. The economic background was essentially unchanged as domestic business continued to post solid gains while the balance of payments remained in deficit. There were some shifts in the relative importance of the background factors, however. Thus it was becoming evident that the payments deficit in the third quarter had been much reduced from the highly unfavorable second-quarter rate, and while the deficit was still regarded as a serious problem for monetary policy, it now appeared that short-term interest rates in the United States were in reasonable balance with comparable foreign rates. At the same time, some concern was cropping up on the domestic side in regard to potentially inflationary developments and occasional evidences of deteriorating credit quality. But on balance these elements indicated no immediate need for a change in policy. The assassination of President Kennedy in November was a further consideration in holding policy unchanged over the balance of the year.

Within the context of the firmer money market conditions already attained, the Federal Reserve provided about \$1.3 billion of reserves net to the banking system from late October through December to meet the substantial reserve needs associated with the seasonal rise in credit demands. Provision of this large volume of reserves posed no particular problem from the standpoint of short-term interest rates, and the System Account Management was able to reduce substantially its use of various technical devices to keep bill rates up—devices that it had found necessary to use rather extensively through the first 9 months or so of the year.

Indeed, the System Account Management was able to meet more than \$1.1 billion of the seasonal needs for reserves through net purchases of Treasury bills, with no downward impact on rates. In fact, bill rates moved to new high levels for the year, and

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concern lest any further rise disturb the balance between domestic and foreign rates prompted the Treasury to reduce the size of its weekly auctions for 2 weeks in November. The Federal Reserve also purchased \$198 million of coupon issues during the period and made almost \$2 billion of new repurchase agreements to supply temporary reserve needs. It also stepped up its operations in bankers' acceptances toward the year-end, when these instruments were in seasonally heavy supply. Outright Federal Reserve holdings of acceptances reached a peak of \$70 million at the end of the year, while holdings of acceptances under repurchase agreements were at a peak of \$96 million near the year-end.

Federal Reserve operations generally maintained a steadily firm tone in the money market from late October to the year-end. Free reserves fluctuated fairly widely at times as patterns of reserve distribution changed, or as significant changes occurred in the rate at which the economy utilized reserves. Free reserves averaged about \$130 million, and member bank borrowing from the Federal Reserve Banks held around the \$325 million average level that had been recorded since August. An active demand for reserves kept the Federal funds rate almost continuously at $3\frac{1}{2}$ per cent. Against this background of consistently firm conditions, the stresses and strains that so often converge on the money market in the final month or two of the year, especially in December, were accommodated without noteworthy market pressures.

From late October through early November, Federal Reserve operations were complicated both by the bearish atmosphere in the securities market and by the substantial money flows generated by payments for the \$1 billion bill "strip" on October 28 and for \$1 billion of 1-year bills on November 4. In addition, there was a persistent tendency for reserves to fall short of day-to-day projections. Subsequent revisions of these estimates indicated more vigorous growth in required reserves than was allowed for in the projections of usual seasonal and growth trends. In these circumstances, and with the money

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market under rather continuous pressure, the System Account Management supplied reserves relatively freely, meeting reserve drains as they occurred or even at times anticipating them—in contrast to the practice of supplying funds on a delayed basis earlier in the year when short-term rates were considerably more of a problem. The Federal Reserve provided about \$1 billion of reserves to the market from October 24 to November 6 through outright purchases of \$543 million of Treasury bills and \$123 million of coupon issues, and through a net increase of \$360 million in holdings of Government securities under repurchase agreements.

Such operations were successful not only in heading off heavy pressures in the money market but also in cushioning the adjustment in securities markets to the change then in process in the business outlook and in rate expectations. As indicated earlier, this shift in expectations had already carried the 3-month bill rate to 3.49 per cent on October 17, following the “strip” auction. Then, after a brief technical recovery, the atmosphere deteriorated again, reflecting further development of the conviction that domestic business was definitely improving and also an emerging feeling that the Federal Reserve might respond, or might be responding, by taking a firmer tack in policy. In the short-term area, moreover, this shift in psychology occurred almost simultaneously with the succession of Treasury financing operations already described. Either of these influences—the changed economic and interest rate outlook or the sizable short-term financing undertaken by the Treasury—would alone have exerted upward pressure on rates; together they were mutually reinforcing.

Apart from the sizable Federal Reserve purchases in late October and early November, demand for Treasury bills around that time was light and was confined mainly to shorter maturities. Meanwhile, the supply of longer bill issues remained heavy, with distribution of the newly offered “strip” and 1-year bills proceeding slowly. In this atmosphere, bill rates moved steadily upward as the higher rate levels after mid-October tended to

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generate expectations of still higher rates, including a possible discount rate increase. The average rate on 3-month Treasury bills rose to a 3.58 per cent peak on November 12.

The market atmosphere changed thereafter. On November 13 the Treasury announced that it would reduce its next weekly bill auction by \$100 million to avoid disturbing the existing balanced relationship between domestic and international money market rates. It made a similar reduction in the next regular auction, and in the 1-year bill auction held on November 27 it permitted commercial banks to credit Treasury tax and loan accounts for 50 per cent of their acquisitions. These actions suggested to the market that no further increase in short rates was desired by the Treasury, and indeed that the recent rate adjustment had perhaps been overdone. The market recovered as good investor demand developed at the higher rate levels, and the 3-month bill moved down to 3.49 per cent by November 22.

Federal Reserve operations, after taking up \$645 million of reserves on November 12 and 13 to offset a sharp increase caused by market factors, soon reversed direction as seasonal forces began to absorb reserves in large volume. From November 18 through the week ending December 4, the Federal Reserve provided \$1.1 billion of reserves, chiefly by purchasing Treasury bills, including \$844 million in the market. The Federal Reserve also bought \$76 million of coupon securities, although the reserve effect was partly offset by a decline in repurchase agreements outstanding.

The Federal Reserve was in the midst of meeting these reserve needs on Friday afternoon, November 22. A market "go-around" to purchase Treasury bills had been initiated, and dealers were making offerings to the System Account Management when reports from Dallas of an attack on President Kennedy began to reach the market. When the Dow-Jones news ticker confirmed the reports that the President had been shot, the Federal Reserve canceled its operation before any actual purchases were made. A quick survey of the major dealers indicated that market

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activity had already dried up, pending clarification of the events in Dallas. When the gravity of the situation became clear, the System Account Management asked dealers to suspend trading for the day. Trading in virtually all sectors of the financial markets was suspended, and this prevented the possible spreading of panic through the network of markets. The sharp drop in stock prices in heavy trading during the brief span before trading on the stock exchanges was suspended gave some indication of the potential danger averted by the closing of the financial markets.

A meeting of the General Committee of the New York Money Market was held at the Federal Reserve Bank of New York late Friday afternoon, following which that Bank, after consultation with the Chairman of the Board of Governors of the Federal Reserve System, released a statement indicating that the leaders of the financial community agreed that there was no need for special action in the financial markets. It was further indicated that the Federal Reserve had ample power to deal with any situation that might arise and that close cooperation would be maintained with foreign central banks.

Confidence in the nation and its institutions and in the continuity of the U.S. Government was manifest throughout the country as President Johnson succeeded to office. The pause for reflection afforded by the week-end and the special day of mourning on Monday, November 25, gave time for the show of continuity to be felt with full force. Finally, the demonstration of international financial cooperation, which contributed so importantly to the excellent performance of the dollar on the foreign exchange markets, also helped impart a sense of confidence.

All of these factors contributed to the confident atmosphere in which the financial markets reopened on Tuesday, November 26. Stock prices rose even more sharply than they had fallen on Friday. Prices of Treasury obligations and other fixed-income securities, in which trading had been stopped on Friday before any backlash on prices could develop, opened steady to slightly higher. The Manager of the System Open Market Account re-

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ported on market conditions at a special telephone meeting of the Federal Open Market Committee on Tuesday morning and indicated that in his judgment there was no need for unusual Federal Reserve action. While the Committee, as a precautionary measure, modified its instructions to provide for conducting operations with a view to cushioning any unsettlement in the money market that might result from the assassination, no special action proved necessary.

On Tuesday, November 26, the Federal Reserve supplied reserves through Treasury bill purchases in a routine operation, resuming the operation that had been interrupted the previous Friday by the news from Dallas. The Federal Reserve completed its substantial reserve-supplying operations by December 3, and over the balance of the month alternately absorbed and supplied reserves as necessary to offset seasonal movements. Operations in the early December period were complicated by a tendency for the money market to ease, at a time of year more often noted for firmness. It appears that some money market banks overprepared in relation to the seasonal demands actually placed on them; in contrast to their customary role as large net purchasers of Federal funds, the New York banks as a group were sometimes net sellers in this period. The effective rate on Federal funds dropped as low as $2\frac{1}{4}$ per cent on several days during December 4-11, despite the Federal Reserve's action in absorbing reserves through the termination of \$385 million of repurchase agreements over that period and through sales of \$214 million of Treasury bills in the market on December 10.

By mid-December the impact of Federal Reserve operations and seasonal liquidity demands raised the Federal funds rate again to $3\frac{1}{2}$ per cent, and firm money market conditions prevailed over the rest of the year. The Federal Reserve provided some additional reserves over the December 15 tax date through repurchase agreements, thus contributing to the smooth operation of the market during this period, and then recaptured these funds through the termination of the agreements during the balance of the year. Some new repurchase agreements were made in late

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December, but these too were largely withdrawn before the close of the year. No sizable operations were required over the year-end period, in contrast with some other recent years.

Treasury bill rates moved irregularly after early December. The amount of new bills issued by the Treasury in the weekly auctions was raised again to equal the maturities after the two reductions in late November. Rates edged slightly higher over the December tax date, with the 3-month issue reaching 3.54 per cent, but no unusual pressures arose and rates moved a little lower during the balance of the month. The monthly 1-year bill issue was auctioned on December 30 at an average rate of 3.707 per cent, and the latest 91- and 182-day issues closed the year at bid quotations of 3.53 and 3.65 per cent, up 60 and 68 basis points, respectively, from December 31, 1962.

In the market for Treasury notes and bonds, the Treasury's refunding of November 15 maturities was successfully arranged in late October. Before the settlement date for the refunding, however, market sentiment deteriorated, and bond prices dropped to new low levels for the year in early November. Thereafter, the market moved irregularly in relatively light trading, remaining stable following the assassination and the succession of the new administration.

The Treasury's November refinancing was routine. Cash subscriptions were accepted on October 28 for a new 18-month, $3\frac{7}{8}$ per cent note to replace \$7.6 billion of maturing issues, of which \$3.5 billion were publicly held. Market response to the offering was favorable, and nonpreferential subscriptions were allotted on a 21 per cent basis. The Federal Reserve exchanged its entire \$3.9 billion holdings of the November 15 maturities for the new note. The day after the books closed, the new $3\frac{7}{8}$ per cent note was bid at a $\frac{3}{32}$ premium in "when-issued" trading, but subsequent demand ran below expectations and the premium gave way for a time to a small discount.

The lackluster performance of the new $3\frac{7}{8}$ per cent Treasury note in secondary trading both reflected and contributed to the heavier atmosphere that emerged in late October and early No-

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vember. In the first place, movements in business indicators at this time were interpreted by the market as presaging a rise in economic activity and credit demands. Moreover, the proximity of the 3-month Treasury bill rate to the Federal Reserve discount rate led to considerable discussion of a possible increase in the discount rate. Both the increase in margin requirements on corporate stock purchases, made effective November 6, and the relatively low levels of published free reserve figures produced apprehension concerning a general firming in monetary policy.

In addition to this shift in sentiment there was a bulge in corporate and municipal offerings; and dealer holdings of Government securities remained sizable. Although selling of Treasury issues was relatively light, demand was also modest. In this atmosphere dealers sought to reduce their inventories, particularly of the 4 and 4½ per cent bonds taken in the September advance refunding and still held in some volume. Price declines of as much as ¾ point in the period from late October to November 6 carried most issues to new lows for the year; the average yield on long-term bonds reached 4.12 per cent on November 6.

A steadier and more confident tone began to develop in mid-November. Reports indicating official satisfaction with the levels of rates and with the improvement in the bill market following the Treasury's reduction in the weekly bill auctions contributed to this improved atmosphere. Investment demand also increased, both outright and on year-end tax swaps, and the technical position of the market was much improved following the long period of liquidation of dealer inventories. It was in this improved atmosphere that the market received the shattering news of the President's assassination on Friday, November 22; as indicated earlier, this improved atmosphere was quickly reasserted when the market opened on Tuesday, November 26.

Prices of Treasury issues tended lower again through much of December, against a background of additional reports of economic improvement. Prices reached new lows for the year just before Christmas and then recovered slightly in the closing

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days of the year as the higher yields attracted some additional demand, including professional short-covering. The average yield on long-term Treasury bonds was 4.15 per cent on December 31, 28 basis points higher than a year earlier, and only 1 basis point below the year's high on December 20.

The markets for corporate and municipal obligations also showed some heaviness late in the year, but steadied again by the year-end. Expectations of increased credit demands were assessed by the market as having a particularly adverse impact on the municipal sector, and widespread price-cutting resulted in yield increases of as much as 20 basis points for some tax-exempt issues in early November. The market recovered in late November, however, and remained fairly firm through December. New issues aggregated \$1.1 billion for the 2 months, virtually unchanged from the same period of 1962. Average yields on Moody's Aaa municipal bonds, after reaching a peak of 3.18 per cent on November 13, declined to 3.11 on December 31, compared with 2.94 at the close of 1962.

The corporate bond market also weakened in early November, but then steadied in the latter part of that month. Demand improved following an early-December release of slow-moving issues from the marketing syndicates. Average yields on Moody's Aaa corporate bonds rose 4 basis points for the 2 months to 4.37 per cent on December 31, compared with 4.21 at the close of 1962. New offerings in November and December totaled \$1.8 billion, including \$820 million of private placements; in the same period of 1962 offerings totaled \$1.7 billion, including \$1.2 billion of private placements.

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REVIEW OF OPEN MARKET OPERATIONS IN FOREIGN CURRENCIES

Total foreign exchange transactions of the Federal Reserve in 1963—including purchases and sales directly with foreign central banks as well as in the market, but excluding drawings and repayments under the swap lines—amounted to \$1.4 billion, as shown in the table on page 176. This compares with transactions of \$500 million in the last 10 months of 1962, following the resumption of such operations by the Federal Reserve.

At the opening of 1963 the Federal Reserve had swap facilities totaling \$900 million with the central banks of France, England, the Netherlands, Belgium, Canada, Switzerland, Germany, Italy, and Austria, and with the Bank for International Settlements. By the close of the year the central banks of Sweden and Japan had joined the network, and the total facilities had been raised to \$2,050 million, as shown in the following table.

The largest of the individual increases in the swap lines during the year—and one which may well have marked a milestone in international financial cooperation—was that raising the line between the Federal Reserve and the Bank of England from \$50 million to \$500 million. Less dramatic, but nevertheless significant, were the substantial increases in the arrangements with several major continental central banks and the BIS. In addition, the maturity structure of the network was extended, with several of the arrangements being placed on a 6-month or 1-year standby basis.

During 1963 the swap arrangements were often drawn upon to cushion the impact of swings in the payments positions of the major industrial countries. Not only were the facilities employed extensively by the Federal Reserve in defense of the dollar and of the U.S. gold stock, but in addition three foreign central banks used them to help smooth changes in their own countries' payments and reserve positions. While none of these drawings by foreign central banks were large, they demonstrated the feasibility and desirability of the mutual use of the swap network as

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a means of selectively expanding international liquidity to meet temporary needs.

As in 1962, the bulk of Federal Reserve exchange operations involved use of the swap arrangements in direct transactions with foreign central banks to even out fluctuations in the amounts of dollars accumulated by these banks in their own foreign ex-

FEDERAL RESERVE RECIPROCAL CURRENCY ARRANGEMENTS

Other party to agreement	Date of original agreement	Amount (In millions of dollars)		Term of arrangement (in months) ¹
		Original	Dec. 31, 1963	
	1962			
Bank of France	Mar. 1	50	100	3
Bank of England	May 31	50	500	12
Netherlands Bank	June 13	50	100	3
National Bank of Belgium	June 20	50	50	6
Bank of Canada	June 26	250	250	12
Bank for International Settlements	July 16	100	150	3
Swiss National Bank	July 16	100	150	3
German Federal Bank	Aug. 2	50	250	3
Bank of Italy	Oct. 18	50	250	6
Austrian National Bank	Oct. 25	50	50	3
	1963			
Bank of Sweden	Jan. 17	50	50	3
Bank of Japan	Oct. 29	150	150	3
Total			2,050	

¹ Term is that stated in latest renewal of agreement.

change markets. There were also occasions, however, when the System Account Management intervened through foreign central banks in their markets, and directly in the New York foreign exchange market, to maintain orderly conditions and restrain speculative pressures. The most striking operation of this type occurred on Friday afternoon, November 22, following the report of the

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attack on President Kennedy. The initial shock of the news had temporarily paralyzed the New York foreign exchange market, and there was clear risk that the panic selling that had hit the stock market might spread to the gold and foreign exchange markets as well.

To provide firm assurance of the continuity of U.S. international financial policy, the System Account Management immediately offered in the market sizable amounts of most of the major foreign currencies at the rates prevailing just before the tragedy. The Bank of Canada simultaneously and on its own initiative took similar steps, which were then reinforced by Federal Reserve actions in New York, to stabilize the Canadian dollar-U.S. dollar rate. As the market realized that the Federal Reserve with the cooperation of foreign central banks was fully prepared to defend existing rate levels, speculative reactions subsided, and the market closed with a firm tone. By the end of the day, total Federal Reserve intervention in the New York market amounted to no more than \$23 million in all currencies. Intervention by the Bank of Canada to support the U.S. dollar on November 22 amounted

FEDERAL RESERVE NET DEBTOR POSITION UNDER RECIPROCAL CURRENCY ARRANGEMENTS

(In millions of dollar equivalent)

Other party to agreement	End of year	
	1962	1963
German Federal Bank . . . . .	. . .	59
Swiss National Bank	46	75
Bank for International Settlements	55	145
Netherlands Bank . . . . .	. . .	80
National Bank of Belgium	15	15
Bank of Italy	50	1 - 50
Austrian National Bank	50	. . .
All parties	216	324

¹ Net creditor position.

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to U.S. \$24 million; half of these acquisitions were subsequently taken over by the Federal Reserve.

Well before the close of Friday afternoon arrangements had been completed for a joint program of official intervention on both sides of the Atlantic to deal with any speculative developments. As this coordinated intervention became clear to the European markets, trading remained quiet and orderly at stable rates on Saturday morning as well as on Monday (when the New York market remained closed on the national day of mourning). No further Federal Reserve intervention, and only limited intervention by foreign central banks, was required.

Throughout the year the Federal Reserve was also active on the exchanges in efforts to cushion the potentially disturbing effects of short-term capital movements arising out of speculative flurries, seasonal pressures, and changing money market conditions in the major financial centers. Such operations, involving mainly drawings and repayments on the swap lines, were heavily concentrated in German marks, Swiss francs, and Netherlands guilders. At the beginning of the year, as shown in the accompanying table, the Federal Reserve had a net debtor position of \$216 million under the swap lines. In the following months it paid off most of its swap drawings, and by September 25 its net debtor position was down to \$20 million. Thereafter it became necessary to make heavy net drawings in order to deal with repatriations of dollar investments by European commercial banks for year-end window-dressing purposes, a speculative flow of funds to the Netherlands resulting from guilder revaluation rumors, and a tightening of the continental European money markets. As of the end of 1963, the net debtor position of the Federal Reserve under the swap lines had risen to \$324 million. This total was reduced to \$145 million at the end of February 1964 and further repayments are anticipated during the next few months.

During 1963 the Federal Reserve Bank of New York also continued to intervene on behalf of the U.S. Treasury in the foreign exchange markets both here and—through foreign central

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banks—abroad. Operations for the Treasury were concentrated in the forward markets in an effort to influence the timing and direction of short-term capital flows between money market centers. The total of all Treasury foreign exchange operations during the year was \$900 million.

German marks. From early January through late July there was almost continuous buying pressure on the German mark, which strengthened from \$0.2494⁵/₈ on January 7 to \$0.2515¹/₂ on June 20. Underlying the mark's strength were a substantial improvement in the German foreign trade position and large inflows of long-term capital for investment in relatively high-yielding German bonds and in German equities. Early in 1963, the outward flow of German funds that had been repatriated at the end of 1962 helped to ease the upward pressure on the mark, but in March tight money market conditions developed in Germany and there was a substantial inflow of short-term funds.

The pressures on the mark-dollar exchange rate were moderated in closely coordinated actions by the German Federal Bank and the Federal Reserve Bank of New York. From early March through August the German Federal Bank acquired a substantial amount of dollars at rates well below the ceiling on the mark and thus helped to maintain a calm and orderly atmosphere in the market. On the U.S. side, the Federal Reserve Bank of New York intervened heavily for both Treasury and Federal Reserve account. For this purpose, it used accumulated mark balances as well as amounts that became available through drawings on the Federal Reserve swap arrangement, through the partial reversal of a Treasury swap of marks for Swiss francs that had been arranged in December 1962, and through the placement with the German Federal Bank of U.S. Treasury bonds denominated in marks.

In April, Treasury and Federal Reserve disbursements of previously accumulated mark balances amounted to \$16.5 million equivalent. Then in May and June the Federal Reserve drew the entire \$150 million equivalent of marks available under its swap with the German Federal Bank, and by July 5 it had disbursed

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TYPES OF FOREIGN CURRENCY TRANSACTIONS OF THE
FEDERAL RESERVE, 1963

(In millions of dollars)

Currency	Drawings and repayments under swap lines		Foreign exchange operations				Total
			Under swap lines		Other operations ¹		
	Drawings	Repay-ments	Disburse-ments	Acquisi-tions	Pur-chases	Sales	
German mark.....	286.0	226.0	291.7	176.0	3.0	3.3	474.0
Swiss franc.....	230.0	115.0	230.0	95.0	2.0	1.9	328.9
Netherlands guilder.....	150.0	80.0	146.8	67.3	.....	.....	214.1
Pound sterling.....	35.0	35.0	13.6	13.6	22.0	13.0	62.2
Canadian dollar.....	20.0	20.0	16.3	16.3	.....	.....	32.6
Belgian franc.....	.....	.....	25.0	25.0	.....	.....	50.0
French franc.....	21.5	12.5	21.5	21.5	.....	.....	43.0
Italian lira.....	50.0	50.0	.....	50.0	50.0	.....	100.0
Austrian schilling.....	.....	50.0	.....	50.0	.....	.....	50.0
All currencies.....	792.5	588.5	744.9	514.7	77.0	18.2	1,354.8

¹ In the market and directly with foreign central banks.
NOTE.—Excludes transactions with U.S. Treasury.

\$143 million of these drawings. The partial reversal of the German mark–Swiss franc swap made available to the Treasury \$13.2 million equivalent, which was disbursed in June and July. On July 11 the Treasury issued to the German Federal Bank \$25 million equivalent in 2-year mark bonds, which provided funds for further intervention during the remainder of the month.

Despite this shift to the Treasury in the financing of U.S. operations in marks, the Federal Reserve was still faced with the need to liquidate as early as possible its commitments under the fully drawn \$150 million swap arrangement. The German Federal Bank would have been agreeable to an extension of the swap drawings pending the expected reversal of the flow of funds. As this appeared likely to take some time, however, the Federal Reserve and the Treasury—in line with the general policy of reserving swap facilities for countering flows that gave evidence of being quickly reversible—felt it desirable at this point to substitute a medium-term U.S. Treasury borrowing in the form of a further issue of 2-year mark bonds, in place of a portion of the short-term obligations of the Federal Reserve to the German Federal Bank. Accordingly, on August 28 the Treasury

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issued to the German Federal Bank \$50 million of such bonds and immediately sold the proceeds to the Federal Reserve, which used them to reduce its swap drawing. This was the first instance of a refunding of a Federal Reserve swap drawing through medium-term Treasury borrowing.

During August and early September, when buying pressure on the mark tapered off, the System Account Management was able to purchase from the German Federal Bank \$25 million of marks, which were employed to reduce the swap drawing to \$75 million. The remainder was fully liquidated by October 28, mainly with marks acquired from the German Federal Bank when it needed dollars for the account of the German Defense Ministry for the purchase of U.S. military equipment.

In November the German Federal Bank once again took in substantial amounts of dollars, as German banks began repatriating funds for the year-end. Consequently, the Federal Reserve made new drawings on the swap line (which had been expanded to \$250 million on October 10), both to absorb dollars held by the German Federal Bank and to acquire marks to sell in the New York market. Marks were also sold in the New York market for U.S. Treasury account.

The inflow of funds to Germany persisted through mid-December, by which time Federal Reserve drawings on the swap line had risen to \$136 million (including \$10 million drawn to cover spot sales made in New York on November 22, following the assassination of President Kennedy). Once again, however, the German Defense Ministry's need for dollars enabled the System Account Management to acquire marks, in this instance totaling \$70 million equivalent, during the remainder of December. These marks, supplemented by acquisitions through the German Federal Bank on December 30 as year-end pressures were reversed, were used to reduce the net commitments under the swap to \$59 million at the close of the year. Early in January a further reverse flow of funds to Germany enabled the Federal Reserve to acquire sufficient additional marks through the German Federal Bank to repay completely the outstanding swap drawings by January 9, 1964.

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Swiss francs. At the opening of 1963 the Federal Reserve had Swiss franc commitments totaling \$105 million equivalent under swap drawings from the Swiss National Bank and the Bank for International Settlements, and the U.S. Treasury had Swiss franc forward contracts totaling \$83 million equivalent that had arisen from sales to Swiss commercial banks through the Swiss National Bank.

As has been pointed out by both U.S. and Swiss officials, the strength of the Swiss franc in recent years has been attributable mainly to recurrent inflows of short-term capital associated with international tensions. Whenever these inflows have tapered off, the underlying deficit in the Swiss balance of payments has emerged and generated sizable demands for dollars to finance imports and other payments. During the spring and early summer of 1963, such a demand for dollars reappeared and brought about a strengthening of both the spot and the forward dollar rates against the Swiss franc. Under these conditions the Federal Reserve and the Treasury rapidly reduced their short positions in Swiss francs, and by June 20 these positions had been eliminated.

The Treasury accelerated the liquidation of its \$83 million of forward contracts outstanding on January 1, 1963, by issuing to the Swiss Confederation an additional \$76 million of Swiss franc bonds. By providing the Confederation with franc-denominated assets, these bonds correspondingly reduced the need for the Confederation to invest in dollar assets abroad, and consequently its need to have recourse to the forward market to acquire Swiss franc cover for such investments.

The Federal Reserve, for its part, liquidated \$80 million of the \$105 million of swap drawings outstanding at the beginning of the year by buying Swiss francs, both in the New York market and directly from the Swiss National Bank, and by drawing down existing U.S. official balances in Swiss francs. To speed up liquidation of the final \$25 million of the swap drawing, the Federal Reserve in cooperation with the Treasury made use of the technique of swapping outright holdings of one currency for another.

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The Federal Reserve and the Treasury each swapped with the BIS \$13 million of previously acquired sterling for Swiss francs. This was the first third-currency swap operation by the Federal Reserve under the authorization granted by the Federal Open Market Committee on May 28.

In late July, however, the Swiss franc strengthened once more as the Swiss money market became somewhat tighter. To counter the liquidity squeeze, Swiss commercial banks repatriated funds placed abroad, and this inflow—combined with some renewed speculative pressures—created a heavy demand for Swiss francs. In closely coordinated operations in New York and Zurich, the Swiss and U.S. authorities tempered these market pressures and prevented unduly sharp movements in rates. Intervention took the form mainly of U.S. Treasury placements of forward Swiss franc contracts and purchases of spot dollars by the Swiss National Bank in the Zurich market, both on a moderate scale. Limited spot sales of Swiss francs were also undertaken in the New York market both for Treasury account (with resources provided by an additional swap with the BIS of \$10 million of sterling for Swiss francs) and for the account of the Swiss National Bank. With some easing of the Swiss money market, the exchange market returned to a more balanced position in August, and the dollar rate held slightly above its floor.

In September the Swiss franc again advanced as a result of inflows of funds to Switzerland associated with the usual market gossip surrounding the annual meeting of the International Monetary Fund, and also because of a flow of funds from Italy. To help counter these pressures and to reduce Swiss official reserve gains, forward sales of Swiss francs for Treasury account in the Swiss market were resumed, and during September some \$72 million equivalent was committed, raising to \$105 million equivalent the Treasury's forward Swiss franc commitments. Nevertheless, the Swiss National Bank had to absorb substantial amounts of dollars. In order to acquire Swiss francs to mop up these excess dollar holdings of the Swiss National Bank, the Federal Reserve reactivated its swap arrangement with the BIS and

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drew \$50 million on September 30 and \$30 million on October 7. Although there was a temporary easing of the influx after the IMF meeting came to a close, further heavy flows of funds from Italy occurred.

To cope with these pressures, the Treasury sold an additional \$44 million of forward Swiss francs, and on October 22 the Federal Reserve drew the remaining \$20 million of Swiss francs available under the \$100 million swap arrangement with the BIS. Later in the month the Federal Reserve activated its arrangement with the Swiss National Bank by drawing \$60 million equivalent, while the Treasury funded \$30 million of its maturing forward Swiss franc contracts by selling to the Swiss Confederation a certificate of indebtedness denominated in Swiss francs. In early November the Swiss franc came off its ceiling as a result both of a slowing down in the movement of funds from Italy and of an easing in the Swiss money market, and the Federal Reserve was able to acquire sufficient francs to reduce its drawings on the Swiss National Bank and the BIS by \$5 million each, to \$55 million and \$95 million.

In the latter part of November the Swiss franc again advanced toward its ceiling as Swiss banks began to repatriate funds for year-end needs. By November 22 the rate was just below the ceiling, and after the assassination of President Kennedy it moved to the ceiling, at which level the Federal Reserve sold some \$2 million of francs. On the same day the Federal Reserve swap lines with the BIS and the Swiss National Bank were each increased by \$50 million to \$150 million. The franc thereafter remained at, or just below, its ceiling until the year-end.

During December the Swiss National Bank engaged in a large volume of swap transactions with the Swiss commercial banks (buying dollars spot and selling them forward) to provide accommodation for the year-end repatriation of funds, but in addition it had to absorb outright a substantial volume of dollars in the spot market. The Federal Reserve mopped up most of these excess dollar holdings on December 31 by drawing \$70 million of Swiss francs under the swap arrangements with the BIS and

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the Swiss National Bank. At the year-end the Federal Reserve's swap commitments in Swiss francs totaled \$220 million, and the Treasury's forward market contracts \$120 million.

Netherlands guilders. At the beginning of 1963 the dollar-guilder market was quiet, and in February the Federal Reserve repaid its outstanding drawing of \$10 million equivalent on the Netherlands Bank. Renewed buying pressure on the guilder developed in mid-March, however, and continued for more than 2 months. Part of the dollar influx into the Netherlands apparently originated in foreign direct investment, but a more important cause was a gradual tightening of the Amsterdam money market.

Short-term money rates rose sharply as Dutch commercial banks were squeezed for liquidity. To ease the pressure on the commercial banks, the Netherlands Bank in March agreed to accept certain Netherlands Treasury paper under repurchase agreements, and reduced the banks' cash reserve requirements by 1 percentage point to 4 per cent for the monthly reserve period ended April 21. Nevertheless the tightness continued, and Dutch commercial banks repatriated short-term investments from abroad in order to bolster their strained domestic liquidity positions. The return flow of short-term funds was reflected both in a strengthening of the spot rate for the guilder and in a narrowing of the forward guilder premium.

In these circumstances it seemed appropriate to prevent through central bank swap operations the potential unloading of such repatriations on the Netherlands Bank. Accordingly, from April 10 through May 28 the Federal Reserve gradually disbursed a total of \$44 million equivalent in guilders acquired through drawings on the \$50 million swap line with the Netherlands Bank. Most of these disbursements were effected through exchange market operations, with the dual purpose of preventing the spot dollar rate from declining to the floor and of simultaneously absorbing dollars that would otherwise have flowed to the Netherlands Bank.

By early June the tide began to turn, as the Netherlands Bank

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again reduced the commercial banks' cash reserve requirements by 1 percentage point to 3 per cent and money market conditions eased in the Netherlands. With the decline in Dutch money rates and the strengthening of the Dutch commercial banks' liquidity positions, the banks resumed placements of short-term funds abroad, thereby pushing up the spot rate for the dollar and widening the forward premium on the guilder. During the first 3 days of July the Federal Reserve was able to acquire \$5 million of guilders through market operations conducted by the Netherlands Bank, and the dollar rate continued to strengthen gradually throughout the summer months.

Although such favorable market conditions probably would have permitted further gradual liquidation of most of the swap drawing, the Netherlands Bank and the Federal Reserve preferred to take advantage of a \$70 million debt prepayment by the Netherlands Government to the U.S. Government on July 22. This prepayment, which resulted in an equivalent draft upon the dollar reserves of the Netherlands Bank, enabled the System Account Management to buy directly from the Netherlands Bank enough guilders to liquidate its remaining commitment under the swap drawing.

In September the guilder rate again turned upward, as a general debate in the Netherlands over credit and wage policy gave rise to widespread rumors that the guilder might be revalued. These rumors set off a brief but very heavy speculative demand for guilders, and the rate rose sharply until early October when the revaluation rumors died down. During this period the Federal Reserve drew \$100 million of guilders on its swap line with the Netherlands Bank (the arrangement was increased from \$50 million to \$100 million on October 2) and sold \$15 million of guilders in the New York market and \$80 million to the Netherlands Bank to absorb dollars in excess of that bank's usual holdings. In addition, \$38.7 million of guilders were sold for 1-month forward delivery for U.S. Treasury account through the Netherlands Bank in order to facilitate an outflow of funds from the Netherlands.

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The guilder market became calmer later in October and November, and there was some outflow of funds from the Netherlands. As the guilder rate eased, the Federal Reserve Bank of New York was able to acquire guilders to reduce the Federal Reserve's swap commitment by \$20 million to \$80 million and to meet part of the Treasury's forward contracts. The remainder of the guilders needed to liquidate the Treasury's forward commitments were acquired through a swap with the BIS of \$17 million of the Treasury's holdings of marks for guilders. (These marks had been acquired for possible market intervention in October through the reversal of an outstanding Treasury swap with the BIS of marks against Swiss francs. The Swiss francs needed for this latter operation were in turn acquired by swapping into Swiss francs part of the lira balances that the Treasury was building up in anticipation of future maturities of lira bonds issued to the Bank of Italy in 1962.)

In the latter part of November, however, the guilder strengthened again as a bond issue by the Netherlands Government tightened the Dutch money market. Then on November 22, following the assassination of President Kennedy, the Federal Reserve sold in the New York market \$3.2 million equivalent of guilders out of existing balances. As the guilder again eased at the end of the year, the Federal Reserve was able to resume purchases of guilders, and at the beginning of January 1964 its swap commitment was reduced by \$10 million to \$70 million.

Sterling. The pound sterling strengthened in early January 1963, and there were numerous indications at that time that seasonal inflows of dollars might considerably augment British official reserves during the first half of the year. Accordingly, the Federal Reserve drew about £9 million, or \$25 million equivalent, under its \$50 million swap facility with the Bank of England, and subsequently used £2 million, or \$5.6 million equivalent, of this drawing to support the dollar rate.

Late in January, however, the exchange market situation was abruptly transformed when the British bid for membership in the Common Market was rejected. The Federal Reserve re-

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versed gear and on February 1 purchased sufficient sterling to restore its sterling balance to \$25 million equivalent. Simultaneously, as speculative pressures on sterling gathered force, the Bank of England disbursed the \$25 million credited to its account at the Federal Reserve under the initial swap drawing. Despite sizable intervention by the Bank of England, the sterling rate gradually declined during February and March. On March 29 the Federal Reserve Bank of New York, for U.S. Treasury account, purchased in the market £3 million, or \$8.4 million equivalent, thereby reinforcing the support operations of the Bank of England.

The Bank of England might readily have drawn on the remaining \$25 million of the \$50 million swap line, which the Federal Reserve was prepared to increase. But the speculative outflow from London was apparently directed in large part to continental financial centers rather than to New York. The Bank of England accordingly negotiated short-term credits of \$250 million with several continental European central banks in order to reinforce British official reserves. These short-term credits, which cushioned the decline in British reserves during February and March, were reported early in April by Chancellor Maudling. This announcement strengthened sterling, as the markets realized that the central banks were acting together to defend the pound, and the rate stabilized at slightly above par.

Later in the spring sterling eased again, and between May 6 and 20 during temporary declines in the rate the Federal Reserve Bank of New York, on behalf of both the Federal Reserve and the Treasury, accumulated £6.5 million, or \$18.2 million equivalent, in order to build up U.S. official holdings. No immediate need to employ these balances for intervention in the dollar-sterling market was anticipated, however, and as noted earlier, it appeared advantageous several weeks later to swap about £4.6 million each, or about \$13.0 million equivalent each, of the Treasury's and the Federal Reserve's holdings for Swiss francs. This was done to accelerate repayment of the Federal Reserve's earlier drawings on its swap line with the Swiss Na-

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tional Bank. In July a similar swap for \$10 million equivalent was carried out for account of the Treasury with sterling acquired from the Bank of England.

Perhaps the most important single development in the sterling-dollar relationship during the year was the increase in the swap line between the Federal Reserve and the Bank of England from \$50 million to \$500 million, announced on May 29. The magnitude of this increase greatly reinforced market confidence in the stability of the sterling-dollar parity, and throughout the second half of 1963 the sterling market was unusually quiet. The \$25 million swap operation initiated in January 1963 was liquidated by the Bank of England on July 16, and the \$500 million swap arrangement consequently reverted fully to a standby basis.

In August, as sterling again declined before stabilizing during the fall months, the Federal Reserve Bank of New York acquired in the market £2.7 million, or \$7.5 million equivalent, of additional sterling balances for the System Open Market Account and the Treasury. There were no further Federal Reserve or Treasury operations in sterling until the afternoon of November 22, when the Federal Reserve sold \$8 million equivalent of sterling in New York following the assassination of President Kennedy. These sales were covered by a Federal Reserve drawing of \$10 million equivalent of sterling on the swap line with the Bank of England. An easing of sterling in December, as continental commercial banks repatriated funds from the United Kingdom for year-end positioning, enabled the Federal Reserve to build up its sterling holdings and repay the swap drawing before maturity.

Canadian dollars. Throughout 1963 both the Canadian and the U.S. authorities kept a close watch on potentially disturbing flows of short-term capital between the two countries. The desire to minimize such flows appears to have been reflected in part in adjustments in the Bank of Canada's discount rate in May, when it was reduced to 3½ per cent, and again in August, when it was raised to 4 per cent following the increase in the Federal Reserve discount rate and the increase in ceiling rates on time

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deposits under the Board's Regulation Q. With Canadian short-term rates thus running only slightly above U.S. rates and with the forward Canadian dollar at a small discount, the incentive to move funds on a covered basis was relatively minor.

The completion in September of a \$500 million Canadian wheat sale to the Soviet Union introduced a new technical problem, which was quickly resolved. The sale naturally created a heavy demand for Canadian dollars for future delivery against U.S. dollars, because the sales contracts between the Soviet Union and the international grain companies—which were acting as intermediaries—called for settlement in U.S. dollars, whereas the grain companies had to purchase the wheat from the Canadian Grain Board with Canadian dollars. Consequently, the forward Canadian dollar moved to a premium vis-a-vis the U.S. dollar.

Such a premium on the forward Canadian dollar, coupled with the existing interest differential in favor of Canadian money market instruments, might well have generated a sizable flow of arbitrage funds from the United States to Canada. In these circumstances, acting in close cooperation, the U.S. and Canadian authorities intervened to eliminate the forward premium on the Canadian dollar and thus reduced the covered interest arbitrage incentive in favor of Canada. In this connection, the Federal Reserve Bank of New York engaged in swap transactions for U.S. Treasury account, buying Canadian dollars spot and selling them forward against U.S. dollars. Such operations helped to meet market demands for forward Canadian dollars, and reduced to a minimum the flow of interest arbitrage funds during the period. Shortly after their completion, the Federal Open Market Committee on October 1 authorized the Federal Reserve Bank of New York to engage in similar swap transactions for the System Open Market Account. However, no such operations were undertaken during 1963.

The first Federal Reserve operation in Canadian dollars in 1963 occurred on November 22 when the Federal Reserve sold \$2.3 million equivalent of Canadian dollars in the New York

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market as part of its stabilization efforts following the assassination of President Kennedy. Early in the following week the System Open Market Account sold \$14 million equivalent of Canadian dollars to the Bank of Canada to absorb some of the U.S. dollars that the Bank of Canada had acquired during the crisis period. The Canadian dollar resources for these operations were acquired through a \$20 million equivalent drawing on the swap line with the Bank of Canada. In mid-December, when the Canadian dollar weakened as a result of the usual year-end pressures arising from heavy interest and dividend payments abroad, the Federal Reserve was able to purchase from the Bank of Canada the Canadian dollars necessary to cover these swap commitments, and it repaid the \$20 million drawing in advance of maturity.

Belgian francs. The National Bank of Belgium has from the beginning preferred to keep its swap with the Federal Reserve fully drawn. This feature distinguishes the Belgian swap from the other swap arrangements, which are drawn upon only when needed and otherwise are left on a standby basis. The swap thus has provided the National Bank of Belgium with a supplementary dollar balance of \$50 million and the Federal Reserve with an equivalent balance of 2.5 billion Belgian francs.

In 1963, disbursements of the reciprocal balances created by the swap were made by both parties for a combined total of \$70 million equivalent. These exchange operations generally were quickly reversed, reflecting the fluctuations in the Belgian balance of payments. At the end of the year as at the beginning, the Federal Reserve's net commitment under the arrangement totaled \$15 million equivalent.

In May 1963 the U.S. Treasury issued to the National Bank of Belgium 2-year bonds denominated in Belgian francs in the amount of \$30 million equivalent. These bonds were timed to coincide with Belgian Government borrowings of dollars in London and New York for internal financing requirements, which would otherwise have resulted in accrual of surplus dollars on the books of the National Bank of Belgium. These dollars,

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however, were immediately absorbed by the Treasury with the Belgian franc proceeds of the bond issues.

During the year, total swings of \$170 million in the Belgian payments position were financed through the Federal Reserve swap facility and the Treasury issue of Belgian franc bonds. Although limited in scale, these coordinated exchange operations by the U.S. and Belgian exchange authorities demonstrated how flexibly the recently developed international financial machinery can help to finance the payments swings that inevitably accompany even a balanced growth of trade and payments.

French francs. The French franc remained firmly at its ceiling throughout the first half of 1963 as the French balance of payments continued in substantial surplus, and there was no occasion for Federal Reserve intervention in the market. The French surplus moderated during the second half of the year, however, and the Federal Reserve was able for the first time to engage in some exploratory operations in French francs.

Between July 19 and 23, in an effort to test the market, the Federal Reserve drew and disbursed a total of \$12.5 million equivalent of French francs under the swap line with the Bank of France, which had been increased to \$100 million on March 4. This intervention lifted the dollar slightly off its floor, but it quickly became apparent that very sizable disbursements would be required to bring about any appreciable improvement of the dollar rate, and intervention was accordingly suspended. Shortly thereafter the System Account Management readily acquired sufficient francs in the forward market through the Bank of France to cover the outstanding swap drawings. (Such forward purchases of currencies in which the Federal Reserve has swap arrangements had been authorized by the Federal Open Market Committee on May 28.)

No further opportunity for operations in French francs presented itself until October, when an active two-way market developed in Paris. In order to induce further improvement in the dollar rate, the Federal Reserve asked the Bank of France to sell at its discretion spot francs for the System Open Market

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Account, any sales to be covered by simultaneous drawings under the swap arrangements. A total of \$9 million equivalent of francs were sold in this manner. These small-scale commitments were quickly covered through forward purchases of francs.

Italian lire. On January 21, 1963, the Federal Reserve repaid the \$50 million equivalent of lire drawn in December 1962 under the swap arrangement with the Bank of Italy, as the anticipated return flow of funds from Italy occurred. Thereafter, there were no operations in lire until the fall when the lira came under pressure as a result of the Italian cabinet crisis and the continued deficit in Italy's balance of payments.

In late October the Bank of Italy, in order to bolster its reserves, which were being depleted by operations in support of the lira, drew \$50 million on its swap line with the System Open Market Account. This standby swap facility had earlier been increased to \$250 million. Meanwhile, in September and October the U.S. Treasury purchased a total of \$67 million equivalent of lire from the Bank of Italy in order to provide support for the Italian reserve position and in anticipation of the Treasury's future need for lire to meet obligations arising out of the issuance of lira-denominated bonds. As described earlier, the Federal Reserve Bank of New York, for Treasury Account, then swapped \$17 million of these lire against Swiss francs with the BIS in order to reverse an equivalent swap of German marks against Swiss francs.

In December, as the Italian deficit persisted, the Federal Reserve bought an additional \$50 million of lire from the Bank of Italy and simultaneously sold the lire forward to the U.S. Treasury, which thereby reduced further its uncovered lira bond liabilities. This was the first such transaction under a November 12 authorization of the Federal Open Market Committee for Federal Reserve spot purchases and concurrent forward sales to the Treasury of currencies in which the Treasury has outstanding indebtedness.

Austrian schillings. At the beginning of 1963 the Federal Reserve had outstanding a swap drawing of \$50 million equivalent

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from the Austrian National Bank. During the 3-month term of the drawing the Austrian balance of payments remained in surplus, and no reversal of the flow of funds appeared in immediate prospect. Accordingly, at maturity on January 24, 1963, the drawing was entirely repaid with schillings bought from the Austrian National Bank, and the swap arrangement was placed on a standby basis.

In April the U.S. Treasury issued to the Austrian National Bank a \$25 million equivalent 18-month bond denominated in Austrian schillings. A second such \$25 million bond was issued in December. In both cases the schilling proceeds were used to absorb dollar holdings of the Austrian National Bank, which had been increasing owing to Austria's balance of payments surplus.

Swedish kronor and Japanese yen. A standby swap line of \$50 million equivalent was negotiated with the Bank of Sweden in January 1963, and one of \$150 million equivalent with the Bank of Japan in October. There were no Federal Reserve or Treasury operations in either currency during 1963.

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BANK SUPERVISION

BY THE FEDERAL RESERVE SYSTEM

Examination of Federal Reserve Banks. The Board's Division of Examinations examined the 12 Federal Reserve Banks and their 24 branches during the year as required by Section 21 of the Federal Reserve Act. In conjunction with the examination of the Federal Reserve Bank of New York, the Board's examiners also made a detailed audit of the accounts and holdings of the System Open Market Account, operated at that Bank in accordance with policies formulated by the Federal Open Market Committee, and rendered a report thereon to the Committee. The procedures followed by the Board's examiners were surveyed and appraised by a private firm of certified public accountants.

Examination of member banks. Although authorized to examine all member banks, both State and national, neither the Federal Reserve Banks nor the Board of Governors as a matter of practice examines national banks because the law charges the Comptroller of the Currency directly with that responsibility. The Comptroller makes reports of examinations of national banks available to the Board of Governors in Washington, and each Federal Reserve Bank obtains from the Comptroller copies of such reports of examination of national banks in its district as it may need.

State member banks are subject to examinations made by direction of the Federal Reserve Bank of the district in which they are situated by examiners selected or approved by the Board. The established policy is to conduct at least one regular examination of each State member bank, including its trust department, during each calendar year, with additional examinations if considered desirable. Wherever practicable, joint examinations are made in cooperation with the State banking authorities, or alternate independent examinations are made by agreement with State authorities. All but 13 of the 1,493 State member banks were examined under the Federal Reserve System's 1963 program.

The Board of Governors makes its reports of examination of

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State member banks available to the Federal Deposit Insurance Corporation, and the Corporation in turn conducts examinations of insured nonmember State banks and makes its reports available to the Board. Reports of examination of State member banks are also made available to the Comptroller of the Currency.

In its supervision of State member banks the Board receives, reviews, and analyzes reports of examination of State member banks and coordinates and evaluates the examination and supervisory functions of the System. In addition, under provisions of the Federal Reserve Act and other statutes, the Board passes on applications for admission of State banks to membership in the System and for permission, among other things, to (1) merge banks, (2) form or expand bank holding companies, (3) establish domestic and foreign branches, (4) exercise expanded powers to create bank acceptances, (5) establish foreign banking and financing corporations, or (6) invest in bank premises in excess of 100 per cent of a bank's capital stock. Comments with respect to some of the more important of these actions appear below.

Federal Reserve membership. As of the December call date in 1963, member banks accounted for about 45 per cent of the number of all commercial banks in the United States and nearly 62 per cent of all commercial banking offices, and held approximately 83 per cent of the total deposits in such banks. State member banks accounted for 17 per cent of the number of all State commercial banks and 31 per cent of the State banking offices, and held 64 per cent of total deposits in State commercial banks.

Of the 6,108 member banks of the Federal Reserve System at the end of 1963, 4,615 were national and 1,493 were State member banks. There was a net increase of 61 member banks during 1963. This reflected an increase of 112 national banks and a decrease of 51 State members. The increase in national banks resulted from the organization of 162 new national banks and the conversion of 18 nonmember banks to national banks, offset by 55 conversions to branches incident to mergers and

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absorptions and 13 conversions to nonmember banks; and the State member decrease reflected 26 conversions to branches incident to mergers and absorptions, and 22 withdrawals from membership.

At the end of 1963, member banks were operating 10,370 branches, 966 more than at the close of 1962; this included 850 de novo establishments.

Detailed figures on changes in the banking structure during 1963 are shown in Table 19, page 234.

Bank mergers. Under Section 18(c) of the Federal Deposit Insurance Act, as amended May 13, 1960, the Board passes upon each merger, consolidation, acquisition of assets, or assumption of liabilities in which the acquiring, assuming, or resulting bank is to be a State member bank. Unless the Board finds that it must act immediately to prevent the probable failure of one of the participating banks, it must request reports from the Attorney General, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation on the competitive factors involved in each transaction. The Board in turn responds to requests by the Comptroller or the Corporation for reports on competitive factors involved when the acquiring, assuming, or resulting bank is to be a national bank or an insured State nonmember bank.

During 1963 the Board approved 31 and disapproved 3 mergers, consolidations, acquisitions of assets, or assumptions of liabilities, and submitted 99 reports on competitive factors to the Comptroller of the Currency and 37 to the Federal Deposit Insurance Corporation. As required by Section 18(c) of the Federal Deposit Insurance Act, a description of each of the 31 cases approved by the Board, together with other pertinent information, is shown in Table 21 on pages 237-71.

Statements and orders of the Board with respect to all bank merger and bank holding company applications, whether approved or disapproved, are released immediately to the press and the public and are published later in the *Federal Reserve Bulletin*. These include comprehensive presentations of the factors con-

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sidered, the conclusions reached, and the vote of each Board member present. Dissenting statements, if any, are appended.

Bank holding companies. During 1963, pursuant to Section 3(a)(1) of the Bank Holding Company Act of 1956, the Board approved 2 applications for prior approval to become a bank holding company and denied 1 application. Pursuant to Section 3(a)(2) of the Act, the Board approved the acquisition by 5 bank holding companies of voting shares in 5 banks (2 related bank holding companies, one of which controlled the other, filed applications to acquire shares of one of the banks), and denied applications by 2 holding companies with respect to 3 banks.

Under Section 4(c)(6) of the Act, the Board, after hearings, granted requests by 2 holding companies for determinations that the activities of 8 subsidiaries were so closely related to the banking activities of their respective holding company systems as to be proper incidents thereto and as to make it unnecessary for the prohibitions of Section 4 to apply in order to carry out the purposes of the Act. To provide necessary current information, annual reports for 1962 were obtained from all registered bank holding companies.

During 1963, pursuant to the Banking Act of 1933, the Board authorized the issuance to holding company affiliates of member banks of 10 voting permits for general purposes and 16 for limited purposes. In accordance with established practice, a number of holding company affiliates were examined by examiners for the Federal Reserve Banks in whose districts the principal offices of the holding companies are located.

Section 301 of the Banking Act of 1935 provides that the term "holding company affiliate" shall not include—except for the purposes of Section 23A of the Federal Reserve Act, which restricts loans to affiliates and loans on or investments in the stock or obligations of affiliates—any organization that is determined by the Board not to be engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies. The Board

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made such determinations with respect to 25 organizations during 1963.

Foreign branches of member banks. At the end of 1963, 10 member banks had in active operation a total of 160 branches in 42 foreign countries and overseas areas of the United States: 5 national banks were operating 124 of these branches, and 5 State member banks were operating 36. The number and location of these branches were as follows:

<i>Latin America</i>	73	<i>Africa</i>	3
Argentina	16	Liberia	1
Bahamas	2	Nigeria	2
Brazil	15		
Chile	2	<i>Near East</i>	4
Colombia	5	Lebanon	3
Dominican Republic	3	Saudi Arabia	1
Ecuador	2		
Guatemala	2	<i>Far East</i>	31
Jamaica	1	Hong Kong	3
Mexico	4	India	4
Panama	9	Japan	10
Paraguay	3	Malaysia	5
Peru	1	Okinawa	1
Trinidad	1	Pakistan	2
Uruguay	2	Philippines	5
Venezuela	4	Thailand	1
Virgin Islands (British)	1		
<i>Continental Europe</i>	12	<i>U.S. Overseas Areas and</i>	
Belgium	2	<i>Trust Territories</i>	23
France	4	Canal Zone	2
Germany	3	Guam	1
Italy	1	Puerto Rico	15
Netherlands	1	Truk Islands	1
Switzerland	1	Virgin Islands	4
<i>England</i>	14	Total	160

Under the provisions of the Federal Reserve Act (Section 25 as to national member banks and Sections 9 and 25 as to State member banks), the Board during 1963 approved 22 applications made by member banks for permission to establish branches in foreign countries.

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During the year a member bank opened branches at locations formerly operated by its wholly owned foreign banking subsidiary in Paris, France; Duesseldorf, Germany; Hong Kong, Colony of Hong Kong; Kuala Lumpur and Singapore, Federation of Malaysia; Guatemala City, Guatemala (2); and Beirut, Lebanon. Another opened branches in Port of Spain, Trinidad, and Santiago de los Caballeros, Dominican Republic. A third opened branches in Quito, Ecuador; Bogota, Colombia; Geneva, Switzerland; Buenos Aires, Argentina; and Delhi, India. Thirteen of these branches had been authorized before 1963.

Acceptance powers of member banks. During the year the Board approved the application of 1 member bank, pursuant to the provisions of Section 13 of the Federal Reserve Act, for increased acceptance powers. The bank was granted permission to accept commercial drafts or bills of exchange to an amount not exceeding at any time, in the aggregate, 100 per cent of its paid-up and unimpaired capital stock and surplus, and also full permission to accept drafts or bills of exchange drawn for the purpose of furnishing dollar exchange as required by the usages of trade in such countries, dependencies, or insular possessions of the United States as may have been designated by the Board of Governors.

Foreign banking and financing corporations. In 1963, 1 corporation was organized under State law and opened for business to operate under agreement with the Board pursuant to Section 25 of the Federal Reserve Act relating to investment by member banks in the stock of corporations engaged principally in international or foreign banking. At the end of 1963 there were 5 corporations operating under agreements with the Board pursuant to Section 25.

During the year examiners for the Board examined 3 "agreement" corporations with head offices in New York and 1 with its head office in San Francisco. Two of these have an English fiduciary affiliate. Another has a branch in England, and it owns: the stock of 2 banks organized under the laws of, and operating in, Liberia and the Republic of South Africa; the stock of 2 trust

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companies, 1 organized under the laws of the Bahamas and 1 of Canada; and 50 per cent of the stock of a bank in Canada. The fifth "agreement" corporation is a national member bank in the Virgin Islands, which is owned by a State member bank in Philadelphia.

During 1963, under the provisions of Section 25(a) of the Federal Reserve Act, the Board issued final permits to 8 corporations to engage in international or foreign banking or other international or foreign financial operations. Seven of these corporations commenced operations in 1963; 1 other corporation that began operations in 1963 had received its final permit in 1962. At the end of 1963 there were 30 corporations in active operation under Section 25(a): 20 have home offices in New York City, 1 in Boston, 3 in Philadelphia, 1 in Pittsburgh, 2 in Chicago, 2 in Detroit, and 1 in Seattle. Examiners for the Board of Governors examined 26 of these corporations during the year.

Twenty-two of these corporations have no subsidiaries or foreign branches. One has a Canadian investment and development subsidiary, a branch in France, and an English fiduciary affiliate that has a branch in Canada. Another owns the stock of: a bank organized under the laws of, and operating in, the Republic of South Africa; a trust company organized under the laws of the Bahamas; and a Brazilian corporation that holds stock of a Brazilian bank. Another owns substantially all of the stock of a bank organized under the laws of, and operating in, Italy. One has a finance and investment subsidiary organized under the laws of Panama with headquarters in Bermuda; 1 has an Argentine finance company subsidiary; 1 has a Bahaman subsidiary; and another has a French investment banking subsidiary.

Bank Examination School. In 1963 the Bank Examination School conducted two sessions of the School for Examiners and four sessions of the School for Assistant Examiners. This School, established in 1952 by the three Federal bank supervisory agencies, has been conducted jointly by the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance

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Corporation since withdrawal of the Office of the Comptroller of the Currency in 1962.

Since the establishment of this program in 1952, 2,191 men have attended the various sessions. This number includes representatives of the Federal bank supervisory agencies; another Federal agency; the State Banking Departments of California, Connecticut, Indiana, Louisiana, Maine, Michigan, Mississippi, Montana, Nebraska, New Hampshire, New Jersey, New Mexico, New York, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, Tennessee, Virginia, and Washington; the Treasury Department of the Commonwealth of Puerto Rico; and four foreign countries.

LEGISLATION ENACTED

Authority to issue \$1 and \$2 Federal Reserve notes. The Act of Congress approved June 4, 1963 (Public Law 88-36), in addition to repealing the silver purchase acts and the related tax on transfers of silver bullion, amended Section 16 of the Federal Reserve Act so as to authorize the issuance of \$1 and \$2 Federal Reserve notes. The purpose of this legislation is to make monetary silver available for coinage by substituting Federal Reserve notes for silver certificates. Before this amendment, the law limited the issuance of Federal Reserve notes to denominations of \$5 and up.

Federal Reserve notes in the \$1 denomination were first issued in November 1963. Issuance of a \$2 denomination note is not contemplated. This denomination was included so that Federal Reserve notes would be authorized in all present denominations of paper money.

PROPOSED LEGISLATION

Lending authority of Federal Reserve Banks. On August 21, 1963, the Board of Governors recommended legislation to the Banking and Currency Committees of the Congress that would broaden substantially the kinds of security on which credit can

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be advanced by the Federal Reserve Banks. Present law permits advances on collateral other than certain limited types of paper only at an interest rate $\frac{1}{2}$ of 1 per cent higher than the normal discount rate.

The Board's recommendation followed an extensive review within the Federal Reserve System of the law, regulation, and practices governing member bank borrowing from the Federal Reserve Banks. The proposed legislation would do away with technical requirements regarding "eligibility" of collateral for such borrowings that have become outmoded since the enactment of the Federal Reserve Act of 1913. Subject to regulation by the Board of Governors, the Reserve Banks would be authorized to make loans to member banks based primarily on the soundness of the paper offered as security and the appropriateness of the purpose for which credit is sought.

The proposed legislation was embodied in bills S. 2076 and H.R. 8505, introduced by Senator Robertson and Representative Kilburn, respectively.

Bank Holding Company Act of 1956. The Board is required by Section 5(d) of the Bank Holding Company Act of 1956 (12 U.S.C. 1844) to include in its ANNUAL REPORT to Congress any recommendations for changes in that Act that the Board thinks would be desirable. In a Special Report submitted to Congress on May 7, 1958 (published in the *Federal Reserve Bulletin* of July 1958), the Board recommended a number of amendments to the Bank Holding Company Act designed to improve its effectiveness, facilitate its administration, and clarify ambiguities. The Board believes that the suggested amendments (with the exception of Recommendation 15, which was withdrawn in the Board's ANNUAL REPORT for 1960) merit early congressional consideration and legislative action.

The Board particularly emphasizes the desirability of prompt amendment of the Holding Company Act in the following respects:

1. The present definition of "bank holding company" covers only situations involving 2 or more banks. In the Board's

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judgment, this definition is not adequate to control certain potential evils toward which the Act is directed, in that it permits common corporate control of banking and nonbanking interests. Accordingly, the Board reiterates its recommendation (1958 Special Report, Recommendation 1) that the Act be amended to subject a corporation to regulation as a bank holding company if it controls 25 per cent or more of the stock of a single bank.

2. The Act exempts a company that was registered under the Investment Company Act of 1940 before May 15, 1955, and certain of its related corporations. As pointed out in Recommendation 7 of the 1958 Special Report, this exemption has no logical basis. It has been actively utilized to expand a bank holding company system, free from regulatory control, in a manner inconsistent with the basic principles of the Bank Holding Company Act. The Board therefore urges prompt amendment of the Act to eliminate this unwarranted exemption.

The Act also excludes from its coverage (a) companies with most of their resources "in the field of agriculture" and (b) companies "operated exclusively for religious, charitable, or educational purposes." As pointed out in Recommendations 8 and 9 of the 1958 Special Report, however, the principal dangers with which the statute is concerned—unregulated expansion of corporate ownership of banks, and ownership of banking and nonbanking interests by the same organization—are not obviated by the fact that a holding company is engaged chiefly in agriculture or is operated for religious, charitable, or educational purposes. Accordingly, these exemptions also should be repealed.

3. In administering the Act the Board has confirmed its view (explained in Recommendation 23 of the 1958 Special Report) that Section 6 of the Act should be repealed or, at least, amended. That provision, broadly speaking, prohibits intrasystem investments and extensions of credit by banks in holding company systems. This constitutes a severe and, in the Board's judgment, an unnecessary restriction upon the opera-

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tions of banks controlled by holding companies, and therefore should be repealed or amended as soon as possible.

4. Before enactment of the Bank Holding Company Act of 1956, Federal regulation of bank holding companies was based principally on provisions of the Banking Act of 1933 relating to "holding company affiliates." As pointed out in Recommendation 25 of the 1958 Special Report, the effectiveness of the laws relating to holding company affiliates is open to question, and it is doubtful whether, in view of the enactment of the Bank Holding Company Act, these laws are sufficiently useful to justify their retention. Eliminating them would remove the confusion and the administrative burden that result from the existence of two sets of laws relating to the same general subject but based on different definitions of what constitutes a holding company.

LITIGATION

First Oklahoma Bancorporation, Oklahoma City, Oklahoma. In December 1962 and January 1963, petitions were filed in the U.S. Court of Appeals for the Tenth Circuit (Denver, Colorado) for review of an order of the Board, issued under the Bank Holding Company Act, approving the formation of a bank holding company by First Oklahoma Bancorporation, Inc. Pursuant to consent action voluntarily taken by petitioners in each case, the Court, on February 26 and April 8, 1963, dismissed the appeals.

Whitney Holding Corporation, New Orleans, Louisiana. Following Board action of May 3, 1962, authorizing Whitney Holding Corporation, New Orleans, Louisiana, to become a bank holding company by acquiring stock of 2 Louisiana banks—1 a proposed new national bank—a petition for review of the action was filed in the U.S. Court of Appeals for the Fifth Circuit (New Orleans). In a separate action instituted in the U.S. District Court for the District of Columbia, the petitioners in the Fifth Circuit appeal obtained an order enjoining the Comptroller of the Currency from issuing a certificate authorizing the proposed

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national bank to open for business. The injunction order was affirmed by the U.S. Court of Appeals for the District of Columbia Circuit, and by order dated October 17, 1963, the Court of Appeals denied petitions for rehearing before the entire court, which had been filed on behalf of the Comptroller and the proposed national bank.

A decision by the Fifth Circuit Court of Appeals on the petition for review of the Board's May 3 action was being withheld at year-end, pending determination as to any review proceedings that might be pursued in the District of Columbia case.

First Wisconsin Bankshares Corporation, Milwaukee, Wisconsin; The Marine Corporation, Milwaukee. On December 17, 1963, the U.S. Court of Appeals for the Seventh Circuit (Chicago, Illinois) unanimously affirmed actions of the Board denying applications by First Wisconsin Bankshares Corporation for approval of its acquisition of the stock of 2 banks in Wisconsin—The American Bank and Trust Company, Racine, and Merchants & Savings Bank, Janesville. On the same date, the Court unanimously affirmed the Board's denial of an application of The Marine Corporation for approval of the acquisition of stock of The Beloit State Bank, Beloit, Wisconsin. In both cases the Court issued opinions setting forth reasons for its decisions.

Wm. D. Bryan v. Federal Open Market Committee, et al. This action was commenced on August 16, 1963, in the U.S. District Court for Montana. Plaintiff sought (1) to have the powers exercised by the Federal Open Market Committee declared to have been delegated unconstitutionally by Congress, and (2) to have the Committee and its individual members restrained from purchasing and selling U.S. Government securities on the open market. As of the end of the year, an answer or other pleading on behalf of the Committee was due on January 20, 1964.

RESERVE BANK OPERATIONS

Earnings and expenses. Current earnings, current expenses, and the distribution of net earnings of each Federal Reserve Bank

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during 1963 are shown in detail in Table 7 on pages 222-23, and a condensed historical statement is shown in Table 8 on pages 224-25. The table below summarizes the earnings, the expenses, and the distribution of net earnings for 1963 and 1962.

EARNINGS, EXPENSES, AND DISTRIBUTION OF NET EARNINGS OF FEDERAL RESERVE BANKS, 1963 AND 1962

(In thousands of dollars)

Item	1963	1962
Current earnings	1,151,120	1,048,508
Current expenses	187,273	176,136
Current net earnings	963,847	872,372
Net additions to or deductions from (—) current net earnings ¹	615	— 56
Net earnings before payments to Treasury	964,462	872,316
Dividends paid	28,912	27,412
Paid Treasury (interest on F.R. notes)	879,685	799,366
Transferred to surplus	55,864	45,538

¹ Includes net profits on sales of U.S. Govt. securities of \$312,000 in 1963 and \$1,990,000 in 1962.

Current earnings of \$1,151 million in 1963 were \$103 million, or 10 per cent, more than in 1962. Of the increase, \$99 million represented larger earnings on U.S. Government securities; earnings on discounts and advances were \$5 million higher than in 1962. In each instance the larger earnings were due mainly to a rise in average holdings during the year. Earnings on foreign currencies amounted to \$2 million, compared with \$4 million in 1962.

Current expenses of \$187 million were about 6 per cent higher than in 1962. Current net earnings increased \$91 million, or 10 per cent over 1962.

The effect on current net earnings of profit and loss additions and deductions was negligible. Net earnings before payments to

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the Treasury totaled \$964 million, an increase of 11 per cent from 1962.

Statutory dividends to member banks amounted to \$29 million, about \$2 million more than in 1962. This rise reflected an increase in the capital and surplus of member banks and a consequent increase in the paid-in capital of the Federal Reserve Banks.

Payments to the Treasury as interest on Federal Reserve notes amounted to \$880 million, 10 per cent more than in 1962. The remaining \$56 million of net earnings was added to Reserve Bank surplus accounts in order to bring them up to the level of subscribed capital.

Expenses of the Federal Reserve Banks include costs of \$242 for 3 regional meetings in connection with the Treasury Department Savings Bond program.

RESERVE BANK EARNINGS ON LOANS AND SECURITIES, 1961-63

Item and year	Total	Discounts and advances	Acceptances	U.S. Government securities
In millions of dollars				
Average daily holdings: ¹				
1961.....	27,517	83	41	27,393
1962.....	29,703	137	42	29,524
1963.....	32,085	269	53	31,763
Earnings:				
1961.....	941.3	2.5	1.2	937.6
1962.....	1,044.7	4.1	1.3	1,039.3
1963.....	1,148.8	8.9	1.7	1,138.2
In per cent				
Average rate of interest:				
1961.....	3.42	3.01	2.83	3.42
1962.....	3.52	3.02	2.97	3.52
1963.....	3.58	3.30	3.28	3.58

¹ Based on holdings at opening of business.

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Holdings of loans and securities. Average daily holdings of loans and securities during 1963 amounted to \$32,085 million—an increase of \$4,382 million over 1962. Holdings of U.S. Government securities accounted for \$2,239 million of the increase, and discounts and advances for \$132 million.

The average rate of interest on holdings of U.S. Government securities increased slightly, from 3.52 to 3.58 per cent; the average rate on discounts and advances increased from 3.02 to 3.30 per cent owing to the change in the discount rate from 3 to 3½ per cent in July and to heavier borrowings in the last half of the year. The preceding table shows holdings, earnings, and average interest rates on loans and securities held by the Federal Reserve Banks during the past 3 years.

Volume of operations. Table 10 on page 226 shows the volume of operations in the principal departments of the Federal Reserve Banks for 1960-63. The volume of checks handled continued to rise and reached another new high in 1963. Increased usage of electronic check-handling equipment at 12 offices and new installations at 6 offices further reduced the manual burden of processing checks.

The number of pieces of coin received and counted decreased substantially, reflecting the severe and continuing shortage of coin. The supply of newly minted coin increased over 1962, but member banks still deposited considerably less coin than in recent years. Conversely, the number of pieces of currency received and counted and the aggregate dollar value increased, establishing record highs.

The number of issues, redemptions, and exchanges of U.S. Government securities approximated the previous high reached in 1957, and the dollar value of these transactions continued an upward trend, reaching another new high.

Loan guarantees for defense production. Under the Defense Production Act of 1950, the Departments of the Army, Navy, and Air Force, the Defense Supply Agency of the Department of Defense, the Departments of Commerce, Interior, and Agriculture, the General Services Administration, the National Aero-

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navitics and Space Administration, and the Atomic Energy Commission are authorized to guarantee loans for defense production made by commercial banks and other private financing institutions. The Federal Reserve Banks act as fiscal agents of the guaranteeing agencies under the Board's Regulation V.

During 1963 the agencies authorized the issuance of 17 guarantee agreements covering loans totaling \$30 million. Loan authorizations outstanding on December 31, 1963, totaled \$159 million, of which \$139 million represented outstanding loans and \$20 million additional credit available to borrowers. Of total loans outstanding, 75 per cent on the average was guaranteed. During the year approximately \$166 million was disbursed on guaranteed loans, most of which are revolving credits.

Authority for the V-loan program, unless extended, will terminate on June 30, 1964.

Table 14 shows guarantee fees and maximum interest rates applicable to Regulation V loans.

Foreign and international accounts. Assets held for foreign account at the Federal Reserve Banks increased by \$1,973 million in 1963. At the end of the year they amounted to \$20,719 million: \$11,038 million of earmarked gold; \$8,675 million of U.S. Government securities (including securities payable in foreign currencies); \$171 million in dollar deposits; \$92 million of bankers' acceptances purchased through Federal Reserve Banks; and \$743 million of miscellaneous assets. The latter item includes mainly dollar bonds issued by foreign countries and international organizations. Assets held for international organizations rose by \$65 million to \$8,093 million.

A gold collateral loan of \$1 million outstanding at the beginning of 1963 was repaid. New arrangements—including a standby commitment—amounted to \$87 million, of which \$32 million was outstanding at the end of the year. Loans on gold are made to foreign monetary authorities to help them meet dollar requirements of a temporary nature.

The Federal Reserve Bank of New York continued to act as

FEDERAL RESERVE SYSTEM

depository and fiscal agent for international organizations. As fiscal agent of the United States, the Bank continued to operate the Exchange Stabilization Fund pursuant to authorization and instructions of the Secretary of the Treasury. Also on behalf of the Treasury Department, it administered foreign assets control regulations pertaining to assets in the United States of Cuba (since July 8, 1963), Communist China, and North Korea, and their nationals, and to transactions with those countries and their nationals.

Bank premises. During 1963 the Board authorized construction of a new building for the New Orleans Branch.

With the approval of the Board, properties adjacent to the Federal Reserve Banks of Richmond and Kansas City and the Charlotte and Birmingham Branches were acquired for future expansion, and a site for a new building was purchased for the Little Rock Branch.

Table 6 shows the cost and book value of bank premises owned and occupied by the Federal Reserve Banks and real estate acquired for banking-house purposes.

BOARD OF GOVERNORS—INCOME AND EXPENSES

The accounts of the Board for year 1963 were audited by the public accounting firm of Haskins & Sells.

ACCOUNTANTS' OPINION

Board of Governors of the
Federal Reserve System:

We have examined the balance sheet of the Board of Governors of the Federal Reserve System as of December 31, 1963 and the related statement of assessments and expenditures for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

ANNUAL REPORT OF BOARD OF GOVERNORS

In our opinion, the accompanying financial statements present fairly the financial position of the Board of Governors of the Federal Reserve System at December 31, 1963 and its assessments and expenditures for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Haskins & Sells

Washington, D. C.
January 28, 1964.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM BALANCE SHEET, DECEMBER 31, 1963

ASSETS

OPERATING FUND:	
Cash.....	\$ 947,084
Miscellaneous receivables and travel advances.....	13,222
Stockroom and cafeteria inventories—at cost.....	20,964
Total operating fund.....	981,270
PROPERTY FUND—At cost:	
Land and improvements.....	792,852
Building.....	4,065,296
Furniture and equipment.....	757,780
Total property fund.....	5,615,928
TOTAL.....	\$6,597,198

LIABILITIES AND FUND BALANCES

OPERATING FUND:	
Current liabilities:	
Accounts payable and accrued expenses.....	\$ 314,993
Income taxes withheld.....	229,011
Accrued payroll.....	132,011
Fund balance:	
Balance, January 1, 1963.....	167,926
Excess of assessments over expenditures for the year..	137,329
Total operating fund.....	981,270
PROPERTY FUND:	
Fund balance, January 1, 1963.....	5,522,393
Expenditures for additions.....	106,043
Property adjustments and disposals.....	(12,508)
Total property fund.....	5,615,928
TOTAL.....	\$6,597,198

FEDERAL RESERVE SYSTEM

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

STATEMENT OF ASSESSMENTS AND EXPENDITURES FOR THE YEAR ENDED DECEMBER 31, 1963

ASSESSMENTS LEVIED ON FEDERAL RESERVE BANKS:		
For Board expenses and additions to property	\$ 7,572,800	
For expenditures made on behalf of the Federal Reserve Banks . . .	8,340,270	
Total assessments		15,913,070
EXPENDITURES:		
For printing, issue and redemption of Federal Reserve notes, paid on behalf of the Federal Reserve Banks		8,340,270
For expenses of the Board:		
Salaries	\$4,805,670	
Retirement and insurance contributions	718,869	
Traveling expenses	323,549	
Consumer Finances Survey	266,315	
Legal, consultant and audit fees	65,501	
Other contractual services	72,336	
Printing and binding—net	306,331	
Equipment and other rentals	241,889	
Telephone and telegraph	105,111	
Postage and expressage	103,184	
Stationery, office and other supplies	73,189	
Heat, light and power	51,601	
Operation of cafeteria—net	50,057	
Repairs, maintenance and alterations	82,339	
Books and subscriptions	22,354	
Insurance	1,696	
System membership, Center for Latin American Monetary Studies	18,000	
Miscellaneous—net	21,437	
Total expenditures		7,329,428
For property additions		106,043
Total expenditures		15,775,741
EXCESS OF ASSESSMENTS OVER EXPENDITURES FOR THE YEAR	\$	137,329

Tables



**1. DETAILED STATEMENT OF CONDITION OF ALL FEDERAL RESERVE BANKS
COMBINED, DECEMBER 31, 1963**

(In thousands of dollars)

ASSETS		
Gold certificates on hand:		
Held by Federal Reserve Banks	316,055	
Held by Federal Reserve Agents	2,500,000	
Gold certificates due from U.S. Treasury:		
Interdistrict Settlement Fund	6,613,088	
Federal Reserve Agents' Fund	4,390,000	13,819,143
Redemption fund for Federal Reserve notes		1,417,709
Total gold certificate reserves		15,236,852
Federal Reserve notes of other Federal Reserve Banks		497,156
Other cash:		
United States notes	24,676	
Silver certificates	136,263	
Standard silver dollars	4,526	
National bank notes and Federal Reserve Bank notes	389	
Subsidiary silver, nickels, and cents	16,838	
Total other cash		182,692
Discounts and advances secured by U.S. Govt. securities:		
Discounted for member banks	30,310	
Discounted for others		30,310
Other discounts and advances:		
Discounted for member banks		
Foreign loans on gold	32,000	32,000
Total discounts and advances		62,310
Acceptances:		
Bought outright		69,978
Held under repurchase agreement		91,742
U.S. Government securities:		
Bought outright:		
Bills	4,141,422	
Certificates	7,066,231	
Notes	17,729,041	
Bonds	4,645,407	
Total bought outright	33,582,101	
Held under repurchase agreement	10,800	
Total U.S. Government securities		33,592,901
Total loans and securities		33,816,931
Cash items in process of collection:		
Transit items	6,836,729	
Exchanges for clearing house	252,368	
Other cash items	701,778	
Total cash items in process of collection		7,790,875
Bank premises:		
Land		26,296
Buildings (including vaults)	103,839	
Fixed machinery and equipment	58,780	
Total buildings	162,619	
Less depreciation allowances	85,377	77,242
Total bank premises		103,538
Other assets:		
Denominated in foreign currencies	152,620	
Reimbursable expenses and other items receivable	2,948	
Interest accrued	222,771	
Premium on securities	15,316	
Deferred charges	1,956	
Real estate acquired for banking house purposes	1,476	
Suspense account	523	
All other	3,361	
Total other assets		400,971
Total assets		58,029,015

**1. DETAILED STATEMENT OF CONDITION OF ALL FEDERAL RESERVE BANKS
COMBINED, DECEMBER 31, 1963—Continued**

(In thousands of dollars)

LIABILITIES

Federal Reserve notes:		
Outstanding (issued to Federal Reserve Banks).....		34,318,269
Less: Held by issuing Federal Reserve Banks.....	1,308,224	
Forwarded for redemption.....	<u>131,854</u>	<u>1,440,078</u>
Federal Reserve notes, net (includes notes held by U.S. Treasury and by Federal Reserve Banks other than issuing Bank).....		
		32,878,191
Deposits:		
Member bank reserves.....		17,047,234
U.S. Treasurer—General account.....		880,465
Foreign.....		<u>171,014</u>
Other deposits:		
Nonmember bank—clearing accounts.....	46,606	
Officers' and certified checks.....	9,394	
Reserves of corporations doing foreign banking or financing.....	26,688	
International organizations ¹	96,972	
All other.....	<u>113,202</u>	
Total other deposits.....		<u>292,862</u>
Total deposits.....		18,391,575
Deferred availability cash items.....		5,192,859
Other liabilities:		
Accrued dividends unpaid.....		
Unearned discount.....		357
Discount on securities.....	74,475	
Sundry items payable.....	5,964	
Suspense account.....	957	
All other.....		<u>63</u>
Total other liabilities.....		81,816
Total liabilities.....		56,544,441

CAPITAL ACCOUNTS

Capital paid in.....		494,858
Surplus.....		989,716
Other capital accounts ²		<u> </u>
Total liabilities and capital accounts.....		58,029,015
Contingent liability on acceptances purchased for foreign correspondents.....		<u>91,852</u>

¹ Includes Inter-American Development Bank, International Bank for Reconstruction and Development, International Finance Corporation, International Monetary Fund, etc.

² During the year this item includes the net of earnings, expenses, profits, etc., which are closed out on Dec. 31; see Table 7, pp. 222-23.

NOTE.—Amounts in boldface type are those shown in the Board's weekly statement in millions of dollars.

2. STATEMENT OF CONDITION OF EACH FEDERAL RESERVE BANK, DECEMBER 31, 1963 and 1962

(In millions of dollars unless otherwise indicated)

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Item	Total		Boston		New York		Philadelphia		Cleveland		Richmond	
	1963	1962	1963	1962	1963	1962	1963	1962	1963	1962	1963	1962
ASSETS												
Gold certificate account	13,819	14,430	720	892	3,608	3,395	728	918	1,072	1,255	845	895
Redemption fund for F.R. notes	1,418	1,266	81	72	334	303	79	76	121	112	118	100
Total gold certificate reserves	15,237	15,696	801	964	3,942	3,698	807	994	1,193	1,367	963	995
F.R. notes of other Banks	496	492	37	45	110	95	35	53	31	28	39	37
Other cash	182	288	9	24	32	42	6	16	11	20	9	26
Discounts and advances:												
Secured by U.S. Govt. securities	31	32	*	*	1	15	1	1	6	*	2	1
Other	32	6	2	*	9	1	2	*	3	*	1	*
Acceptances:												
Bought outright	70	52			70	52						
Held under repurchase agreement	92	58			92	58						
U.S. Govt. securities:												
Bought outright	33,582	30,478	1,571	1,473	8,697	7,527	1,831	1,679	2,784	2,451	2,351	2,068
Held under repurchase agreement	11	342			11	342						
Total loans and securities	33,818	30,968	1,573	1,473	8,880	7,995	1,834	1,680	2,793	2,451	2,354	2,069
Cash items in process of collection	7,791	8,115	742	721	1,689	1,605	453	476	509	721	589	572
Bank premises	104	104	3	3	8	8	3	3	6	7	5	5
Other assets:												
Denominated in foreign currencies	153	81	7	4	41	22	9	5	14	8	7	4
All other	247	276	12	13	64	67	13	15	21	22	17	19
Total assets	58,028	56,020	3,184	3,247	14,766	13,532	3,160	3,242	4,578	4,624	3,983	3,727

LIABILITIES												
F.R. notes	32,877	30,643	1,926	1,797	7,940	7,235	1,917	1,863	2,812	2,680	2,703	2,525
Deposits:												
Member bank reserves	17,049	17,454	691	829	4,995	4,644	768	825	1,158	1,201	707	761
U.S. Treasurer—General account	880	597	37	46	227	117	32	45	44	38	79	28
Foreign	171	247	8	12	54	58	9	15	15	24	7	12
Other	291	424	4	4	167	289	6	5	8	15	9	10
Total deposits	18,391	18,722	740	891	5,443	5,108	815	890	1,225	1,278	802	811
Defered availability cash items	5,191	5,181	443	489	967	795	341	404	399	531	398	320
Other liabilities	82	73	4	4	20	18	4	4	7	5	6	5
Total liabilities	56,541	54,619	3,113	3,181	14,370	13,156	3,077	3,161	4,443	4,494	3,909	3,661
CAPITAL ACCOUNTS												
Capital paid in	497	467	24	22	132	125	28	27	45	43	25	22
Surplus	990	934	47	44	264	251	55	54	90	87	49	44
Other capital accounts												
Total liabilities and capital accounts	58,028	56,020	3,184	3,247	14,766	13,532	3,160	3,242	4,578	4,624	3,983	3,727
Ratio of gold certificate reserves to deposit and F.R. note liabilities combined	29.7%	31.8%	30.0%	35.9%	29.5%	30.0%	29.5%	36.1%	29.6%	34.5%	27.5%	29.8%
Contingent liability on acceptances purchased for foreign correspondents	92	86	5	4	25	24	5	5	9	8	4	4
F.R. NOTE STATEMENT												
F.R. notes:												
Issued to F.R. Bank by F.R. Agent and outstanding	34,317	32,117	2,004	1,876	8,274	7,513	1,976	1,935	2,992	2,864	2,787	2,646
Less held by issuing Bank, and forwarded for redemption	1,440	1,474	78	79	334	278	59	72	180	184	84	121
F.R. notes, net ¹	32,877	30,643	1,926	1,797	7,940	7,235	1,917	1,863	2,812	2,680	2,703	2,525
Collateral held by F.R. Agent for notes issued to Bank:												
Gold certificate account	6,890	7,643	483	535	1,700	1,600	425	465	610	670	625	688
Eligible paper	15	16					1	1			1	1
U.S. Govt. securities	28,242	25,179	1,530	1,365	6,700	6,000	1,600	1,500	2,450	2,250	2,275	1,964
Total collateral	35,147	32,838	2,013	1,900	8,400	7,600	2,026	1,966	3,060	2,920	2,901	2,653

For notes see end of table.

2. STATEMENT OF CONDITION OF EACH FEDERAL RESERVE BANK, DECEMBER 31, 1963 and 1962—Continued

(In millions of dollars unless otherwise indicated)

Item	Atlanta		Chicago		St. Louis		Minneapolis		Kansas City		Dallas		San Francisco	
	1963	1962	1963	1962	1963	1962	1963	1962	1963	1962	1963	1962	1963	1962
ASSETS														
Gold certificate account	730	789	2,427	2,364	633	576	282	361	587	624	516	540	1,671	1,821
Redemption fund for F.R. notes	87	71	256	221	60	53	29	28	55	51	44	40	154	139
Total gold certificate reserves	817	860	2,683	2,585	693	629	311	389	642	675	560	580	1,825	1,960
F.R. notes of other Banks	41	47	50	44	22	20	41	32	16	15	23	19	51	57
Other cash	25	22	25	51	13	15	7	10	7	10	8	10	30	42
Discounts and advances:														
Secured by U.S. Govt. securities	3	*	4	1	2		*		11	14			1	*
Other	2	5	4	*	1	*	1	*	1	*	2	*	4	*
Acceptances:														
Bought outright														
Held under repurchase agreement														
U.S. Govt. securities:														
Bought outright	1,957	1,757	5,395	5,160	1,325	1,260	649	628	1,354	1,241	1,286	1,239	4,382	3,995
Held under repurchase agreement														
Total loans and securities	1,962	1,762	5,403	5,161	1,328	1,260	650	628	1,366	1,255	1,288	1,239	4,387	3,995
Cash items in process of collection	549	606	1,277	1,329	298	287	211	209	387	360	307	309	780	920
Bank premises	17	13	23	24	6	6	4	4	7	7	12	13	10	11
Other assets:														
Denominated in foreign currencies	8	4	22	11	5	3	4	2	7	3	9	4	20	11
All other	14	17	39	46	11	11	5	6	10	12	9	12	32	36
Total assets	3,433	3,331	9,522	9,251	2,376	2,231	1,233	1,280	2,442	2,337	2,216	2,186	7,135	7,032

LIABILITIES														
F.R. notes.....	1,929	1,791	5,891	5,528	1,340	1,295	592	577	1,258	1,222	979	911	3,590	3,219
Deposits:														
Member bank reserves.....	916	906	2,498	2,672	652	650	404	432	767	826	844	960	2,649	2,748
U.S. Treasurer—General account.....	63	28	65	86	83	32	46	33	73	21	51	35	80	88
Foreign.....	9	14	23	36	5	9	4	6	7	11	9	15	21	35
Other.....	5	9	33	19	3	4	1	1	5	5	4	4	46	59
Total deposits.....	993	957	2,619	2,813	743	695	455	472	852	863	908	1,014	2,796	2,930
Deferred availability cash items.....	422	502	789	699	239	190	149	196	264	189	240	178	540	688
Other liabilities.....	5	4	13	13	3	3	2	2	3	3	4	3	11	9
Total liabilities.....	3,349	3,254	9,312	9,053	2,325	2,183	1,198	1,247	2,377	2,277	2,131	2,106	6,937	6,846
CAPITAL ACCOUNTS														
Capital paid in.....	28	26	70	66	17	16	12	11	22	20	28	27	66	62
Surplus.....	56	51	140	132	34	32	23	22	43	40	57	53	132	124
Other capital accounts.....														
Total liabilities and capital accounts..	3,433	3,331	9,522	9,251	2,376	2,231	1,233	1,280	2,442	2,337	2,216	2,186	7,135	7,032
Ratio of gold certificate reserves to deposit and F.R. note liabilities combined.....	28.0%	31.3%	31.5%	31.0%	33.3%	31.6%	29.7%	37.1%	30.4%	32.4%	29.7%	30.1%	28.6%	31.9%
Contingent liability on acceptances purchased for foreign correspondents.....	5	4	13	12	3	3	2	2	4	4	5	5	12	11
F.R. NOTE STATEMENT														
F.R. notes:														
Issued to F.R. Bank by F.R. Agent and outstanding.....	2,009	1,883	6,147	5,721	1,402	1,368	618	672	1,296	1,268	1,054	970	3,758	3,401
Less held by issuing Bank, and for- warded for redemption.....	80	92	256	193	62	73	26	95	38	46	75	59	168	182
F.R. notes, net ¹	1,929	1,791	5,891	5,528	1,340	1,295	592	577	1,258	1,222	979	911	3,590	3,219
Collateral held by F.R. Agent for notes issued to Bank:														
Gold certificate account.....	365	500	1,100	1,400	250	350	120	130	272	290	190	215	750	800
Eligible paper.....					2				11	14				
U.S. Govt. securities.....	1,700	1,400	5,077	4,500	1,210	1,050	500	550	1,100	1,000	900	800	3,200	2,800
Total collateral.....	2,065	1,900	6,177	5,900	1,462	1,400	620	680	1,383	1,304	1,090	1,015	3,950	3,600

* Less than \$500,000.

¹ Includes F.R. notes held by U.S. Treasury and by F.R. Banks other than the issuing Bank.

3. FEDERAL RESERVE HOLDINGS OF U.S. GOVERNMENT SECURITIES
DECEMBER 31, 1961-63

(In thousands of dollars)

Type of issue and date	Rate of interest (per cent)	December 31			Increase or decrease (-) during—	
		1963	1962	1961	1963	1962
Treasury bonds:						
1959-62 June	2 1/4			395,849		- 395,849
1959-62 Dec.	2 1/4			375,765		- 375,765
1962-67	2 1/2	107,560	107,560	81,110		26,450
1963 Aug.	2 1/2		348,500	16,500	- 348,500	332,000
1963-68	2 1/2	164,085	146,085	143,085	18,000	3,000
1964 Feb.	3		90,750	88,250		2,500
1964-69 June	2 1/2	306,740	296,740	261,340	10,000	35,400
1964-69 Dec.	2 1/2	334,199	325,199	315,199	9,000	10,000
1965 Feb.	2 3/8	480,600	407,100	234,600	73,500	172,500
1965-70	2 1/2	573,540	572,540	561,540	1,000	11,000
1966-71	2 1/2	144,007	144,007	140,007		4,000
1966 May	3 3/4	247,200	210,500	113,500	36,700	97,000
1966 Aug.	3	36,550	27,850	17,850	8,700	10,000
1966 Nov.	3 3/8	209,100	165,600	109,600	43,500	56,000
1967-72 June	2 1/2	54,566	52,766	52,766	1,800	
1967-72 Sept.	2 1/2	44,052	40,052	20,052	4,000	20,000
1967 Nov.	3 3/8	579,550	533,950	496,450	45,600	37,500
1967-72 Dec.	2 1/2	95,858	79,358	76,958	16,500	2,400
1968 May	3 3/8	250,700	226,200	210,200	24,500	16,000
1968 Aug.	3 3/4	116,600	29,900		86,700	29,900
1968 Nov.	3 3/8		8,000		8,000	
1969 Feb.	4	69,500	13,000		56,500	13,000
1969 Oct.	4	40,450	23,450	18,450	17,000	5,000
1970 Aug.	4	45,200			45,200	
1971 Aug.	4	93,600	45,100		48,500	45,100
1971 Nov.	3 3/8	126,900	44,000		82,900	44,000
1972 Feb.	4	98,000	23,500		74,500	23,500
1972 Aug.	4	88,600	32,200		56,400	32,200
1973 Aug.	4	21,000			21,000	
1974 Nov.	3 3/8	35,150	33,400	31,400	1,750	2,000
1975-85	4 1/4	5,750	4,250	4,250	1,500	
1978-83	3 1/4	500	500	500		
1980 Feb.	4	32,800	16,300	7,600	16,500	8,700
1980 Nov.	3 1/2	19,400	18,400	14,900	1,000	3,500
1985 May	3 1/4	20,800	20,800	8,800		12,000
1987-92	4 1/4	5,000	4,000		1,000	4,000
1988-93	4	13,500			13,500	
1989-94	4 1/8	13,900			13,900	
1990 Feb.	3 1/2	57,450	43,450	41,450	14,000	2,000
1998 Nov.	3 1/2	14,250	9,750	7,750	4,500	2,000
Total		4,645,407	4,136,757	3,845,721	508,650	291,036
Treasury notes:						
Feb. 15, 1962—A	3 3/8			13,000		- 13,000
Feb. 15, 1962—D	4			11,500		- 11,500
Feb. 15, 1962—F	3 1/4			4,756,982		- 4,756,982
Apr. 1, 1962—EA	1 1/2			25,000		- 25,000
May 15, 1962—E	4			139,300		- 139,300
Aug. 15, 1962—G	3 1/4			3,641,493		- 3,641,493
Nov. 15, 1962—C	3 3/4			10,600		- 10,600
Nov. 15, 1962—H	3 1/4			3,228,950		- 3,228,950
Feb. 15, 1963—A	2 3/8		224,500	142,500	- 224,500	82,000
Feb. 15, 1963—E	3 1/4		173,500	43,500	- 173,500	130,000
May 15, 1963—B	4		52,500	30,500	- 52,500	22,000
May 15, 1963—D	3 1/4		814,600	743,600	- 814,600	71,000
Nov. 15, 1963—C	4 3/8		188,039	15,584	- 188,039	172,455
May 15, 1964—A	4 3/4	2,797,983	2,796,383	2,777,383	1,600	19,000
May 15, 1964—D	3 3/4	219,000	219,000	201,500		17,500
Aug. 15, 1964—B	5	122,550	118,550	91,550	4,000	27,000
Aug. 15, 1964—E	3 3/8	1,739,400	1,794,400	1,700,900	- 55,000	93,500
Nov. 15, 1964—C	4 3/8	2,306,300	2,310,400	2,266,400	- 4,100	44,000
Nov. 15, 1964—F	3 3/4	4,074,993			4,074,993	
Apr. 1, 1965—EA	1 1/2		15,000			15,000
May 15, 1965—A	4 3/8	206,700	185,100	143,600	21,600	41,500
May 15, 1965—C	3 3/8	3,911,506			3,911,506	
Nov. 15, 1965—B	3 1/2	63,000	17,000		46,000	17,000
Feb. 15, 1966—B	3 3/8	274,500	114,000		160,500	114,000
Aug. 15, 1966—A	4	1,643,959	1,605,159		38,800	1,605,159
Feb. 15, 1967—B	3 3/8	119,000			119,000	
Aug. 15, 1967—A	3 3/4	235,150	89,150		146,000	89,150
Total		17,729,041	10,717,281	19,983,842	7,011,760	- 9,266,561

**3. FEDERAL RESERVE HOLDINGS OF U.S. GOVERNMENT SECURITIES
DECEMBER 31, 1961-63—Continued**

(In thousands of dollars)

Type of issue and date	Rate of interest (per cent)	December 31			Increase or decrease (-) during—	
		1963	1962	1961	1963	1962
Certificates:						
May 15, 1962	3			1,699,500		-1,699,500
Feb. 15, 1963	3½		3,402,482		-3,402,482	3,402,482
May 15, 1963	3¼		2,393,149		-2,393,149	2,393,149
Aug. 15, 1963	3½		3,731,493		-3,731,493	3,731,493
Nov. 15, 1963	3½		3,654,815		-3,654,815	3,654,815
Feb. 15, 1964	3¼	3,800,982			3,800,982	
May 15, 1964	3¼	3,265,249			3,265,249	
Total		7,066,231	13,181,939	1,699,500	-6,115,708	11,482,439
Treasury bills:						
Tax anticipation		19,000	108,000	174,500	-89,000	-66,500
Other due—						
Within 3 mos.		2,893,512	1,666,922	2,158,281	1,226,590	-491,359
3-6 mos.		1,061,610	446,735	692,305	614,875	-245,570
After 6 mos.		167,300	220,352	168,000	-53,052	52,352
Total		4,141,422	2,442,009	3,193,086	1,699,413	-751,077
Repurchase agreements		10,800	342,000	159,000	-331,200	183,000
Total holdings		33,592,901	30,819,986	28,881,149	2,772,915	1,938,837
Maturing—						
Within 90 days		6,815,044	5,917,404	7,196,763	897,640	-1,279,359
91 days to 1 year		15,754,385	11,850,183	10,453,262	3,904,202	1,396,921
Over 1 year to 5 years		8,668,760	10,807,452	8,737,317	-2,138,692	2,070,135
Over 5 yrs. to 10 yrs.		2,136,212	2,094,097	2,227,381	42,115	-133,284
Over 10 years		218,500	150,850	266,426	67,650	-115,576

4. FEDERAL RESERVE BANK HOLDINGS OF SPECIAL SHORT-TERM TREASURY CERTIFICATES PURCHASED DIRECTLY FROM THE UNITED STATES, 1953-63

(In millions of dollars)

Date	Amount	Date	Amount	Date	Amount	Date	Amount
1953		1953		1954			
Mar. 18	110	June 11	358	Jan. 14	22	1955	) none
19	104	12	506	15	169	1956	
20	189	13	506	16	169	1957	
21	189	14*	506	17*	169		
22*	189	15	999	18	323	1958	
23	333	16	1,172	19	424	Mar. 17	143
24	186	17	823	20	323	18	207
25	63	18	364	21	306		
26	49	19	992	22	283	1959	
June 5	196	20	992	23	283	1960	
6	196	21*	992	24*	283	1961	) none
7*	196	22	908	25	203	1962	
8	374	23	608	26	3	1963	
9	491	24	296	Mar. 15	134		
10	451			16	190		

* Sunday or holiday.

NOTE.—Under authority of Section 14(b) of the Federal Reserve Act. On Nov. 9, 1953, the F.R. Banks sold directly to the Treasury \$500 million of Treasury notes; this is the only use that has been made under the same authority to sell U.S. Govt. securities directly to the United States.

Interest rate ¼ per cent through Dec. 3, 1957, and ¼ per cent below prevailing discount rate of F.R. Bank of New York thereafter. Rate on purchases in 1958 was 2 per cent. For data for prior years beginning with 1942, see previous ANNUAL REPORTS. No holdings on dates not shown.

5. OPEN MARKET TRANSACTIONS OF THE FEDERAL RESERVE SYSTEM DURING 1963

(In millions of dollars)

Month	Outright transactions in U.S. Govt. securities by maturity								
	Total			Treasury bills			Others within 1 year		
	Gross purchases	Gross sales	Redemptions	Gross purchases	Gross sales	Redemptions	Gross purchases	Gross sales	Exch. or maturity shifts
January	271	638		271	603				
February	536	183	71	504	183	71			91
March	666	201	51	359	201	51			
April	493	558	50	429	544	50		14	
May	800	296	94	677	281	94	3		3,015
June	1,421	342	192	1,262	342	192	42		
July	1,216	586	294	1,054	586	294	11		
August	527	604	10	166	604	10			-2,193
September	711	385		608	345			40	
October	654	156	365	654	156	365			
November	1,176	295	9	977	295	9			2,518
December	319	289	15	319	289	15			
Total	8,789	4,533	1,152	7,280	4,429	1,152	56	54	3,431
	1-5 years			5-10 years			Over 10 years		
	Gross purchases	Gross sales	Exch. or maturity shifts	Gross purchases	Gross sales	Exch. or maturity shifts	Gross purchases	Gross sales	Exch. or maturity shifts
January		35		20			7		
February	5		-91	69			8		
March	230								
April	63								
May	55	15	-2,787	65		-228			
June	72			38			7		
July	79			63			9		
August	190		2,292	155		-99	17		
September	43			50			10		
October									
November	106		-2,510	83		-8	10		
December			164			-164			
Total	843	50	-2,932	543		-499	68		
	Repurchase agreements (U.S. Govt. securities)		Net change in U.S. Govt. securities	Bankers' acceptances		Net change in U.S. Govt. securities and acceptances			
	Gross purchases	Gross sales		Net outright	Net repurchases				
January	342	505	-531	10	-48	-569			
February	1,261	1,245	297	-7	-10	279			
March	808	845	377	-3		375			
April	782	449	219	-8		211			
May	353	691	72	-2		70			
June	783	897	773	-3	5	774			
July	1,015	909	441	1	-5	436			
August	253	243	-77	-1		-78			
September	419	573	172	-4		168			
October	1,095	1,032	195	10	14	219			
November	959	921	909	-2	-14	893			
December	826	915	-74	28	92	45			
Total	8,895	9,226	2,773	17	34	2,824			

NOTE.—Sales, redemptions, and negative figures reduce System holdings; all other figures increase such holdings. Details may not add to totals because of rounding.

6. BANK PREMISES OF FEDERAL RESERVE BANKS AND BRANCHES,
DECEMBER 31, 1963

(In dollars)

F.R. Bank or branch	Cost				Net book value
	Land	Buildings (including vaults) ¹	Fixed ma- chinery and equipment	Total	
Boston.....	1,628,132	5,929,169	2,966,116	10,523,417	3,066,270
New York.....	5,215,656	12,339,713	4,886,521	22,441,890	4,152,543
Annex.....	592,679	1,451,569	673,458	2,717,706	605,746
Buffalo.....	406,069	2,555,197	1,565,400	4,526,666	3,351,812
Philadelphia.....	1,884,357	4,839,506	2,154,452	8,878,315	3,012,010
Cleveland.....	1,295,490	6,578,575	3,428,397	11,302,462	1,240,326
Cincinnati.....	400,891	1,163,135	1,587,495	3,151,521	941,620
Pittsburgh.....	1,656,418	2,975,831	2,523,357	7,155,606	4,245,628
Richmond.....	469,944	4,164,663	2,483,977	7,118,584	1,952,994
Annex.....	152,883	131,722	.....	284,605	272,929
Baltimore.....	250,487	2,009,381	1,068,445	3,328,313	1,571,181
Charlotte.....	347,071	1,069,026	625,121	2,041,218	1,309,471
Atlanta.....	957,855	6,309,726	1,703,338	8,970,919	8,457,467
Annex.....	93,931	137,100	103,867	334,898	246,345
Birmingham.....	338,917	1,982,184	948,236	3,269,337	2,474,779
Jacksonville.....	164,004	1,706,794	712,577	3,583,375	1,499,465
Nashville.....	592,342	1,478,380	1,016,213	3,086,935	2,432,895
New Orleans.....	1,119,907	1,046,190	265,700	2,431,797	1,464,246
Chicago.....	6,275,490	17,405,056	9,401,769	33,082,315	19,722,434
Detroit.....	1,147,734	2,845,585	1,311,512	5,304,831	2,808,943
St. Louis.....	1,675,780	3,195,210	2,229,885	7,100,875	1,802,374
Little Rock.....	241,105	391,611	206,575	839,291	418,391
Louisville.....	700,075	2,859,819	1,041,202	4,601,096	3,738,059
Memphis.....	128,542	287,644	198,834	615,020	212,334
Minneapolis.....	600,521	4,689,718	2,688,921	7,979,160	3,877,756
Helena.....	15,709	126,401	62,977	205,087	63,911
Kansas City.....	545,764	3,521,181	1,320,983	5,387,928	1,094,567
Denver.....	592,271	523,041	86,910	1,202,222	728,067
Oklahoma City.....	592,435	1,511,600	830,714	2,934,749	2,694,878
Omaha.....	445,663	1,491,117	723,843	2,660,623	2,006,390
Dallas.....	713,302	4,811,690	3,570,804	9,095,796	6,697,684
El Paso.....	262,477	787,728	393,301	1,443,506	1,112,998
Houston.....	695,615	1,408,574	714,187	2,818,376	2,260,228
San Antonio.....	448,596	1,400,390	570,847	2,419,831	1,824,443
San Francisco.....	² 473,235	3,783,530	1,458,028	5,714,793	870,688
Annex.....	247,201	124,000	30,000	401,201	358,801
Los Angeles.....	777,614	4,103,844	1,592,708	6,474,166	3,282,434
Portland.....	207,380	1,678,512	649,432	2,535,324	1,460,669
Salt Lake City.....	480,222	1,878,238	707,575	3,066,035	2,524,423
Seattle.....	274,772	1,896,541	661,987	2,833,300	1,679,307
Total.....	35,108,536	118,588,891	59,165,664	212,863,091	103,537,506

OTHER REAL ESTATE ACQUIRED FOR BANKING-HOUSE PURPOSES

Richmond.....	157,953	.....	.....	157,953	157,953
Birmingham.....	71,317	.....	.....	71,317	71,317
Little Rock.....	614,447	6,551	.....	620,998	620,998
Kansas City.....	³ 625,872	.....	.....	625,872	625,872
Total.....	1,469,589	6,551	.....	1,476,140	1,476,140

¹ May include expenditures in construction account pending allocation to appropriate accounts.

² Revised from figure published in ANNUAL REPORT for 1962.

³ Includes cost of building on property.

7. EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS DURING 1963

(In dollars)

Item	Total	Boston	New York	Phila- delphia	Cleve- land	Rich- mond	Atlanta	Chicago	St. Louis	Minne- apolis	Kansas City	Dallas	San Francisco
CURRENT EARNINGS													
Discounts and advances	8,865,844	267,047	2,514,235	282,807	546,633	563,965	585,180	1,679,049	246,814	169,804	821,800	585,957	602,554
Acceptances	1,728,755		1,728,755										
U.S. Govt. securities	1,138,167,465	57,691,810	286,967,895	61,405,726	94,214,163	75,645,681	62,774,757	190,404,300	45,292,511	22,713,451	47,457,227	45,650,694	147,949,252
Foreign currencies	2,039,600	97,018	549,698	118,491	190,022	95,995	111,142	288,100	69,486	46,502	84,916	116,460	271,770
All other	318,396	15,032	56,100	19,227	21,529	17,251	33,924	42,590	9,447	14,384	32,766	22,853	33,294
Total	1,151,120,060	58,070,907	291,816,683	61,826,251	94,972,347	76,322,891	63,505,003	192,414,039	45,618,258	22,944,141	48,396,708	46,375,963	148,856,869
CURRENT EXPENSES													
Salaries:													
Officers	7,530,851	416,378	1,434,884	516,224	602,871	569,058	617,992	710,054	603,502	440,904	536,597	467,956	614,431
Employees	99,257,976	6,382,259	23,609,561	4,903,977	8,215,749	6,630,316	5,942,427	14,368,199	5,355,725	3,208,546	5,335,290	4,221,255	11,084,672
Retirement and other benefits	17,517,934	1,090,900	3,877,325	903,164	1,474,774	1,211,181	1,105,009	2,486,793	955,983	598,708	1,008,888	765,011	2,040,198
Fees—Directors and others	571,122	19,685	69,001	60,434	55,762	43,844	91,330	46,204	28,561	30,441	37,706	38,380	49,774
Traveling expenses	2,144,063	128,303	364,090	92,905	173,718	154,789	177,137	259,449	131,056	113,884	130,850	130,739	287,143
Postage and expressage	21,333,562	1,474,181	2,711,365	1,068,485	1,778,887	1,963,545	1,921,730	2,923,726	1,200,047	838,199	1,430,909	1,160,438	2,862,050
Telephone and telegraph	1,735,398	95,382	381,854	77,537	124,531	121,006	181,334	194,707	93,125	61,171	105,142	118,941	180,668
Printing and supplies	8,376,360	630,695	1,692,605	517,689	639,204	666,270	564,353	1,309,821	480,774	247,588	488,868	341,362	797,131
Insurance	389,900	28,646	58,535	14,137	33,821	31,979	36,287	38,282	26,626	14,480	24,701	35,175	47,231
Taxes on real estate	5,000,399	620,827	874,918	154,236	393,274	198,394	288,967	933,423	182,920	348,805	239,233	259,616	505,786
Depreciation (building)	6,368,389	197,775	455,999	270,528	900,317	523,786	580,541	1,371,092	321,151	344,037	225,956	692,511	484,696
Light, heat, power, and water	1,930,003	119,841	256,301	95,608	177,978	164,655	138,247	309,456	137,098	99,781	156,364	134,139	140,535
Repairs and alterations	1,852,828	38,572	900,630	105,411	169,765	104,022	79,342	135,881	42,306	40,231	64,357	49,695	122,616
Rent	154,229	11,426	5,787	6,059	25,172	11,623	15,081	63,218	2,262	1,361	3,878	1,508	6,854
Furniture and equipment:													
Purchases	3,097,943	286,108	911,515	343,692	146,431	223,606	142,874	290,786	103,139	49,147	301,991	97,475	201,179
Rentals	9,125,749	840,616	1,018,106	523,122	832,752	674,367	535,817	1,650,167	355,926	405,432	601,311	500,262	1,187,871
All other	3,303,310	125,341	861,887	126,717	462,018	138,456	152,662	520,233	130,903	131,860	211,780	294,541	146,912
Inter-Bank expenses		53,024	754,358	63,420	102,108	—9,461	64,551	155,373	39,742	26,016	48,795	64,200	146,590
Subtotal	189,690,014	12,559,959	38,730,006	9,843,345	16,309,131	13,421,436	12,635,681	27,766,864	10,190,847	7,000,591	10,952,617	9,373,204	20,906,336
F.R. currency	10,062,901	726,102	1,972,475	535,287	534,895	896,477	927,246	1,712,708	497,019	77,640	423,850	242,538	1,516,664
Assessment for expenses of Board of Governors	7,572,800	362,200	2,032,100	435,000	704,300	358,300	416,600	1,069,700	256,900	176,300	322,600	434,400	1,004,400
Total	207,325,716	13,648,261	42,734,580	10,813,632	17,548,326	14,676,213	13,979,526	30,549,272	10,944,765	7,254,531	11,699,067	10,050,142	23,427,400

Less reimbursement for certain fiscal agency and other expenses.....	20,052,359	1,125,501	3,636,001	901,516	1,896,146	1,139,644	1,374,488	3,697,765	1,231,094	611,557	1,550,287	841,691	2,046,668
Net expenses.....	187,273,357	12,522,760	39,098,579	9,912,116	15,652,180	13,536,568	12,605,038	26,851,507	9,713,671	6,642,974	10,148,781	9,208,451	21,380,731

PROFIT AND LOSS

Current net earnings.....	963,846,704	45,548,147	252,718,103	51,914,136	79,320,167	62,786,323	50,899,965	165,562,532	35,904,587	16,301,167	38,247,928	37,167,513	127,476,138
Additions to current net earnings:													
Profits on sales of U.S. Govt. securities (net).....	312,355	15,896	77,185	17,908	26,166	20,749	16,693	51,785	12,768	7,257	14,474	11,845	39,629
All other.....	490,787	34,153	112,711	38,653	45,949	36,891	19,027	53,889	17,535	24,595	14,066	24,089	69,229
Total additions.....	803,140	50,049	189,896	56,561	72,115	57,639	35,720	105,674	30,303	31,852	28,540	35,934	108,857
Deductions from current net earnings.....	188,309	10,822	10,970	3,165	1,415	1,459	1,686	113,032	1,996	2,101	642	24,808	16,213
Net deductions from (-) or additions to current net earnings.....	614,834	39,227	178,927	53,396	70,700	56,181	34,034	-7,358	28,307	29,751	27,898	11,126	92,644
Net earnings before payments to Treasury.....	964,461,538	45,587,374	252,897,030	51,967,532	79,390,867	62,842,503	50,933,999	165,555,174	35,932,894	16,330,918	38,275,826	37,178,639	127,568,782
Dividends paid.....	28,912,019	1,376,442	7,743,061	1,638,699	2,653,643	1,391,693	1,613,389	4,069,450	985,699	673,472	1,251,974	1,668,435	3,846,063
Paid Treasury (interest on F.R. notes).....	879,685,219	41,648,032	232,650,269	48,851,933	73,916,924	56,413,810	44,938,810	153,713,724	32,405,995	14,332,545	33,396,652	32,204,404	115,212,119
Transferred to surplus.....	55,864,300	2,562,900	12,503,700	1,476,900	2,820,300	5,037,000	4,381,800	7,772,000	2,541,200	1,324,900	3,627,200	3,305,800	8,510,600
Surplus, January 1.....	933,851,400	44,670,100	250,711,100	53,769,400	86,968,400	44,102,300	51,244,600	132,072,500	31,706,300	21,709,200	39,625,000	53,464,000	123,808,500
Surplus, December 31.....	989,715,700	47,233,000	263,214,800	55,246,300	89,788,700	49,139,300	55,626,400	139,844,500	34,247,500	23,034,100	43,252,200	56,769,800	132,319,100

NOTE.—Details may not add to totals because of rounding.

8. EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS, 1914-63

(In dollars)

Period or Bank	Current earnings	Current expenses	Net earnings before payments to Treasury ¹	Dividends paid	Franchise tax paid to Treasury	Paid to Treasury (Sec. 13b)	Paid to Treasury (interest on F.R. notes)	Transferred to surplus (Sec. 13b)	Transferred to surplus (Sec. 7)
All F.R. Banks, by years:									
1914-15	2,173,252	2,320,586	-141,459	217,463					
1916	5,217,998	2,273,999	2,750,998	1,742,774					
1917	16,128,339	5,159,727	9,582,067	6,804,186	1,134,234			1,134,234	
1918	67,584,417	10,959,533	52,716,310	5,540,684					48,334,341
1919	102,380,583	19,339,633	78,367,504	5,011,832	2,703,894				70,651,778
1920	181,296,711	28,258,030	149,294,774	5,654,018	60,724,742				82,916,014
1921	122,865,866	34,463,845	82,087,225	6,119,673	59,974,466				15,993,086
1922	50,498,699	29,559,049	16,497,736	6,307,035	10,850,605				-659,904
1923	50,708,566	29,764,173	12,711,286	6,552,717	3,613,056				2,545,513
1924	38,340,449	28,431,126	3,718,180	6,682,496	113,646				-3,077,962
1925	41,800,706	27,528,163	9,449,066	6,915,958	59,300				2,473,808
1926	47,599,595	27,350,182	16,611,745	7,329,169	818,150				8,464,426
1927	43,024,484	27,518,443	13,048,249	7,754,539	249,591				5,044,119
1928	64,052,860	26,904,810	32,122,021	8,458,463	2,584,659				21,078,899
1929	70,955,496	29,691,113	36,402,741	9,583,913	4,283,231				22,535,597
1930	36,424,044	28,342,726	7,988,182	10,268,598	17,308				-2,297,724
1931	29,701,279	27,040,664	2,972,066	10,029,760					-7,057,694
1932	50,018,817	26,291,381	22,314,244	9,282,244	2,011,418				11,020,582
1933	49,487,318	29,222,837	7,957,407	8,874,262					-916,855
1934	48,902,813	29,241,396	15,231,409	8,781,661				-60,323	6,510,071
1935	42,751,959	31,577,443	9,437,758	8,504,974		297,667		27,695	607,422
1936	37,900,639	29,874,023	8,512,433	7,829,581		227,448		102,880	352,524
1937	41,233,135	28,800,614	10,801,247	7,940,966		176,625		67,304	2,616,352
1938	36,261,428	28,911,608	9,581,954	8,019,137		119,524		-419,140	1,862,433
1939	38,500,665	28,646,855	12,243,365	8,110,462		24,379		-425,653	4,533,977
1940	43,537,805	29,165,477	25,860,025	8,214,971		82,152		-54,456	17,617,358
1941	41,380,095	32,963,150	9,137,581	8,429,936		141,465		-4,333	370,513
1942	52,662,704	38,624,044	12,470,451	8,669,076		197,672		49,602	3,554,101
1943	69,305,715	43,545,564	49,528,433	8,911,342		244,726		135,003	40,237,362
1944	104,391,829	49,175,921	58,437,788	9,500,126		326,717		201,150	48,409,795
1945	142,209,546	48,717,271	92,662,268	10,182,851		247,659		262,133	81,969,625
1946	150,385,033	57,235,107	92,523,935	10,962,160		67,054		27,708	81,467,013
1947	158,655,566	65,392,975	95,235,592	11,523,047		35,605	75,223,818	86,772	8,366,550
1948	304,160,818	72,710,188	197,132,683	11,919,809			166,690,356		18,522,518
1949	316,536,930	77,477,676	226,936,980	12,329,373			193,145,837		21,461,770

1950.....	275,838,994	80,571,771	231,561,340	13,082,992			196,628,858		21,849,490
1951.....	394,656,072	95,469,086	297,059,097	13,864,750			254,873,588		28,320,759
1952.....	456,060,260	104,694,091	352,950,157	14,681,788			291,934,634		46,333,735
1953.....	513,037,237	113,515,020	398,463,224	15,558,377			342,567,985		40,336,862
1954.....	438,486,040	109,732,931	328,619,468	16,442,236			276,289,457		35,887,775
1955.....	412,487,931	110,060,023	302,162,452	17,711,937			251,740,721		32,709,794
1956.....	595,649,092	121,182,496	474,443,160	18,904,897			401,555,581		53,982,682
1957.....	763,347,530	131,814,003	624,392,613	20,080,527			542,708,405		61,603,862
1958.....	742,068,150	137,721,655	604,470,670	21,197,452			524,058,650		59,214,569
1959.....	886,226,116	144,702,706	839,770,663	22,721,687			910,649,768		-93,600,791
1960.....	1,103,385,257	153,882,275	963,377,684	23,948,225			896,816,359		42,613,100
1961.....	941,648,170	161,274,575	783,855,223	25,569,541			687,393,382		70,892,300
1962.....	1,048,508,335	176,136,134	872,316,422	27,412,241			799,365,981		45,538,200
1963.....	1,151,120,060	187,273,357	964,461,538	28,912,019			879,685,219		55,864,300
Total 1914-63.....	12,421,555,403	2,960,509,455	9,520,087,964	559,047,925	149,138,300	2,188,893	7,691,328,601	-3,657	² 1,118,387,902
Aggregate for each F.R. Bank, 1914-63:									
Boston.....	720,009,862	207,946,722	517,383,492	33,451,532	7,111,395	280,843	419,076,482	135,411	57,327,825
New York.....	3,155,182,944	646,210,256	2,528,827,073	177,492,652	68,006,262	369,116	1,982,921,084	-433,413	300,471,371
Philadelphia.....	769,325,725	188,266,698	588,747,975	42,388,097	5,558,901	722,406	470,211,388	290,661	69,576,522
Cleveland.....	1,091,889,858	267,852,698	827,697,524	54,355,516	4,842,447	82,930	665,404,044	-9,906	103,022,493
Richmond.....	767,573,193	199,406,837	572,338,797	24,483,862	6,200,189	172,493	486,534,660	-71,517	55,019,108
Atlanta.....	656,438,988	174,950,730	481,539,319	23,726,617	8,950,561	79,264	387,884,444	5,491	60,892,940
Chicago.....	2,013,390,901	417,381,005	1,600,593,879	70,706,797	25,313,526	151,045	1,349,237,575	11,682	155,173,254
St. Louis.....	539,547,507	161,626,530	378,780,344	19,213,521	2,755,629	7,464	317,463,117	-26,515	39,367,128
Minneapolis.....	315,032,014	102,338,440	215,143,486	13,047,112	5,202,900	55,615	169,861,675	64,874	26,911,313
Kansas City.....	556,092,459	158,652,863	399,607,298	20,702,798	6,939,100	64,213	324,517,710	-8,674	47,392,150
Dallas.....	501,903,315	137,978,317	366,226,215	24,375,475	560,049	102,083	280,085,993	55,337	61,047,278
San Francisco.....	1,335,168,638	297,898,360	1,043,202,557	55,103,942	7,697,341	101,421	838,130,426	-17,089	142,186,517
Total.....	12,421,555,403	2,960,509,455	9,520,087,964	559,047,925	149,138,300	2,188,893	7,691,328,601	-3,657	1,118,387,902

¹ Current earnings less current expenses, plus and minus profit and loss additions and deductions.

² The \$1,118,387,902 transferred to surplus was reduced by direct charges of \$139,299,557 for contributions to capital of the Federal Deposit Insurance Corporation, \$500,000 for charge-off on bank premises, and \$3,657 net upon elimination of surplus

(Sec. 13b), and was increased by \$11,131,013 transferred from reserves for contingencies, leaving a balance of \$989,715,700 on Dec. 31, 1963.

NOTE.—Details may not add to totals because of rounding.

**9. NUMBER AND SALARIES OF OFFICERS AND EMPLOYEES OF
FEDERAL RESERVE BANKS, DECEMBER 31, 1963**

Federal Reserve Bank (including branches)	President	Other officers		Employees ¹		Total	
	Annual salary	Number	Annual salaries	Number	Annual salaries	Number	Annual salaries
Boston.....	\$ 35,000	23	\$ 372,000	1,433	\$ 6,240,998	1,457	\$ 6,647,998
New York.....	70,000	67	1,311,000	4,058	23,154,349	4,126	24,535,349
Philadelphia.....	40,000	29	463,000	1,002	4,789,610	1,032	5,292,610
Cleveland.....	35,000	36	545,500	1,513	7,717,125	1,550	8,297,625
Richmond.....	40,000	35	529,000	1,400	6,531,388	1,436	7,100,388
Atlanta.....	40,000	41	578,550	1,342	5,836,255	1,384	6,454,805
Chicago.....	50,000	42	660,000	2,932	13,719,899	2,975	14,429,899
St. Louis.....	35,000	36	548,000	1,125	5,131,264	1,162	5,714,264
Minneapolis.....	40,000	27	398,250	656	2,976,377	684	3,414,627
Kansas City.....	37,500	32	465,100	1,205	5,150,558	1,238	5,653,158
Dallas.....	40,000	30	427,950	957	4,165,363	988	4,633,313
San Francisco.....	40,000	41	569,500	2,195	10,175,661	2,237	10,785,161
Total.....	\$502,500	439	\$6,867,850	19,818	\$95,588,847	20,269	\$102,959,197

¹ Includes 926 part-time employees.

**10. VOLUME OF OPERATIONS IN PRINCIPAL DEPARTMENTS OF FEDERAL
RESERVE BANKS, 1960-63**

(Number in thousands; amounts in thousands of dollars)

Operation	1963	1962	1961	1960
NUMBER OF PIECES HANDLED¹				
Discounts and advances.....	9	7	7	19
Currency received and counted.....	4,831,516	4,734,419	4,618,346	4,746,665
Coin received and counted.....	8,704,412	10,213,309	10,276,927	9,767,544
Checks handled:				
U.S. Govt. checks.....	454,576	443,271	430,829	407,333
Postal money orders.....	243,999	247,400	259,209	270,307
All other ²	4,069,111	3,873,341	3,630,936	3,419,093
Collection items handled:				
U.S. Govt. coupons paid.....	15,430	15,879	16,431	16,357
All other.....	26,839	25,327	23,144	21,513
Issues, redemptions, and exchanges of U.S. Govt. securities.....	204,213	198,123	192,366	197,825
Transfers of funds.....	3,603	3,318	3,038	2,918
AMOUNTS HANDLED				
Discounts and advances.....	44,894,170	19,685,050	14,657,545	58,057,685
Currency received and counted.....	32,350,089	31,621,061	30,670,620	31,553,482
Coin received and counted.....	1,007,532	1,140,009	1,133,470	1,095,870
Checks handled:				
U.S. Govt. checks.....	131,795,729	125,431,359	115,009,063	105,212,842
Postal money orders.....	4,707,908	4,701,516	4,860,182	5,029,890
All other ²	1,363,949,957	1,283,430,670	1,198,461,186	1,154,120,907
Collection items handled:				
U.S. Govt. coupons paid.....	5,213,610	4,755,819	4,717,259	4,798,446
All other.....	7,143,665	6,940,394	6,553,424	5,793,218
Issues, redemptions, and exchanges of U.S. Govt. securities.....	683,736,756	639,755,488	560,263,435	527,444,784
Transfers of funds.....	3,442,100,310	3,168,359,313	2,706,716,007	2,428,083,100

¹ Packaged items handled as a single item are counted as one piece.

² Exclusive of checks drawn on the F.R. Banks.

**11. FEDERAL RESERVE BANK DISCOUNT RATES,
DECEMBER 31, 1963**

(Per cent per annum)

Federal Reserve Bank	Discounts for and advances to member banks		Advances to all others under last par. Sec. 13 ³
	Advances and discounts under Secs. 13 and 13a ¹	Advances under Sec. 10(b) ²	
Boston	3½	4	4½
New York	3½	4	4½
Philadelphia	3½	4	4½
Cleveland	3½	4	5
Richmond	3½	4	4½
Atlanta	3½	4	5
Chicago	3½	4	5
St. Louis	3½	4	4½
Minneapolis	3½	4	4
Kansas City	3½	4	4½
Dallas	3½	4	4½
San Francisco	3½	4	4½

¹Advances secured by U.S. Govt. securities and discounts of and advances secured by eligible paper. Rates shown also apply to advances secured by securities of Federal intermediate credit banks maturing within 6 months. Maximum maturity: 90 days except that discounts of certain bankers' acceptances and of agricultural paper may have maturities not over 6 months and 9 months, respectively, and advances secured by FICB securities are limited to 15 days.

²Advances secured to the satisfaction of the F.R. Bank. Maximum maturity: 4 months.

³Advances to individuals, partnerships, or corporations other than member banks secured by U.S. Govt. direct securities. Maximum maturity: 90 days.

12. MAXIMUM INTEREST RATES PAYABLE ON TIME AND SAVINGS DEPOSITS

(Per cent per annu)

Type of deposit	Effective date					
	Nov. 1, 1933	Feb. 1, 1935	Jan. 1, 1936	Jan. 1, 1957	Jan. 1, 1962	July 17, 1963
Savings deposits held for—						
1 year or more	3	2½	2½	3	4 3½	4 3½
Less than 1 year						
Postal savings deposits held for—						
1 year or more	3	2½	2½	3	4 3½	4 3½
Less than 1 year						
Other time deposits payable in— ¹						
1 year or more	3	2½	2½	3	4 3½ 2½ 1	4 4 4 1
6 months-1 year						
90 days-6 months						
Less than 90 days						

¹ For exceptions with respect to foreign time deposits, see 1962 ANNUAL REPORT, p. 129.

Note.—Maximum rates that may be paid by member banks as established by the Board of Governors under provisions of Regulation Q. Under this Regulation the rate payable by a member bank may not in any event exceed the maximum rate payable by State banks or trust companies on like deposits under the laws of the State in which the member bank is located. Effective Feb. 1, 1936, maximum rates that may be paid by insured nonmember commercial banks, as established by the FDIC, have been the same as those in effect for member banks.

13. MARGIN REQUIREMENTS

(Per cent of market value)

Regulation	Effective date						
	July 5, 1945	Jan. 21, 1946	Feb. 1, 1947	Mar. 30, 1949	Jan. 17, 1951	Feb. 20, 1953	Jan. 4, 1955
Regulation T:							
For extension of credit by brokers and dealers on listed securities.....	75	100	75	50	75	50	60
For short sales.....	75	100	75	50	75	50	60
Regulation U:							
For loans by banks on stocks.....	75	100	75	50	75	50	60
	Effective date						
	Apr. 23, 1955	Jan. 16, 1958	Aug. 5, 1958	Oct. 16, 1958	July 28, 1960	July 10, 1962	Nov. 6, 1963
Regulation T:							
For extension of credit by brokers and dealers on listed securities.....	70	50	70	90	70	50	70
For short sales.....	70	50	70	90	70	50	70
Regulation U:							
For loans by banks on stocks.....	70	50	70	90	70	50	70

Note.—Regulations T and U, prescribed in accordance with Securities Exchange Act of 1934, limit the amount of credit that may be extended on a security by prescribing a maximum loan value, which is a specified percentage of its market value at the time of extension; margin requirements are the difference between the market value (100%) and the maximum loan value. Changes on Feb. 20, 1953, and Jan. 4, 1955, were effective after close of business on these dates.

For earlier data, see *Banking and Monetary Statistics*, 1943, Table 145, p. 504.

14. FEES AND RATES UNDER REGULATION V ON LOANS GUARANTEED PURSUANT TO DEFENSE PRODUCTION ACT OF 1950, DECEMBER 31, 1963

Fees Payable to Guaranteeing Agency by Financing Institution on Guaranteed Portion of Loan

Percentage of loan guaranteed	Guarantee fee (percentage of interest payable by borrower)	Percentage of any commitment fee charged borrower
70 or less.....	10	10
75.....	15	15
80.....	20	20
85.....	25	25
90.....	30	30
95.....	35	35
Over 95.....	40-50	40-50

Maximum Rates Financing Institution May Charge Borrower

Interest rate.....	6 per cent per annum
Commitment rate.....	½ per cent per annum

15. MEMBER BANK RESERVE REQUIREMENTS

(Per cent of deposits)

Effective date	Net demand deposits ¹			Time deposits	
	Central reserve city banks ²	Reserve city banks	Country banks	Central reserve and reserve city banks ²	Country banks
1917—June 21.....	13	10	7	3	3
1936—Aug. 16.....	19½	15	10½	4½	4½
1937—Mar. 1.....	22¾	17½	12¼	5¼	5¼
May 1.....	26	20	14	6	6
1938—Apr. 16.....	22¾	17½	12	5	5
1941—Nov. 1.....	26	20	14	6	6
1942—Aug. 20.....	24				
Sept. 14.....	22				
Oct. 3.....	20				
1948—Feb. 27.....	22				
June 11.....	24				
Sept. 16.....			16		7½
24.....	26	22		7½	
1949—May 1.....			15		7
5.....	24	21		7	
June 30.....		20		6	
July 1.....			14		6
Aug. 1.....			13		
11.....	23½	19½		5	
16.....			12		5
18.....	23	19			
25.....	22½	18½			
Sept. 1.....	22	18			
1951—Jan. 11.....	23	19		6	
16.....			13		6
25.....	24	20			
Feb. 1.....			14		
1953—July 1.....			13		
9.....	22	19			
1954—June 16.....					5
24.....	21			5	
July 29.....	20	18			
Aug. 1.....			12		
1958—Feb. 27.....	19½	17½			
Mar. 1.....			11½		
20.....	19	17			
Apr. 1.....			11		
17.....	18½				
24.....	18	16½			
1960—Sept. 1.....	17½				
Nov. 24.....			12		
Dec. 1.....	16½				
1962—Oct. 25.....				4	
Nov. 1.....					4
In effect Jan. 1, 1964.....		16½	12	4	4
Present legal requirements:					
Minimum.....		10	7	3	3
Maximum.....		22	14	6	6

¹ Demand deposits subject to reserve requirements which, beginning with Aug. 23, 1935, have been total demand deposits minus cash items in process of collection and demand balances due from domestic banks (also minus war loan and Series E bond accounts during the period Apr. 13, 1943–June 30, 1947).

² Authority of the Board of Governors to classify or reclassify cities as central reserve cities was terminated effective July 28, 1962.

NOTE.—All required reserves were held on deposit with Federal Reserve Banks, June 21, 1917, until late 1959. Since then, member banks have also been allowed to count vault cash as reserves, as follows: Country banks—in excess of 4 and 2½ per cent of net demand deposits effective Dec. 1, 1959, and Aug. 25, 1960, respectively. Central reserve city and reserve city banks—in excess of 2 and 1 per cent effective Dec. 3, 1959, and Sept. 1, 1960, respectively. Effective Nov. 24, 1960, all vault cash.

16. MEMBER BANK RESERVES, FEDERAL RESERVE BANK CREDIT, AND RELATED ITEMS—END OF YEAR 1918-63 AND END OF MONTH 1963

(In millions of dollars)

Period	Factors supplying reserve funds								Factors absorbing reserve funds										
	F.R. Bank credit outstanding						Gold stock ²	Treasury currency outstanding ³	Currency in circulation	Treasury cash holdings ⁴	Deposits, other than member bank reserves, with F.R. Banks			Other F.R. accounts ⁵	Member bank reserves				
	U.S. Govt. securities			Discounts and advances	Float	All other ¹					Total	Treasury	Foreign		Other	With F.R. Banks	Currency and coin ⁶	Required ⁷	Excess ⁷
	Total	Bought outright	Repurchase agreements																
1918.....	239	239	.....	1,766	199	294	2,498	2,873	1,795	4,951	288	51	96	25	118	1,636	.....	1,585	51
1919.....	300	300	.....	2,215	201	575	3,292	2,707	1,707	5,091	385	31	73	28	208	1,890	.....	1,822	68
1920.....	287	287	.....	2,687	119	262	3,355	2,639	1,709	5,325	218	57	5	18	298	1,781	.....	.....	.....
1921.....	234	234	.....	1,144	40	146	1,563	3,373	1,842	4,403	214	96	12	15	285	1,753	.....	1,654	99
1922.....	436	436	.....	618	78	273	1,405	3,642	1,958	4,530	225	11	3	26	276	1,934	.....	.....	.....
1923.....	134	80	54	723	27	355	1,238	3,957	2,009	4,757	213	38	4	19	275	1,898	.....	1,884	14
1924.....	540	536	4	320	52	390	1,302	4,212	2,025	4,760	211	51	19	20	258	2,220	.....	2,161	59
1925.....	375	367	8	643	63	378	1,459	4,112	1,977	4,817	203	16	8	21	272	2,212	.....	2,256	-44
1926.....	315	312	3	637	45	384	1,381	4,205	1,991	4,808	201	17	46	19	293	2,194	.....	2,250	-56
1927.....	617	560	57	582	63	393	1,655	4,092	2,006	4,716	208	18	5	21	301	2,487	.....	2,424	63
1928.....	228	197	31	1,056	24	500	1,809	3,854	2,012	4,686	202	23	6	21	348	2,389	.....	2,430	-41
1929.....	511	488	23	632	34	405	1,583	3,997	2,022	4,578	216	29	6	24	393	2,355	.....	2,428	-73
1930.....	729	686	43	251	21	372	1,373	4,306	2,027	4,603	211	19	6	22	375	2,471	.....	2,375	96
1931.....	817	775	42	638	20	378	1,853	4,173	2,035	5,360	222	54	79	31	354	1,961	.....	1,994	-33
1932.....	1,855	1,851	4	235	14	41	2,145	4,226	2,204	5,388	272	8	19	24	355	2,509	.....	1,933	576
1933.....	2,437	2,435	2	98	15	137	2,688	4,036	2,303	5,519	284	3	4	128	360	2,729	.....	1,870	859
1934.....	2,430	2,430	.....	7	5	21	2,463	8,238	2,511	5,536	3,029	121	20	169	241	4,096	.....	2,282	1,814
1935.....	2,431	2,430	1	5	12	38	2,486	10,125	2,476	5,882	2,566	544	29	226	253	5,587	.....	2,743	2,844
1936.....	2,430	2,430	.....	3	39	28	2,500	11,258	2,532	6,543	2,376	244	99	160	261	6,606	.....	4,622	1,984
1937.....	2,564	2,564	.....	10	19	19	2,612	12,760	2,637	6,550	3,619	142	172	235	263	7,027	.....	5,815	1,212
1938.....	2,564	2,564	.....	4	17	16	2,601	14,512	2,798	6,856	2,706	923	199	242	260	8,724	.....	5,519	3,205
1939.....	2,484	2,484	.....	7	91	11	2,593	17,644	2,963	7,598	2,409	634	397	256	251	11,653	.....	6,444	5,209
1940.....	2,184	2,184	.....	3	80	8	2,274	21,995	3,087	8,732	2,213	368	1,133	599	284	14,026	.....	7,411	6,615
1941.....	2,254	2,254	.....	3	94	10	2,361	22,737	3,247	11,160	2,215	867	774	586	291	12,450	.....	9,365	3,085
1942.....	6,189	6,189	.....	6	471	14	6,679	22,726	3,648	15,410	2,193	799	793	485	256	13,117	.....	11,129	1,988
1943.....	11,543	11,543	.....	5	681	10	12,239	21,938	4,094	20,449	2,303	579	1,360	356	339	12,886	.....	11,650	1,236
1944.....	18,846	18,846	80	815	4	19,745	20,619	4,131	25,307	2,375	440	1,204	394	402	14,373	12,748	1,625

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1945	24,262	24,262	249	578	2	25,091	20,065	4,339	28,515	2,287	977	862	446	495	15,915	14,457	1,458			
1946	23,350	23,350	163	580	1	24,093	20,529	4,562	28,952	2,272	393	508	314	607	16,139	15,577	562			
1947	22,559	22,559	85	535	1	23,181	22,754	4,562	28,868	1,336	870	392	569	563	17,899	16,400	1,499			
1948	23,333	23,333	223	541	1	24,097	24,244	4,589	28,224	1,325	1,123	642	547	590	20,479	19,277	1,202			
1949	18,885	18,885	78	534	2	19,499	24,427	4,598	27,600	1,312	821	767	750	706	16,568	15,550	1,018			
1950	20,778	20,725	53	67	3	22,216	22,706	4,636	27,741	1,293	668	895	565	714	17,681	16,509	1,172			
1951	23,801	23,605	196	19	5	25,009	22,695	4,709	29,206	1,270	247	526	363	746	20,056	19,667	389			
1952	24,697	24,034	663	156	4	25,825	23,187	4,812	30,433	1,270	389	550	455	777	19,950	20,520	-570			
1953	25,916	25,318	598	28	2	26,880	22,030	4,894	30,781	761	346	423	493	839	20,160	19,397	763			
1954	24,932	24,888	44	143	1	25,885	21,713	4,985	30,509	796	563	490	441	907	18,876	18,618	258			
1955	24,785	24,391	394	108	1,585	29	26,507	21,690	5,008	31,158	767	394	402	554	19,005	18,903	102			
1956	24,915	24,610	305	50	1,665	70	26,699	21,949	5,066	31,790	775	441	322	426	19,059	19,089	-30			
1957	24,238	23,719	519	55	1,424	66	25,784	22,781	5,146	31,834	761	481	356	246	19,034	19,091	-57			
1958	26,347	26,252	95	64	1,296	49	27,755	20,534	5,234	32,193	683	358	272	391	1,122	18,504	18,574	-70		
1959	26,648	26,607	41	458	1,590	75	28,771	19,456	5,311	32,591	391	504	345	694	841	18,174	18,619	-135		
1960	27,384	26,984	400	33	1,847	74	29,338	17,767	5,398	32,869	377	485	217	533	941	17,081	2,544	18,988	637	
1961	28,881	28,722	159	130	2,300	51	31,362	16,889	5,585	33,918	422	465	279	320	1,044	17,387	2,823	20,114	96	
1962	30,820	30,478	342	38	2,903	110	33,871	15,978	5,567	35,338	380	597	247	393	1,007	17,454	3,262	20,071	645	
1963—																				
Jan.	30,289	30,110	179	87	1,511	72	31,959	15,928	5,569	34,093	406	821	197	327	968	16,644	3,262	19,190	716	
Feb.	30,586	30,391	195	209	1,759	54	32,608	15,878	5,573	34,286	428	841	192	322	1,140	16,850	3,260	19,132	978	
Mar.	30,963	30,805	158	201	1,369	52	32,585	15,878	5,575	34,513	409	909	201	188	1,069	16,748	2,565	19,073	240	
Apr.	31,182	30,691	491	153	1,446	44	32,825	15,877	5,581	34,645	420	952	160	206	997	16,904	3,227	19,294	837	
May	31,254	31,101	153	208	1,304	42	32,808	15,797	5,583	35,067	391	651	171	177	1,155	16,574	3,171	18,994	751	
June	32,027	31,988	39	96	1,638	43	33,804	15,733	5,587	35,470	369	806	175	242	1,097	16,965	2,651	19,807	-191	
July	32,468	32,324	144	338	1,101	39	33,946	15,633	5,588	35,663	389	629	182	262	1,070	16,971	3,432	19,452	951	
Aug.	32,391	32,237	154	389	1,316	38	34,134	15,582	5,588	35,850	382	705	178	195	1,213	16,782	2,788	19,182	388	
Sept.	32,563	32,563	.....	138	1,567	34	34,302	15,582	5,591	35,891	384	948	174	199	1,107	16,772	2,900	19,747	-75
Oct.	32,758	32,696	62	332	1,439	58	34,587	15,583	5,582	36,177	372	881	175	209	1,016	16,922	3,566	19,566	922	
Nov.	33,667	33,567	100	868	1,341	42	35,918	15,582	5,572	37,227	378	890	165	192	1,267	16,952	3,020	19,662	310	
Dec.	33,593	33,582	11	63	2,600	162	36,418	15,513	5,578	37,692	361	880	171	291	1,065	17,049	4,099	20,677	471	

^p Preliminary.

¹ Principally acceptances and industrial loans; authority for industrial loans expired Aug. 21, 1959.

² Before Jan. 30, 1934, included gold held by F.R. Banks and in circulation.

³ The stock of currency, other than gold, for which the Treasury is primarily responsible—silver bullion at monetary value and standard silver dollars, subsidiary silver and minor coin, and United States notes; also, F.R. Bank notes and national bank notes for the retirement of which lawful money has been deposited with the Treasurer of the United States. Includes currency of these kinds held in the Treasury and the F.R. Banks as well as that in circulation.

⁴ Gold other than that held against gold certificates and gold certificate credits, including the reserve against United States notes and Treasury notes of 1890, monetary

silver other than that held against silver certificates and Treasury notes of 1890, and the following coin and paper currency held in the Treasury: subsidiary silver and minor coin, United States notes, F.R. notes, F.R. Bank notes, and national bank notes.

⁵ The total of F.R. Bank capital paid in, surplus, other capital accounts, and other liabilities and accrued dividends, less the sum of bank premises and other assets.

⁶ Part allowed as reserves Dec. 1, 1959–Nov. 23, 1960; all allowed thereafter.

⁷ These figures are estimated through 1958. Before 1929 available only on call dates (in 1920 and 1922, the call dates were Dec. 29).

NOTE.—For description of figures and discussion of their significance, see "Member Bank Reserves and Related Items," Section 10 of *Supplement to Banking and Monetary Statistics*, Jan. 1962.

17. PRINCIPAL ASSETS AND LIABILITIES, AND NUMBER OF COMMERCIAL AND MUTUAL SAVINGS BANKS, BY CLASS OF BANK,
DECEMBER 20, 1963, AND DECEMBER 28, 1962

(In millions of dollars)

Item	All banks	Commercial banks						Mutual savings banks		
		Total	Member banks			Insured nonmember	Non-insured	Total	Insured	Non-insured
			Total	National	State					
December 20, 1963 ¹										
Loans and investments, total	301,270	253,270	209,820	136,760	73,060	41,820	1,630	48,000	41,580	6,420
Loans	192,340	155,720	131,470	84,400	47,070	23,530	720	36,620	32,250	4,370
Investments	108,930	97,550	78,350	52,360	25,990	18,290	910	11,380	9,330	2,050
U.S. Govt. securities	68,560	62,690	49,330	33,290	16,040	12,850	510	5,870	4,330	1,540
Other securities	40,370	34,860	29,020	19,070	9,950	5,440	400	5,510	5,000	510
Cash assets	51,910	50,940	44,660	28,470	16,190	5,890	390	970	860	110
Deposits, total	319,540	274,890	229,510	150,100	79,410	43,770	1,610	44,650	38,780	5,870
Interbank	15,890	15,890	14,970	8,750	6,220	600	320			
Other demand	148,030	147,970	123,520	79,860	43,660	23,520	930	60	50	10
Other time	155,620	111,030	91,020	61,490	29,530	19,650	360	44,590	38,730	5,860
Total capital accounts	29,220	25,070	20,670	13,290	7,380	4,010	390	4,150	3,520	630
Number of banks	14,079	13,570	6,111	4,615	1,496	7,173	286	509	330	179
December 28, 1962										
Loans and investments, total	280,397	235,839	195,698	127,254	68,444	38,557	1,584	44,558	38,597	5,961
Loans	172,822	140,106	118,637	75,548	43,089	20,811	657	32,716	28,778	3,938
Investments	107,575	95,732	77,061	51,706	25,355	17,745	926	11,842	9,819	2,023
U.S. Govt. securities	72,563	66,434	52,968	35,663	17,305	12,932	534	6,129	4,639	1,490
Other securities	35,012	29,298	24,092	16,042	8,050	4,814	392	5,714	5,180	533
Cash assets	54,939	54,049	47,427	29,684	17,744	6,276	346	890	784	106
Deposits, total	303,653	262,122	219,468	142,825	76,643	41,142	1,513	41,531	36,104	5,427
Interbank	16,543	16,542	15,667	9,282	6,385	578	297	1	1	
Other demand	148,153	147,870	124,085	79,810	44,275	22,900	886	283	276	7
Other time	138,957	97,710	79,716	53,733	25,983	17,664	330	41,248	35,827	5,420
Total capital accounts	28,046	24,094	19,854	12,750	7,104	3,870	371	3,951	3,343	608
Number of banks	13,940	13,429	6,049	4,505	1,544	7,072	308	511	331	180

¹ Estimated.

NOTE.—All banks in the United States.

**18. MEMBER BANK INCOME, EXPENSES, AND DIVIDENDS BY CLASS
OF BANK, 1963 AND 1962**

Item	Total		Reserve city banks						Country banks	
			New York City		City of Chicago		Other			
	1963	1962	1963	1962	1963	1962	1963	1962	1963	1962
In millions of dollars										
Revenue	11,150	10,154	1,756	1,644	457	406	4,291	3,902	4,646	4,202
On U.S. Govt. securities	1,722	1,687	218	228	68	65	590	595	846	798
On other securities	772	629	139	106	42	33	262	211	329	279
On loans	7,174	6,435	1,106	1,017	288	250	2,849	2,552	2,931	2,616
All other	1,482	1,403	293	293	59	57	590	545	540	509
Expenses	7,916	7,041	1,134	1,010	300	255	3,029	2,703	3,452	3,074
Salaries and wages	2,656	2,501	394	385	89	85	1,019	956	1,154	1,075
Interest on deposits	2,852	2,358	367	277	127	95	1,121	948	1,236	1,038
All other	2,408	2,182	373	347	84	76	889	799	1,062	960
Net current earnings before income taxes	3,234	3,112	622	634	156	151	1,262	1,199	1,193	1,128
Recoveries and profits ¹		370		54		17		125		174
Losses and charge-offs ²		376		50		12		135		179
Net increase (or decrease, +) in valuation reserves		301		63		23		116		99
Net income before related taxes	2,902	2,805	607	575	132	133	1,121	1,073	1,042	1,024
Taxes on net income	1,078	1,110	205	242	47	49	464	454	362	364
Net income	1,823	1,695	401	333	85	83	656	619	680	660
Cash dividends declared ³	877	832	196	191	35	33	354	336	291	271
In per cent										
Ratios:										
Net current earnings before income taxes to—										
Average total capital accounts	16.0	16.3	15.8	16.7	16.1	16.4	17.0	17.2	15.0	15.3
Average total assets	1.29	1.34	1.37	1.50	1.36	1.43	1.32	1.37	1.20	1.24
Net income to—										
Average total capital accounts	9.0	8.9	10.2	8.8	8.8	9.1	8.8	8.9	8.6	8.9
Average total assets . . . . .	.72	.73	.88	.79	.74	.79	.69	.71	.69	.72
Average return on—										
U.S. Govt. securities	3.37	3.22	3.27	3.11	3.33	3.06	3.38	3.24	3.40	3.26
Loans	5.85	5.93	5.00	5.10	5.08	5.14	5.89	5.99	6.29	6.36

¹ Includes recoveries credited to valuation reserves.

² Includes losses charged to valuation reserves.

³ Includes interest on capital notes and debentures.

NOTE.—Data for 1963 are preliminary; final figures will be published in the May 1964 F.R. Bulletin.

19. CHANGES IN NUMBER OF BANKING OFFICES IN THE UNITED STATES DURING 1963 ¹

Type of office and change	All banks	Commercial banks (incl. stock savings banks and nondeposit trust companies)				Mutual savings banks		
		Total	Member		Nonmember		In-sured	Non-insured
			National ¹	State ²	In-sured	Non-insured ²		
Banks, Dec. 31, 1962	13,938	13,427	4,503	1,544	7,072	303	331	160
Changes during 1963								
New banks ³	298	298	162	3	115	13		
Suspensions.....	-2	-2			-2			
Consolidations and absorptions:								
Banks converted into branches	-140	-139	-55	-26	-56	-2		-1
Other.....	-13	-12	-7	-2	-3		-1	
Voluntary liquidations ⁴	-2	-2	-1			-1		
Other change ⁵	-1	-1				-1		
Interclass changes:								
Nonmember to State member.....				4	-3	-1		
State member to nonmember.....				-22	22			
National to nonmember.....			-13		13			
State to national.....			26	-8	-18			
Noninsured to insured.....					37	-37		
Net change.....	140	142	112	-51	105	-24	-1	-1
Number of banks Dec. 31, 1963	14,078	13,569	4,615	1,493	7,177	284	330	179
Branches and additional offices, Dec. 31, 1962	12,655	12,068	6,423	2,981	2,614	50	466	121
Changes during 1963								
De novo.....	1,103	1,065	654	196	214	1	36	2
Banks converted.....	140	139	87	30	22			1
Discontinued ⁶	-54	-52	-27	-13	-12			-2
Interclass changes—net ⁶			67	-28	-38	-1		
Net change.....	1,189	1,152	781	185	186		36	1
Number of branches and additional offices, Dec. 31, 1963	13,844	13,220	7,204	3,166	2,800	50	502	122
Banking facilities, Dec. 31, 1962	277	277	217	28	32			
Changes during 1963								
Established ⁶	8	8	4	1	3			
Discontinued.....	-7	-7	-5	-2				
Net change.....	1	1	-1	-1	3			
Number of banking facilities, Dec. 31, 1963	278	278	216	27	35			

¹ Includes a national bank (2 branches) in the Virgin Islands; other banks or branches located in the possessions are excluded.

² State member bank figures include and noninsured bank figures exclude 1 noninsured trust company without deposits.

³ Exclusive of new banks organized to succeed operating banks.

⁴ Exclusive of liquidations incident to the succession, conversion, or absorption of banks.

⁵ Ceased banking operations.

⁶ For details see Feb. 1964 F.R. *Bulletin*, p. 240.

⁷ Provided at military and other Govt. establishments through arrangements made by the Treasury.

20. NUMBER OF PAR AND NONPAR BANKING OFFICES,
DECEMBER 31, 1963

F.R. district, State, or other area	Total		Par						Nonpar (Nonmember)	
			Total		Member		Nonmember			
	Banks	Branches & offices	Banks	Branches & offices	Banks	Branches & offices	Banks	Branches & offices	Banks	Branches & offices
DISTRICT										
Boston	388	943	388	943	251	744	137	199		
New York	530	2,361	530	2,361	426	2,084	104	277		
Philadelphia	578	891	578	891	443	693	135	198		
Cleveland	867	1,246	867	1,246	513	1,064	354	182		
Richmond	859	1,732	752	1,633	413	1,094	339	539	107	99
Atlanta	1,456	743	923	668	467	548	456	120	533	75
Chicago	2,509	1,394	2,509	1,394	1,010	892	1,499	502		
St. Louis	1,486	475	1,217	393	475	264	742	129	269	82
Minneapolis	1,331	170	724	118	485	67	239	51	607	52
Kansas City	1,843	174	1,841	174	796	123	1,045	51	2	
Dallas	1,234	203	1,160	191	656	123	504	68	74	12
San Francisco	406	3,285	404	3,285	172	2,935	232	350	2	
Total	13,487	13,617	11,893	13,297	6,107	10,631	5,786	2,666	1,594	320
STATE										
Alabama	242	129	164	123	97	111	67	12	78	6
Alaska	12	51	10	51	5	43	5	8	2	
Arizona	12	223	12	223	4	176	8	47		
Arkansas	242	77	142	54	81	48	61	6	100	23
California	149	2,122	149	2,122	70	1,968	79	154		
Colorado	196	7	196	7	122	6	74	1		
Connecticut	61	258	61	258	30	203	31	55		
Delaware	20	60	20	60	7	32	13	28		
District of Columbia	14	76	14	76	11	68	3	8		
Florida	379	16	340	15	171	12	169	3	39	1
Georgia	423	160	152	149	70	132	82	17	271	11
Hawaii	7	111	7	111	2	40	5	71		
Idaho	27	111	27	111	16	103	11	8		
Illinois	1,006	4	1,006	4	523	4	483			
Indiana	436	399	436	399	224	272	212	127		
Iowa	673	212	673	212	165	38	508	174		
Kansas	593	45	593	45	209	32	384	13		
Kentucky	348	198	348	198	97	135	251	63		
Louisiana	199	220	95	185	55	145	40	40	104	35
Maine	43	158	43	158	28	113	15	45		
Maryland	118	337	118	337	53	210	65	127		
Massachusetts	161	476	161	476	111	391	50	85		
Michigan	367	728	367	728	216	596	151	132		
Minnesota	706	8	706	7	215	6	87	1	404	1
Mississippi	194	177	60	97	36	61	24	36	134	80
Missouri	633	48	582	48	171	27	411	21	51	
Montana	124	3	124	3	91	3	33			
Nebraska	424	26	424	26	135	19	289	7		
Nevada	7	52	7	52	5	45	2	7		
New Hamp- shire	75	4	75	4	53	3	22	1		
New Jersey	232	572	232	572	196	513	36	59		
New Mexico	61	79	61	79	38	47	23	32		
New York	358	1,699	358	1,699	299	1,616	59	183		
North Carolina	151	672	94	580	35	328	59	252	57	92
North Dakota	159	38	60	14	41	6	19	8	99	24
Ohio	552	815	552	815	350	706	202	109		
Oklahoma	400	34	397	34	236	29	161	5	3	
Oregon	50	234	50	234	14	201	36	33		
Pennsylvania	616	1,047	616	1,047	462	850	154	197		
Rhode Island	10	106	10	106	5	75	5	31		

For notes see end of table.

20. NUMBER OF PAR AND NONPAR BANKING OFFICES,
DECEMBER 31, 1963—Continued

F.R. district, State, or other area	Total		Par						Nonpar (Nonmember)	
			Total		Member		Nonmember			
	Banks	Branches & offices	Banks	Branches & offices	Banks	Branches & offices	Banks	Branches & offices	Banks	Branches & offices
STATE— Cont.										
South										
Carolina.....	138	217	88	210	31	152	57	58	50	7
South Dakota.....	173	71	69	44	58	36	11	8	104	27
Tennessee.....	293	272	223	259	82	188	141	71	70	13
Texas.....	1,097	45	1,069	45	597	24	472	21	28	
Utah.....	52	95	52	95	23	77	29	18		
Vermont.....	48	43	48	43	28	22	20	21		
Virginia.....	280	430	280	430	184	336	96	94		
Washington.....	93	344	93	344	34	327	59	17		
West Virginia.....	182		182		109		73			
Wisconsin.....	575	165	575	165	163	34	412	131		
Wyoming.....	63	1	63	1	48	1	15			
OTHER AREA										
Puerto Rico ²	11	136	11	136		15	11	121		
Virgin Islands ²	2	6	2	6	1	6	1			

¹ Includes 4 N.Y.C. branches of 2 insured nonmember Puerto Rican banks.

² Puerto Rico and the Virgin Islands assigned to the N.Y. District for check clearing and collection purposes. All member branches in Puerto Rico and all except 2 in the Virgin Islands are branches of N.Y.C. banks. Certain branches of Canadian banks (2 in Puerto Rico and 1 in Virgin Islands) are included above as nonmember banks; and nonmember branches in Puerto Rico include 6 other branches of Canadian banks.

NOTE.—Comprises all commercial banking offices on which checks are drawn, including 278 banking facilities. Number of banks and branches differs from that in Table 19 because this table includes banks in Puerto Rico and the Virgin Islands but excludes banks and trust cos. on which no checks are drawn.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1963¹

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated
No. 1— Bank of Jamestown, Jamestown, N.Y.	48.7	5	} 6
<i>to merge with</i> Clymer State Bank, Clymer, N.Y.	2.7	1	

SUMMARY REPORT BY ATTORNEY GENERAL (12-17-62)

Bank of Jamestown, with assets of \$48.7 million, operates 5 banking offices in Chautauqua County in southwestern New York. It is the third largest bank in an area marked by banking concentration.

Clymer State Bank, with assets of \$2.7 million, operates 1 banking office in Clymer, New York, a small town in the southern portion of the Jamestown service area.

The proposed merger will eliminate Clymer Bank as one of the remaining independent banks in Chautauqua County. It will eliminate the competition existing between the 2 participating banks. Finally, it will make Bank of Jamestown the second largest bank in Chautauqua County in terms of assets and total deposits and increase the degree of concentration already existing in banking in the county. The 3 largest banks in the county would control almost 90 per cent of total assets and total deposits in the county.

For these reasons we believe that the effect of the merger on competition will be substantially adverse.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (1-14-63)

Jamestown (population about 42,000) is located in southwestern New York about 25 miles northeast of the village of Clymer (population about 1,400). Bank of Jamestown operates 4 offices in Jamestown and 1 office in the village of Sherman, about 22 miles west of Jamestown and 12 miles north of Clymer. Clymer Bank, the only banking office in Clymer, serves an agricultural area of some 2,000 population. There are 2 banks in Corry, Pennsylvania, about 8 miles south of Clymer, and 1 of the 2 other banks with main offices in Jamestown has a branch in Mayville, 9 miles northeast of Sherman.

The financial condition of Clymer Bank has deteriorated in recent years, partially because of the strain on its resources that has resulted from attempts to meet requests for loans. In addition, the bank's recent loss of its 2 active officers through resignation and illness has resulted in a serious management succession problem. Effectuation of the proposal would replace Clymer Bank with a branch of Jamestown Bank and eliminate a moderate amount of competition between the former and the latter's

¹For notes see p. 271.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1963—Continued

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY BOARD OF GOVERNORS—Cont.

branch at Sherman. Other sources of banking services, however, would remain reasonably accessible to persons in these 2 communities. This, together with the management strength and succession, and increased banking services and resources that the transaction would be expected to bring to the Clymer community, outweigh the adverse considerations relating to the competitive factor.

No. 2— Lock Haven Trust Company, Lock Haven, Pa. <i>to merge with</i>	16.4	1	} 2
The Mill Hall State Bank, Mill Hall, Pa.	3.8	1	

SUMMARY REPORT BY ATTORNEY GENERAL (12-13-62)

Lock Haven Trust, with assets of over \$16 million, and Mill Hall Bank, with assets of over \$3 million, are respectively the largest and third largest of 3 banks serving the area in which they are located. Since 1927, over 50 per cent of the stock of Mill Hall Bank has been owned by the Lock Haven Trust. In addition to the common ownership, the banks have interlocking directorates and the same president. It is difficult to assess the effect upon existing or potential competition in the area. Thus the active competition that would otherwise exist between the merging institutions is not realistic.

The merger would strengthen the leading position of Lock Haven Trust to the possible detriment of its much smaller rival and eliminate any chance for real competition to exist between the merging institutions as a result of a change in stock control. We are therefore of the view that the effect of the merger on competition would be adverse.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (1-17-63)

Lock Haven (population about 13,000) is the seat of Clinton County (population about 38,000) in central Pennsylvania and is primarily an industrial community which is the chief trading center in the county. Lock Haven Trust's service area has a population of at least 22,000. Mill Hall (population about 1,700) is principally a residential community 3 miles southwest of Lock Haven. The service area of Mill Hall Bank has a population of over 7,000, and the bank's total area of service extends to Lock Haven. Virtually all of the service area of Mill Hall Bank is within the service area of Lock Haven Trust. Mill Hall Bank is the only banking office in Mill Hall. Lock Haven has 1 bank in addition to Lock Haven Trust, which is the larger of the 2 institutions. Two smaller banks are

For notes see p. 271.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1963¹—Continued

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY BOARD OF GOVERNORS—Cont.

located in Avis and Beech Creek which are, respectively, about 9 miles northeast and about 10 miles southwest of Lock Haven.

Lock Haven Trust has owned more than 50 per cent of the stock of Mill Hall Bank for over 35 years, and the same persons are dominant in the management of the 2 banks, the policies of which have been much the same. The proposal would unite 2 banks which are already under common ownership and management and between which little or no true competition exists. In addition, it would eliminate administrative duplication and tend to increase efficiency with probable benefits from increased availability of expanded banking services. Otherwise it is expected that there would be little or no change with respect to banking in the Lock Haven-Mill Hall area as a result of this transaction.

No. 3— The Hackensack Trust Company, Hackensack, N.J. <i>to merge with</i>	70.6	6	} 7
Bank of Bogota, Bogota, N.J.	9.6	1	

SUMMARY REPORT BY ATTORNEY GENERAL (11-30-62)

Hackensack Trust and Bank of Bogota, located 1.1 miles apart in Bergen County, propose to merge. This region is considered part of the New York metropolitan trade area. It is densely populated and is a highly diversified industrial and commercial area with excellent economic prospects.

The merger would eliminate a substantial amount of competition between the merging banks and add to concentration of banking resources in the service area of the merging banks. Therefore, its effects on competition would be adverse.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (1-30-63)

Hackensack and the Borough of Bogota (populations about 31,000 and 8,000, respectively) are located in the southern part of Bergen County (population about 780,000), one of the most rapidly developing industrial and residential sections of New Jersey. Hackensack lies about 6 miles west of New York City and is separated from Bogota (1 mile to the east) by the Hackensack River. The areas served by Hackensack Trust and Bogota Bank encompass much of the commercial and industrial activity in the county.

Thirty-two commercial banks with 85 offices are located in Bergen County. Hackensack Trust is the fourth largest commercial bank in the

For notes see p. 271.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1963¹—Continued

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY BOARD OF GOVERNORS—Cont.

county and the second largest in Hackensack. Bogota Bank is the smaller of the 2 banks in Bogota. Upon consummation of the proposed merger, Hackensack Trust would be the third largest in the County but would remain in second place in Hackensack.

While consummation of the proposal would eliminate the moderate amount of competition existing between Hackensack Trust and Bogota Bank, there would remain readily accessible to residents of Bogota a wide variety of alternative sources for bank services and credit. Furthermore, the transaction would replace Bogota Bank with the office of a bank offering a broader range of banking services, solve the present problem with respect to management depth and succession at Bogota Bank, strengthen the ability of Hackensack Trust to meet the credit needs of its customers, and enable that bank to compete more effectively in the heavily populated and highly industrialized area concerned without adverse effects on other banks serving Hackensack and Bogota.

No. 4— Ann Arbor Bank , Ann Arbor, Mich. <i>to consolidate with</i> The Dexter Savings Bank , Dexter, Mich.	69.6 4.8	5 1	6
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SUMMARY REPORT BY ATTORNEY GENERAL (9-28-62)

Ann Arbor Bank, the largest of 2 banks in Ann Arbor and with assets of \$69.6 million, proposes to consolidate with Dexter Savings Bank, with assets of \$4.8 million, and located in the village of Dexter near Ann Arbor.

Ann Arbor has shown a substantial growth in population, and both banks have also grown substantially. Ann Arbor Bank's position as the larger of 2 banks in Ann Arbor is due in large part to its being the result of consolidation in 1936 of 3 Ann Arbor banks.

A degree of competition would be eliminated by the consolidation. Ann Arbor Bank's position as the leading institution in the area would be increased and the number of banks located in the Ann Arbor-Dexter area reduced from 3 to 2 at a time when the area is rapidly growing.

The effect of the consolidation on competition would therefore be substantially adverse.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (2-5-63)

Dexter Bank's prospects and ability to provide adequate banking services to the Dexter community have been jeopardized by the bank's failure to provide experienced succession management. A consolidation with Ann

For notes see p. 271.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1963¹—Continued

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY BOARD OF GOVERNORS—Cont.

Arbor Bank would resolve the management succession problem and also eliminate the need for strengthening the capital position of Dexter Bank. While the merger would eliminate the moderate amount of competition existing between the 2 banks, such factor is more than offset by the correction of rather serious problems. Moreover, the continuing bank proposes to provide a broader range of banking services to the Dexter community.

No. 5— Peoples Bank of Glen Rock, Glen Rock, Pa. <i>to merge with</i>	6.0	2	} 3
Codorus National Bank in Jefferson, Codorus (Jefferson Borough), Pa.	1.7	1	

SUMMARY REPORT BY ATTORNEY GENERAL (1-2-63)

The merging banks, because of their proximity and overlapping service areas, are competitors to a slight degree, and the merger will result in the elimination of this competition. In view of the relative size of the competing commercial banks in the service area, the proposed merger would not appear to have a substantially adverse effect on competition.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (2-8-63)

The main office of Peoples Bank, located about 15 miles south of York, serves Glen Rock (population about 1,500) and a surrounding area containing a population of about 8,600. Its single branch in Jacobus (population about 1,000), located 8 miles north, serves an area of about 8,400. Codorus National, the only bank in Codorus (population about 500), is located about 10 miles west of Glen Rock and serves an area in which about 6,500 persons reside. As the service areas of the 2 banks overlap only slightly in the sparsely populated region between them, and as no direct road connects Glen Rock and Codorus, there is little competition between them.

Besides Peoples Bank and Codorus National, there are 12 banks operating offices in central and southern York County. Four of the 12 banks have 1 or 2 offices within 5 miles of 1 or the other of the banks involved in the proposed transaction, and all but 1 of the 12 have 1 or more offices within 5 to 14 miles of Peoples Bank or Codorus National. Of the 14 banks in this area, Peoples Bank and Codorus National are the smallest based on deposits of individuals, partnerships, and corporations, and the continuing bank would be only slightly larger than the smallest bank.

For notes see p. 271.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1963¹—Continued

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY BOARD OF GOVERNORS—Cont.

Although the merger would eliminate the small amount of competition between the 2 banks, the transaction would solve the management succession problem, strengthen earnings prospects, and provide broader banking services at the only banking office in Codorus. There would be no unfavorable competitive effects on other banks in central and southern York County.

No. 6— First State Bank , Canisteo, N.Y. <i>to acquire the assets and assume the liabilities of</i>	5.0	1	} 2
Greenwood Branch, Security Trust Company of Rochester , Rochester, N.Y.	0.9	1	

SUMMARY REPORT BY ATTORNEY GENERAL (1-4-63)

First State Bank, a small independent banking institution without a branch office, located in Canisteo, with total assets of close to \$5 million, proposes to acquire by purchase, Greenwood Branch of Security Trust Company of Rochester, which has total assets of less than \$1 million, and to operate it as a branch office. First State is smaller than the nearest competitor in its service area, which has its own branch, and has made no acquisitions since its charter in 1897. The effect of this acquisition on competition would not be substantially adverse in view of the relatively minor degree of competition being eliminated and the continued existence of independent competing banks.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (2-8-63)

Greenwood Branch of Security Trust was The First National Bank of Greenwood prior to 1956 when the latter was merged with Security Trust (deposits about \$195 million). The deposits of the branch have grown slightly since the acquisition, but its distance from Security Trust's principal area of operations (about 85 miles) has been an obstacle to economic operation of the branch since the demand for banking service in Greenwood (population about 840) appears to be sufficient to support only a limited operation that can work relatively closely with the main office. First State Bank, on the other hand, while much smaller than Security Trust, is located only 12 miles from Greenwood, which should enable First State Bank to improve the profitability of the office by improving the direct availability of service adequate to Greenwood's needs as well as by improving the efficiency with which such service is provided.

The Greenwood office has not been a vigorous competitor for banking business in the area. Thus, although the acquisition of that office by

For notes see p. 271.

**21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION
OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY
THE BOARD OF GOVERNORS DURING 1963¹—Continued**

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY BOARD OF GOVERNORS—Cont.

First State Bank would represent to some extent a reduction in alternative sources of service for the local Greenwood area, that area would not be losing an independent competitive force of the kind that tends actively to improve the nature of banking service offered to the public. Moreover, the acquisition would not nullify any strong potential for competition in the future since discontinuation of the office is in prospect if it is not acquired by another bank in a position to operate it.

No. 7— Peoples Trust Company of Bergen County, Hackensack, N.J. <i>to merge with</i>	198.1	12	} 13
The First National Bank of Wyckoff, Wyckoff, N.J.	10.7	1	

SUMMARY REPORT BY ATTORNEY GENERAL (12-7-62)

This merger would eliminate a degree of competition presently existing between First National and Peoples Trust. The merger will enhance Peoples Trust's position as the largest bank in Bergen County and tend to increase concentration in that area. It may also inspire further mergers in the area.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (2-15-63)

Hackensack, with a 1960 population of 31,000, is the seat of Bergen County (1960 population 780,000), situated on the west bank of the Hudson River opposite New York City. Peoples Trust has its main office and 2 branches in the county seat, with 9 other branches in various communities which, like Hackensack, are located generally in the south-central part of the county. Wyckoff (1960 population 11,200) is primarily an upper middle-class residential community located in the north-west section of the county.

The effect of the merger on competition will be felt chiefly in the Wyckoff area. Peoples' closest office to First National, at Glen Rock, is 6 miles southeast of Wyckoff. Between these 2 offices are located 3 offices of competing banks. While there is some existing competition between First National and the Glen Rock branch of Peoples which will be eliminated when the proposed merger is effected, a wide variety of alternative sources for bank services and credit will remain. The transaction will replace First National with an office of a bank offering a far broader range of banking services, some of which are already in demand, as demonstrated by the number of Wyckoff residents who now bank outside the town. It appears highly probable that the need for more and expanded

For notes see p. 271.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1963¹—Continued

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY BOARD OF GOVERNORS—Cont.

services will grow as the area itself grows. It does not appear probable that the increased competition afforded by placing an office of Peoples directly in Wyckoff will have an adverse effect on the remaining banks which now have offices in the area.

No. 8—The Commercial and Savings Bank of St. Clair, St. Clair, Mich. <i>to consolidate with</i>	13.7	1	} 2
Citizens State Bank of Emmett, Emmett, Mich., and change its title to The Commercial and Savings Bank of St. Clair County.	2.7	1	

SUMMARY REPORT BY ATTORNEY GENERAL (1-25-63)

Commercial and Savings Bank of St. Clair, with total assets of \$13.7 million, total deposits of \$12.6 million, and net loans and discounts of \$6.8 million, proposes to absorb Citizens Bank of Emmett. The latter bank is the sole banking facility in the village of Emmett and had, as of November 30, 1962, total assets of \$2.7 million, total deposits of \$2.4 million, and net loans and discounts of \$1.1 million.

The consolidation would distort the competitive balance presently existing between the banks located in Citizens Bank's service area by establishing a dominant bank in an area heretofore serviced by 4 smaller competitive institutions. The resultant instability would have an adverse effect on competition.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (2-27-63)

The single office of Commercial Bank is the only bank in St. Clair (1960 city population 4,500). St. Clair, which is about 50 miles north of Detroit and 12 miles south of Port Huron (1960 population 36,100), is situated on the west bank of the St. Clair River, part of the international boundary between Canada and the United States. The service area of Commercial Bank extends 5 to 9 miles from St. Clair and contains a population of 15,000. The sole office of Citizens Bank is the only bank in Emmett (1960 village population 283; service area population 5,000). Emmett, which is also in St. Clair County, is 21 miles northwest of St. Clair and 19 miles west of Port Huron. The service area of Citizens Bank extends in a radius of 6 to 9 miles from Emmett. The service areas of Commercial Bank and Citizens Bank do not overlap and there is little, if any, competition between the 2 banks.

Consummation of the transaction would provide a basis for improved

For notes see p. 271.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1963¹—Continued

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY BOARD OF GOVERNORS—Cont.

earning power for the office of Citizens Bank and would solve the management problem that recently arose with the death of the principal executive officer of Citizens Bank. While there appears to be little need for increased banking services in Emmett, any demand therefor would be met by the resulting bank. Consummation of the consolidation would have a negligible effect on competition in the area.

No. 9— Union Trust Company of Maryland, Baltimore, Md. <i>to merge with</i>	325.9	38	} 39
Peoples Loan, Savings and Deposit Bank, Cambridge, Md.	10.3	1	

SUMMARY REPORT BY ATTORNEY GENERAL (1-2-63)

This merger between a \$300 million Baltimore bank and the largest independent bank in the city of Cambridge and Dorchester County would leave but 2 independent banks remaining in the city and county respectively. Furthermore, the portion of total deposits in the city accounted for by independent banks would be reduced from approximately 84 per cent to approximately 48 per cent. The portion of total deposits in the county accounted for by independent banks would be reduced to approximately 44 per cent.

In addition, effectuation of this merger and the increased concentration inherent therein would promote future mergers involving the remaining 2 independent banks. Should this come to pass, the city of Cambridge and Dorchester County would be left with no independent banks. All control would be centered outside the relevant service area.

If this merger is effectuated, control of over 55 per cent of total deposits and total assets of all banks in Dorchester County will be in the hands of 2 banks—Union Trust, with over \$300 million in assets, and Maryland National, with over \$600 million in assets.

The remaining independent banks in the city of Cambridge and Dorchester County will be at a competitive disadvantage vis-a-vis the branch offices of these banks.

Finally, effectuation of the merger would eliminate a degree of competition presently existing between Peoples Loan and Union Trust.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (3-1-63)

Peoples Loan, Savings and Deposit Bank is located in Cambridge (population 12,000), on the Eastern Shore Peninsula of Maryland where Union operates 5 branches—2 in the town of Salisbury and 1 each in

For notes see p. 271.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1963¹—Continued

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY BOARD OF GOVERNORS—Cont.

Easton, Hillsboro, and Trappe. Cambridge, the one community significantly affected, is the seat of Dorchester County and the second largest city in the Eastern Shore section. It is situated in the center of a prosperous agricultural region. Food packing was formerly the dominant industry, resulting in a seasonal employment pattern, but new industries entering the area have brought, and are continuing to bring, year-round manufacturing to Cambridge and its environs. The Cambridge Harbor Project includes deepening of the channel of the Choptank River and the constructing of a pier which will make it possible for large seagoing freighters to load and unload at Cambridge, encouraging and fostering the trend toward industrialization. A bridge-tunnel now under construction will connect Norfolk, Virginia, to the southern tip of the Eastern Shore Peninsula and should accelerate the development of the Eastern Shore area.

Cambridge is now served by 3 local banks and by a branch of the largest bank in Maryland, the Maryland National Bank, Baltimore. None of the 3 local banks has a lending limit in excess of \$60,500, none operates a trust department, nor does any make available many of the services needed in an expanding area. Until the trend toward industrialization began, these local banks were adequate to serve the banking needs of the community. Growth and development of the area, which seems well assured, indicates significant need for those services which can be supplied only by large banks. While a large bank now operates an office in Cambridge, growth would be encouraged by permitting another to expand into the Cambridge area. The existence of the Union Trust Company office at Trappe, 7 miles away, is not a convenient alternative source of services for larger customers, as it is not feasible to retain an adequate staff in Trappe, which has a population of only 350.

There is little competition existing between Union Bank, third largest in the State, and Peoples Bank, and consummation of the transaction would not have an adverse effect on the other banks operating in Cambridge. The earnings of Peoples have been only fair, and consummation of the transaction would establish a basis for improved earnings. Cambridge is experiencing industrial and commercial expansion, and prospects for growth of the community and surrounding area are regarded as good. This merger would aid this development through the expansion of banking services in Cambridge and thus benefit the community as a whole.

For notes see p. 271.

**21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION
OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY
THE BOARD OF GOVERNORS DURING 1963¹—Continued**

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated
No. 10—The Elyria Savings and Trust Company, Elyria, Ohio.	50.8	7	} 9
<i>to consolidate with</i> The Grafton Savings and Banking Company, Grafton, Ohio.	8.5	2	

SUMMARY REPORT BY ATTORNEY GENERAL (2-4-63)

The proposed consolidation of Grafton Savings and Elyria Savings would appear to have adverse effects upon competition.

Grafton Savings offers limited banking services, and is the only bank serving the small towns of Grafton and LaGrange, Ohio, located about 7 miles from Elyria Savings' main office.

The proposed consolidation would bring together the second largest and smallest of 5 banks competing in the area served by the consolidating banks. Thus a degree of competition existing between the consolidating banks would be eliminated, and the number of competing institutions in the Elyria-Grafton area will be reduced from 5 to 4.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (3-12-63)

Elyria Savings' main office and 3 of its branches are located in Elyria (1960 population 44,000), a diversified industrial center in Lorain County (1960 population about 218,000), about 25 miles west of Cleveland. Its 3 other branches are located within 17 miles of Elyria. There are 2 other banks in Elyria, 1 larger and the other smaller than Elyria Savings. Grafton Savings' main office is in Grafton (1960 population 1,700 and trade area population of 10,000), 7 miles southeast of Elyria. The single branch of Grafton Savings is 4 miles southwest of Grafton in LaGrange (1960 population 1,000). The Grafton area is experiencing considerable residential growth, and the prospects for industrial growth are favorable.

Although the proposed consolidation would eliminate such competition as exists between the 2 banks, this would be more than offset by resulting benefits. The transaction would solve the management succession problem at Grafton Savings, strengthen earnings prospects of the continuing bank, and provide both greater banking resources and broader banking services in the growing Grafton-LaGrange area. There would be no significant competitive effects on other banks in Lorain County.

For notes see p. 271.

**21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION
OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY
THE BOARD OF GOVERNORS DURING 1963¹—Continued**

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated
No. 11— The Sullivan County Trust Company, Monticello, N.Y. <i>to merge with</i>	15.0	2	}
The National Bank and Trust Company of Port Jervis, Port Jervis, N.Y., and change its title to Intercounty Trust Company.	6.4	1	

SUMMARY REPORT BY ATTORNEY GENERAL (1-18-63)

Sullivan Trust, a small independent banking institution with total assets of \$15 million and 1 branch office, proposes to merge with Port Jervis National, which has total assets of \$6.4 million, and to operate the acquired bank as a branch office. Sullivan Trust is ranked last among the competitors in its service area, and has made no acquisitions since its charter in 1923, except for the opening of a branch office at Wurtsboro in 1951. The effect of this merger on competition would not be substantially adverse in view of the relatively minor degree of competition being eliminated and the continued existence of independent competing banks.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (3-22-63)

The head office of Sullivan Trust is in the Village of Monticello (permanent population 6,000), about 90 miles from New York City. It is located in the foothills of the Catskill Mountains and with the surrounding resort area enjoys a 16-fold increase in population from summer tourist trade. The single branch of Sullivan Trust is the only banking facility in Wurtsboro (population about 700, with a large increase in the summer), which is about 12 miles southeast of Monticello in Sullivan County. Port Jervis National is in the city of Port Jervis (population 9,300). Located in Orange County, Port Jervis is 25 miles south of Monticello and 18 miles southwest of Wurtsboro. Monticello, Wurtsboro, and Port Jervis constitute 3 separate service areas that do not overlap, due to the sparsely populated, heavily wooded central part of the large triangle formed by the 3 localities.

Consummation of the merger would strengthen the capital of Sullivan Trust and solve the management and earnings problems of Port Jervis National. The resources of the resulting bank should be helpful in meeting the needs of residents of the service area of each of the merging banks. There is virtually no competition between the participating banks, and the effect of this merger upon banking competition in the area of each bank should not be adverse.

For notes see p. 271.

**21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION
OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY
THE BOARD OF GOVERNORS DURING 1963¹—Continued**

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated
No. 12— Bank of Idaho , Boise, Idaho.	73.7	13	14
<i>to merge with</i> Panhandle State Bank , Coeur d'Alene, Idaho.	3.8	1	

SUMMARY REPORT BY ATTORNEY GENERAL (2-28-63)

Banking in the State of Idaho is marked by a high degree of concentration, with 4 banks—including the Idaho Bank—controlling 87 per cent of the total deposits and 81 of the 91 branch banks within the State. The Panhandle Bank represents approximately only 0.5 per cent of the banking business in the State, but its acquisition by Idaho Bank, the third largest bank (9.9 per cent), increases concentration to 87.5 per cent and eliminates another independent bank. In the service area of the Panhandle Bank, i.e., Kootenai County, Idaho, 3 banks with 4 offices presently compete. These banks include the Idaho Bank (1.7 per cent), Idaho First National Bank (81.0 per cent), and Panhandle Bank (17.3 per cent). Although Idaho Bank claims that no competition presently exists between it and Panhandle Bank so that none would be eliminated by the merger, potential competition between the 2 would be eliminated. The only independent bank would be taken out of the market, and the county would be serviced by 4 branches of 2 banks, the main offices of which would be located almost 300 miles to the south in Boise, Idaho. However, in view of the serious management problem facing the selling bank, its relatively small size, and the lack of substantial competition to be eliminated, the effect of the merger on competition would not be seriously adverse.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (4-15-63)

The main office of Idaho Bank (a subsidiary of Western Bancorporation, a registered bank holding company) and 3 of its branches are either in or near Boise, the State capital (1960 population 34,500). Five of Idaho Bank's branches are in southern Idaho, and its 4 remaining branches are in communities in the northern part of the State. The sole office of Panhandle Bank is the only independent banking facility in Coeur d'Alene (1960 population 14,000). The largest city in northern Idaho, Coeur d'Alene, is the seat of Kootenai County (1960 population 30,000), and is about 400 miles north of Boise and 30 miles east of Spokane, Washington. The economic prospects of Kootenai County are favorable. The county provides 15 per cent of the State's lumber production, and, in addition to farming and dairying, resort and tourist trade in the county is increasing in importance.

For notes see p. 271.

**21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION
OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY
THE BOARD OF GOVERNORS DURING 1963¹—Continued**

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY BOARD OF GOVERNORS—Cont.

Effectuation of the proposed merger would enhance the earnings prospects of the office of Panhandle Bank and solve its management succession problem. While the banking needs of the Coeur d'Alene area are apparently being adequately met, the resulting bank would provide customers of Panhandle Bank with certain banking services not now available there. Competition between the 2 participating banks is not of significant magnitude; and the over-all effect upon banking competition in the area should not be adverse. In fact, the proposal would improve the resulting bank's ability to compete with the 2 largest banks in Idaho. These 2 banks, together, hold about 66 per cent of the commercial bank deposits in Idaho and both have an office in Coeur d'Alene.

No. 13— Norfolk County Trust Company Brookline, Mass. <i>to consolidate with</i>	132.4	22	} 24
Wellesley Trust Company, Wellesley, Mass.	9.1	2	

SUMMARY REPORT BY ATTORNEY GENERAL (2-7-63)

The consolidation of the Wellesley Trust, which operates a main office and 1 branch, with the Norfolk Trust would increase the concentration of banking interests in the Boston metropolitan area held by Baystate Corporation, a bank holding company which presently owns a majority stock interest in Norfolk Trust, as well as in 8 other banks in that area, and would add to the concentration of banking resources in that area in a few hands. It would also eliminate a degree of competition existing between the consolidating institutions. Its effect on competition would be adverse.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (4-19-63)

Norfolk Trust (a subsidiary of Baystate Corporation, Boston, a registered bank holding company) has its main office and 1 branch in Brookline (1960 population 54,000). Brookline, in Norfolk County, is contiguous to Boston in Suffolk County. The 20 other branches operated by the bank also are in Norfolk County, most of which lies within the Boston Standard Metropolitan Statistical Area (SMSA). The trade area of Norfolk Trust, which is primarily industrial and residential, and which contains over 1 million people, includes all of Norfolk County and portions of Suffolk, Middlesex, and Plymouth Counties.

Both offices of Wellesley Trust are in Wellesley (1960 population 26,000), which is situated in Norfolk County 13 miles southwest of Boston and 9 miles west of Brookline. Wellesley is a relatively high

For notes see p. 271.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1963¹—Continued

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY BOARD OF GOVERNORS—Cont.

income area which is chiefly residential. In addition to Wellesley, the service area of Wellesley Trust (with over 181,000 inhabitants) includes Needham and a small part of Dover, both of which also are in Norfolk County, and Newton, Weston, and Natick, which are parts of Middlesex County. All of Wellesley Trust's service area, which had a population increase of 26 per cent during the past decade, lies within the Boston SMSA.

Consummation of the proposal would strengthen management, expand the banking services, and improve the earnings and growth prospects for the offices of Wellesley Trust. The benefits which would accrue from the transaction would more than offset the elimination of the modest amount of competition between the participating banks. Effective competition in the areas concerned may be expected to continue from the several offices of noncommercial banking institutions which have substantial resources. The proposed consolidation should have no adverse effect upon these institutions or upon any of the commercial banks with offices in the areas involved and should provide more effective competition in the service area of Wellesley Trust.

No. 14— The Bank of Virginia, Richmond, Va. <i>to merge with</i> The Farmers Bank of Dinwiddie, Dinwiddie, Va.	176.1	21	} 22
	3.4	1	

SUMMARY REPORT BY ATTORNEY GENERAL (3-28-63)

Virginia Bank, having assets of \$176 million and 21 offices and facilities throughout Virginia, seeks to acquire Dinwiddie Bank, a unit bank with assets of \$3.4 million, located 11 miles from the nearest office of Virginia Bank in rural Dinwiddie County. The acquiring bank is a subsidiary of Virginia Commonwealth Corporation, a bank holding company which owns in excess of 90 per cent of 4 other Virginia banks.

There is presently a degree of direct competition between the merging banks due to the distance between their offices. Moreover, a slight amount of each bank's business is drawn from the service area of the other. The merger will not significantly increase banking concentration either in terms of Virginia Bank's share of the market or the share held by banks controlled by Virginia Commonwealth Corporation. However, it appears that the entrance of Virginia Bank into Dinwiddie County may have adverse competitive effects on the other commercial banks in the area. It also represents the disappearance of still another independent bank in Virginia as a result of acquisition by a large institution. For these reasons we believe the effect of the merger on competition will be slightly adverse.

For notes see p. 271.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1963¹—Continued

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (5-24-63)

The sole office of Dinwiddie Bank is located in Dinwiddie (population 400), the seat of Dinwiddie County (population 22,183), about 35 miles south of Richmond and 18 miles southwest of Petersburg. Because the two senior officers are past the normal retirement age and are in rather poor health, Dinwiddie Bank is faced with a management succession problem, and prospects for solution by means other than merger are not favorable.

Virginia Bank, a subsidiary of Virginia Commonwealth Corporation (a bank holding company controlling 4 other banking affiliates and deposits of about \$191 million), is the fifth largest bank in Virginia, holding 4 per cent of total bank deposits in the State. Virginia Bank's nearest office to Dinwiddie Bank is its Petersburg branch. Competition exists between them but it is negligible in volume. Dinwiddie Bank has concentrated its efforts primarily in Dinwiddie and the nearby area and has not been a particularly effective competitor in this fairly small area.

Consummation of the proposed merger would eliminate only a negligible amount of competition and will not have adverse competitive effects on smaller area banks. It will solve a management succession problem confronting Dinwiddie Bank and provide a broader range of banking services in the Dinwiddie area. The resources to be gained by the proposed merger would be too small to alter significantly Virginia Bank's competitive position in the State as a whole or in the areas it serves.

No. 15— Chemical Bank New York Trust Company, New York, N.Y. <i>to acquire the assets and assume the liabilities of</i> Bank of Rockville Centre Trust Company, Rockville Centre, N.Y.	5,183.0 43.0	112 3	} }	115
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SUMMARY REPORT BY ATTORNEY GENERAL (4-15-63)

The Department of Justice is of the opinion that this acquisition would have serious adverse effects on competition.

Chemical is the fourth largest bank in New York City and fifth largest in the nation, with total assets of \$5.2 billion, total loans of \$2.5 billion, and total capital, surplus, and undivided profits of \$446.6 million. It conducts an extensive commercial bank and trust business through 109 offices in New York City, 1 office in Westchester County, and 3 offices (2 of which have been approved but are not yet open for business) in Nassau County. A substantial portion of Chemical's present size is due to its acquisitions in 1954 of the Corn Exchange Bank Trust Company,

For notes see p. 271.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1963¹—Continued

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

SUMMARY REPORT BY ATTORNEY GENERAL—Cont.

with total deposits of \$796.6 million, and in 1959, of New York Trust Company, with total deposits of \$665.6 million. On April 30, 1962, Chemical's application for merger with Long Island Trust Company, Garden City, New York, was denied by the Board of Governors of the Federal Reserve System under Section 18(c) of the Federal Deposit Insurance Act, as amended by the Bank Merger Act of 1960, as not being in the public interest.

Rockville Bank is a profitable and growing bank with its main office in Rockville Centre, 1 branch in Franklin Square, about 3 miles north of the main office, and another in South Oceanside, about 2 miles south of Rockville. It has total assets of \$43 million, total loans of \$20.9 million, and total capital, surplus, and undivided profits of \$2.8 million. Rockville Bank's net current operating income in 1962 was 11.3 per cent of stated capital; in the period 1950-62 Rockville Bank recorded increases of 404 per cent in total loans, 169 per cent in total deposits, and 96 per cent in capital accounts, none of which was as a result of mergers.

The proposed acquisition would eliminate a substantial volume of actual and potential competition between the 2 banks since Chemical already derives substantial business from the communities served by Rockville Bank (partly because many Rockville residents commute to New York City) and this will undoubtedly increase now that Chemical has approval for a branch office just 2.9 road miles from Rockville Bank's Franklin Square office and 6.2 miles from its main office. Since Chemical and First National City Bank in New York, as well as Meadow Brook National Bank and Franklin National Bank—by far the largest banks on Long Island—each have 1 or more branches in Rockville Bank's area, residents of that area cannot be said to depend on approval of this acquisition for access to the full line of services and the competition which such banks can offer. Approval of the acquisition would undoubtedly generate pressure from both Chemical's New York City competitors and Rockville Bank's competitors for equitable treatment on similar applications. Such applications would have considerable merit in view of the fact that Chemical already has more branch locations than all but 2 New York City banks. Some small local competitors of Rockville Bank might find irresistible the resulting pressure to resort to protective mergers when confronted with the vast resources of Chemical. Chemical concedes that the acquisition might have the unfavorable consequence of slowing down the growth of 1 of those competitors, Oceanside National Bank, whose main office would be located between 2 of the new Chemical branches.

In our view the reasons given by the Board of Governors in 1962 in denying Chemical's application are also applicable to the present proposal.

For notes see p. 271.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1963¹—Continued

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (5-27-63)

This proposal involves the acquisition by Chemical Bank, the fifth largest bank in the United States and the fourth largest in New York City, of the relatively small Rockville Bank, which holds slightly more than 2 per cent of the IPC³ deposits and operates 3 of the 173 banking offices of Nassau County. Rockville Centre (population about 26,000) is a rather fully developed residential village located in the town of Hempstead in southern Nassau County about 5 miles east of Queens and 20 miles east of Manhattan. In addition to its main office, Rockville Bank operates a branch at the southern edge of Oceanside about 2 miles south, and a branch in North Malverne about 3 miles north of Rockville Centre. The areas served by these branches are also primarily residential, with local shopping centers and shops similar to those found in Rockville Centre. Management of Rockville Bank has followed a conservative policy, refraining from expanding into new branch locations, and has concentrated the bank's lending within limited fields. Its loans have been restricted primarily to real estate mortgages and consumer credit rather than commercial and other types of credit. Net earnings of the bank declined significantly in 1962 and were below the average of comparable size banks in the Second Federal Reserve District.

Chemical currently has 2 offices in operation in the County—1 in Massapequa, 12 miles east of Rockville Centre, and 1 at West Hempstead, 3 miles from Rockville Centre's North Malverne office. Only Chemical's latter office can be considered directly competitive in Rockville Bank's service area, and competition between the 2 banks is nominal.

Rockville Bank draws 77 per cent of its deposits from an area which includes the communities of Rockville Centre, Oceanside, Franklin Square, and West Hempstead, and 81.5 per cent of its deposits from a wider area which includes the 4 additional communities of Lynbrook, Lakeview, Malverne, and Island Park. Both offices of the small Oceanside National Bank that compete with Rockville Bank are located less than 2 miles south of Rockville Centre. The 2 offices of Community Bank, Lynbrook, also a small bank, are located about 1 mile west of Rockville Centre. Its principal competition comes from 2 branches of the large Meadow Brook National Bank and not from Rockville Bank. The balance of the 15 commercial banking offices located in the 4-community area (and of the 21 in the 8-community area) represents branches of larger Long Island or New York City banks. Franklin National Bank and Meadow Brook National Bank together have 8 offices and hold a relatively high per cent of the total deposits of the commercial banking offices in the 4-community area.

With the passage of the New York Omnibus Banking Act in 1960, the larger New York City banks began to acquire outlets in Nassau County in an effort to serve a wider economic area. The banks first tried to achieve this objective in part by applications for de novo branches. However, what

For notes see p. 271.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1963¹—Continued

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY BOARD OF GOVERNORS—Cont.

is regarded as a "fully-banked" situation in parts of Long Island and the "home-office protection" afforded by the New York banking law have imposed limitations on this route. In 1961, Chemical sought to merge with Long Island Trust Company, Garden City, New York, the third largest bank on Long Island with deposits of \$140 million and 14 offices. In marked contrast to that situation, the present case involves a bank with deposits of less than \$40 million and only 3 offices. In rejecting Chemical's 1961 application, the Board's Statement (*Federal Reserve Bulletin of May 1962, p. 548*) pointed out that future merger applications were "not fore-closed." Rather, the Board said that "approval of future merger applications may well be required" by positive factors discussed therein. Those factors are persuasive in this case. Furthermore, in that Statement, the Board indicated that consummation of the proposal would cause "a substantial altering of the banking structure in the area" and "would bring sudden adverse competitive effects." Such consequences could not reasonably be anticipated in connection with the present proposal. The Board concludes that broad considerations indicate approval.

No. 16—Sussex County Trust Company, Franklin, N.J. <i>to merge with</i>	13.3	1	} 2
Farmers National Bank, Sussex, N.J. and change its title to The Bank of Sussex County.	11.7	1	

SUMMARY REPORT BY ATTORNEY GENERAL (12-21-62)

Sussex Trust, with a 120 per cent deposit increase, and Farmers National, with an 81 per cent deposit increase, have shared in the rapid economic growth of Sussex County over the past 10 years. The economic prospects of the County are excellent. The merger, however, would reduce the number of available independent commercial banks in the county at a time when it appears that more, rather than fewer, banks are needed.

There are 6 competitive commercial banks located in Sussex County. At the present time Sussex Trust ranks third, and Farmers National fourth, in size. Sussex Trust, if the merger is approved, would be the largest commercial bank in Sussex County in banking offices, total assets, total deposits, net loans and discounts, and capital accounts. The merger would inhibit competition in the greater county area and eliminate all competition presently existing between the participating banks. Thus, the effect of the merger on existing and potential competition would be adverse.

For notes see p. 271.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1963¹—Continued

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (5-29-63)

Sussex County (1960 population 49,000), in which both banks are located, is situated 50 miles from New York City in northwestern New Jersey adjoining Pennsylvania and New York. While at present principally rural, the residential and commercial growth of the county has been rapid in recent years and such growth is expected to continue at an accelerated pace in future years. The county is served by 6 local commercial banks, 1 of which operates 1 branch. Sussex Trust serves a predominantly residential and commercial area with an estimated population of 14,000. Farmers National, located 8 miles northwest of the main office of Sussex Trust, has a service area that is agricultural, residential, and commercial, and has a population of 5,000.

The merger of the 2 institutions would permit Sussex Trust to attain a better balanced executive group than is now possessed by either and thus would be a step toward assuring competent management succession. It also would result in improved banking services to local businesses in Sussex County and provide a basis for improved bank earnings.

While competition existing between the 2 banks would be eliminated by their merger, the over-all effect on competition in the county, both immediate and prospective, would not be unfavorable. Sussex Trust would be able to compete more effectively with the now largest bank in the county and also with the even larger banks in adjoining counties.

No. 17— The Bank of Virginia, Richmond, Va. <i>to merge with</i>	176.1	21	} 24
The Bank of Henrico, Sandston, Va.	4.8	3	

SUMMARY REPORT BY ATTORNEY GENERAL (5-2-63)

The proposed merger of Henrico Bank and Virginia Bank brings together 2 banks that have been so closely affiliated that competition between them has been negligible. When Henrico Bank was organized, Virginia Bank secured a friendly investor who supplied two-thirds of the required capital, and it was the intention of Virginia Bank to acquire the Henrico Bank as soon as permissible under the then laws of Virginia. They are both presently subsidiaries of and controlled by Virginia Commonwealth Corporation, a registered bank holding company.

The effect of this proposed merger will be a change in form rather than a change of substance.

For this reason the effect of the merger on competition will not be significantly adverse.

For notes see p. 271.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1963—Continued

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (6-17-63)

Henrico Bank, which began operations on April 15, 1957, was organized with the understanding at the time that it would be merged with Virginia Bank after operating for at least 5 years, the period necessary under then existing State law. Under an amendment to the law, effective June 29, 1962, the prescribed waiting period was eliminated. Virginia Standard Corporation, then an affiliate of Virginia Bank, on February 2, 1961, acquired two-thirds stock interest in Henrico Bank. When Virginia Commonwealth Corporation, a bank holding company, was established in 1962 (*Federal Reserve Bulletin* of November 1962, p. 1442), 1 of the subsidiary banks was Bank of Virginia. The holding company thereby acquired control of Virginia Standard Corporation. Thereafter, the balance of the stock of Henrico Bank, except for qualifying shares sold to bank directors under repurchase agreements, was acquired by Virginia Commonwealth Corporation.

The proposed merger would unite 2 banks which are subsidiaries of a bank holding company, are otherwise closely related, and between which there is no significant competition. The merger would increase efficiency and provide additional services in the area served by Henrico Bank.

The merger would increase Virginia Bank's share of total deposits in the State by only $\frac{1}{10}$ of 1 per cent, and its rank would be unchanged. Thus, the resources to be gained would be too small to alter its competitive position in the State, as a whole, or in the primary areas it now serves. Since both banks are owned by Virginia Commonwealth Corporation, as previously noted, the proposed merger would increase neither the size nor area representation of the holding company.

No. 18—Wilmington Trust Company, Wilmington, Del. <i>to acquire the assets and assume the liabilities of</i>	406.0	15	} 16
Camden Office of Baltimore Trust Company, Selbyville, Del.	2.8	1	

SUMMARY REPORT BY ATTORNEY GENERAL (4-19-63)

The proposed acquisition of certain assets and assumption of liabilities of the Camden Office of Baltimore Trust by Wilmington Trust would have a significant adverse effect upon competition.

The acquisition would replace a locally oriented bank by a State-wide bank in the Dover area. The 2 remaining local banks in the area may well be forced to unite with each other or other banks to continue in operation. The dominance and expansion of Wilmington Trust will be enhanced and continued. Finally, the high concentration of IPC³ deposits and loans among the 4 largest banks in the State would be augmented.

For notes see p. 271.

**21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION
OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY
THE BOARD OF GOVERNORS DURING 1963¹—Continued**

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (7-23-63)

The Camden Office of Baltimore Trust is the only banking facility in Camden (1960 population 1,125), which is centrally located in Kent County about 4 miles south of Dover (1960 population 7,250), the capital of Delaware and seat of the county. Since the end of World War II, the Camden-Dover area has been changing from an essentially agricultural environment to an area of growing population and industrialization. The population of the area has about doubled in the past decade. While the Camden Office served the community fairly well when it was essentially an agricultural one, the conservative operation of the branch prevented it from satisfying frequent requests involving broader bank services and specialized credits. The types of service and credit increasingly required by the changing and expanding Camden-Dover area are more comprehensive than Baltimore Trust is prepared to make available at its Camden Office.

Substitution of a branch of Wilmington Trust, the largest commercial bank in Delaware, for the unaggressive, limited-service branch of Baltimore Trust in Camden, would provide better banking services in Camden and contribute beneficially to the changing and expanding Camden-Dover area. No present competition exists between the Camden Office and Wilmington Trust, and the potential competition between them which would be eliminated would not be significant. Wilmington Trust, which would acquire 0.3 per cent of the total deposits of commercial banks in Delaware, would be able to compete for the first time in the Camden-Dover area with the other 3 largest Delaware banks.

No. 19— Bankers Trust Company , New York, N.Y. <i>to acquire the assets and assume the liabilities of</i>	3,829.0	55	} 56
The First National Bank of Farmingdale , Farmingdale, N.Y.	35.6	1	

SUMMARY REPORT BY ATTORNEY GENERAL (7-5-63)

The proposed acquisition represents the replacement of a relatively small independent bank serving the Farmingdale area of Long Island by a branch of a very large New York City bank. Because of the proximity of Farmingdale to New York City, a degree of competition exists between the banks involved which would, of course, be eliminated by the acquisition. While the proposed new branch office of Bankers Trust would be able to offer the larger banks in the Farmingdale region stronger competi-

For notes see p. 271.

**21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION
OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY
THE BOARD OF GOVERNORS DURING 1963—Continued**

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

SUMMARY REPORT BY ATTORNEY GENERAL—Cont.

tion than First Farmingdale is presently able to do, other relatively small banks in the area would face increasing difficulty in effectively competing with the branch of Bankers Trust. Thus, this acquisition represents the elimination of still another independent bank in Long Island and may lead to still further elimination of small independent banks, ultimately resulting in the banking resources of the area resting in the hands of a few very large institutions.

For these reasons, we believe that the effect of this acquisition on competition would be adverse.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (7-26-63)

First Farmingdale serves an area which includes the incorporated village of Farmingdale proper, located in the county of Nassau on the Nassau-Suffolk County line, and the surrounding unincorporated areas of Bethpage, Old Bethpage, Plainedge, parts of North Massapequa and Plainview, South Farmingdale, East Farmingdale, and the southern part of Melville. The population of the area served by the bank has been increasing rapidly, in line with recent growth in the 2 counties, and is probably well above 65,000. A large amount of vacant land properly zoned and suitably located remains available for both industrial and residential development, so that continued growth can be anticipated over a period of some years to come, even though Farmingdale proper has been fairly well built up.

The deposits of First Farmingdale have grown at a rate markedly less than that of its competitors. Although all of its competitors operate branch facilities, First Farmingdale has made no effort to expand into branch locations. Lending policies have been unaggressive, and the bank has failed to provide the broader range of banking service needed in an expanding area. The bank is now confronted with a potentially serious management succession problem.

Approval of the acquisition will replace 1 of the 2 banking offices located in Farmingdale proper, which holds 31 per cent of all deposits in banking offices in the service area, with an office of a bank equipped to provide facilities suited to the growth which can be foreseen, both immediately and in the long run. Little competition exists between First Farmingdale and Bankers Trust as their nearest offices are almost 20 miles apart, with the intervening area being quite heavily populated and containing many banking offices. Consummation of the proposal should increase competition in the Farmingdale area, and a serious management succession problem will be averted. Moreover, the merger of the 2 banks will remove statutory "home-office protection" from Farmingdale proper, so that additional bank branches may be established there.

For notes see p. 271.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1963¹—Continued

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated
No. 20— The Fifth Third Union Trust Company, Cincinnati, Ohio. <i>to acquire the assets and assume the liabilities of</i>	409.0	30	} 31
The Citizens Bank of St. Bernard, St. Bernard, Ohio.	10.9	1	

SUMMARY REPORT BY ATTORNEY GENERAL (5-15-63)

Commercial banking in the area served by these banks is already highly concentrated, with 4 banks presently accounting for 94.8 per cent of all IPC³ deposits and 94.5 per cent of all loans. This situation has, to a large extent, resulted from prior acquisitions, in which Fifth Third and the other large Cincinnati banks were involved. The proposed acquisition represents another step toward the eventual control of banking in the metropolitan Cincinnati area by 4 banks and would thus have an adverse competitive effect.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (8-6-63)

Cincinnati, the seat of Hamilton County (population 864,000), is located in the southwestern part of the State on the Ohio River. It is the second largest city in Ohio and has a population of about 503,000. St. Bernard (population about 7,000) is located 5 miles north of downtown Cincinnati. It is surrounded on 3 sides by Cincinnati and on the fourth by Elmwood Place, another Cincinnati suburb. Until recently the area served by Citizens was chiefly residential. It is now becoming increasingly industrial in character. Citizens, however, caters primarily to individuals, as opposed to business and industry, so that the changing nature of the community could diminish the future prospects of that bank. Citizens has failed to grow, and since 1959 its average total deposits have not changed significantly.

The acquisition of Citizens by Fifth Third would not adversely affect competition in the St. Bernard-Cincinnati area to any significant degree. It would provide expanded banking services and additional resources to meet the needs of the commercial and industrial concerns in the changing St. Bernard area and solve Citizens' management succession problem.

For notes see p. 271.

**21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION
OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY
THE BOARD OF GOVERNORS DURING 1963¹—Continued**

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated
No. 21— Asbury Park and Ocean Grove Bank , Asbury Park, N.J. <i>to merge with</i>	39.4	5	} 8
New Jersey Trust Company of Long Branch , Long Branch, N.J., and change its title to New Jersey Trust Company, Asbury Park, N.J.	18.3	3	

SUMMARY REPORT BY ATTORNEY GENERAL (6-14-63)

The proposed merger of Asbury Park and Ocean Grove Bank with New Jersey Trust would appear to have an adverse effect upon competition.

The proposed merger would eliminate an independent banking facility and an alternative source of banking services. It would also add to the concentration of banking resources in Monmouth County, which concentration has resulted in large part from a series of mergers and acquisitions on the part of larger banks in the county.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (8-16-63)

Monmouth County, in which both institutions are located, is experiencing a substantial change in its economy and growth in its population. In the past, the area depended largely on summer resort activity in the coastal area and diversified farming in the interior. While these activities continue to be important, commerce and industry are expanding rapidly.

The merger will permit the resulting bank with its substantially higher lending limit, expanded services, and improved management to employ its funds more fully in the local market. It will place the resulting bank in a better position to contribute to the developing economy of this rapidly expanding area. In both Asbury Park and Long Branch, strong and effective local competition will remain, while in the county a variety of banking and other financial institutions will provide strong competition with respect to a wide range of services.

No. 22— Wells Fargo Bank , San Francisco, Calif. <i>to merge with</i>	3,205.5	158 ⁴	} 164
State Center Bank , Fresno, Calif.	29.1	6	

SUMMARY REPORT BY ATTORNEY GENERAL (6-5-63)

Wells Fargo, California's third largest bank, proposes to absorb its eighth commercial bank in less than 10 years. A total of \$728 million in deposits, \$411.8 million in loans, and 29 banking offices are directly

For notes see p. 271.

**21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION
OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY
THE BOARD OF GOVERNORS DURING 1963¹—Continued**

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

SUMMARY REPORT BY ATTORNEY GENERAL—Cont.

attributable to past acquisitions. Wells Fargo and its 146 branch offices are operative in 23 counties in northern California and had, as of December 28, 1962, total assets of \$3.2 billion, total deposits of \$2.9 billion, and net loans and discounts of \$1.8 billion. The merging bank and its 5 branches are located in Fresno County and had, as of December 28, 1962, total assets of \$29.1 million, total deposits of \$26.3 million, and net loans and discounts of \$12.3 million.

Commercial banking in California is highly concentrated. The 3 largest California banks, alone, control 65.5 per cent of total deposits, 66.8 per cent of total loans, and 59.6 per cent of total banking offices. The 9 largest have 91.1 per cent and 92.0 per cent and 81.5 per cent, respectively. The expansionist pattern, through mergers and acquisitions, by large California banks has seriously increased concentration in California.

It is our view that the proposed demise of the largest independent bank in Fresno County and the entry, in its place, of another State-wide bank would not only eliminate the competition presently existing between the participating banks, but may seriously endanger the remaining independent Fresno County banks. Against the background of the existing concentration of banking in California the merger may have an adverse effect on existing and potential competition in Fresno County and in the State of California.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (8-19-63)

The city of Fresno (population of 134,000), in which State Center has its main office, is located in the San Joaquin Valley, geographically at the center of California, about 185 miles from San Francisco and 219 miles from Los Angeles. State Center's rapid growth since its organization in 1955 is attributable to its president's abilities and influence in obtaining the accounts of many large commercial customers, the volume of which is unusual for a bank of this size. However, he is well past normal retirement age, is in poor health, and plans to retire in the near future.

The management succession problem at State Center, which gives rise to the application, and which threatens to affect its continued progress, would be resolved by merger of that bank with one equipped to provide those services required by larger customers. The convenience and needs of the clientele which State Center has chosen to serve would be facilitated by effectuation of the proposal, and in at least 2 towns where its branches are located, the resulting bank would offer services needed by the communities which are not presently available there (although conveniently available in other communities within driving distance). Relatively little competition exists between the 2 banks. While consummation of this merger will add slightly to the already heavy degree of banking concentration in California, such adverse feature is more than offset by positive benefits flowing from the merger.

For notes see p. 271.

**21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION
OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY
THE BOARD OF GOVERNORS DURING 1963¹—Continued**

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated
No. 23— Bank of South Haven, South Haven, Mich. <i>to acquire the assets and assume the liabilities of</i>	16.4	1	} 2
Peoples State Bank of Bloomingdale, Bloomingdale, Mich., and change its title to Citizens Trust and Savings Bank.	2.5	1	

SUMMARY REPORT BY ATTORNEY GENERAL (9-4-63)

The proposed acquisition of assets and assumption of liabilities of Bloomingdale Bank by Bank of South Haven would not appear to have a significant adverse effect upon competition.

As the 2 banks are not in competition with each other, the proposed transaction would not eliminate competition between them. The increase in Bank of South Haven's share of the market would not be significant.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (10-15-63)

These 2 banks, located 19 miles apart, are the only banks in their respective cities. The acquisition of Bloomingdale Bank by Bank of South Haven would provide expanded banking services and resources to serve better the people of the Bloomingdale area, solve Bloomingdale Bank's management problem, and strengthen the earnings prospects of that banking office. It would have no significant adverse effect on banking competition in the service areas of the banks, and would be expected to stimulate banking competition in the area served by Bloomingdale Bank.

No. 24— Peoples Trust Company of Bergen County, Hackensack, N.J. <i>to merge with</i>	221.4	13	} 16
Palisades Trust Company, Englewood, N.J.	34.5	3	

SUMMARY REPORT BY ATTORNEY GENERAL (9-9-63)

Bergen County Bank, with 12 offices and \$221 million in total assets, is presently the largest bank in Bergen County. Since 1954 it has acquired 4 unit banks and now has offices dispersed throughout the central portion of the county. Palisades Trust ("Englewood Bank"), with total assets of \$34 million, has 3 offices in the Englewood-Englewood Cliffs area, in the eastern portion of Bergen County.

The proposed merger would give Bergen County Bank 26.61 per cent of the IPC³ deposits and 27.56 per cent of the loans held by the 21 banks

For notes see p. 271.

**21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION
OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY
THE BOARD OF GOVERNORS DURING 1963¹—Continued**

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

SUMMARY REPORT BY ATTORNEY GENERAL—Cont.

in its service area. It would be approximately twice the size of the second bank, three times the size of the third bank, and equal in size to the total of 15 of the banks in the service area. Also, direct competition between the merging banks, particularly in the area lying between their home offices near the Teaneck-Englewood line, would be eliminated.

The proposed merger would significantly increase the share of the area banking business held by Bergen County Bank, increase banking concentration generally in the area, eliminate an alternative banking source, and thereby adversely affect competition.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (10-23-63)

Bergen County, wherein both banks are located, is in the northeastern part of New Jersey across the Hudson River from New York City. The county has experienced a well balanced residential, industrial, and commercial expansion; its 1960 population of 780,255 reflected an increase of 44.7 per cent since 1950. Englewood Bank has its main office and 1 branch in the city of Englewood (population 26,000), which is located in the eastern portion of Bergen County, about 5.5 miles east of Hackensack (population 30,500). Its other branch is located in the adjoining town of Englewood Cliffs (population 2,900). Prior to World War II the Englewood area was a residential community occupied by people of substantial means. The postwar years, which brought industrial and commercial expansion to the area, also resulted in a change in the composition of the population. These changes have created a need for larger loans, specialized forms of personal credit, and a broader range of other banking services.

Englewood Bank has followed quite conservative policies and has failed to keep abreast of the changing needs of the community. Low earnings have been a problem for several years, and for this and other reasons a management succession problem exists. Prospects for any marked improvement in earnings or for obtaining successor management do not appear favorable. Consummation of the merger would eliminate little competition and would provide the Englewood area with an aggressive alternative source of banking services more attuned to the needs of the community than is the Englewood Bank. Further, utilization of Bergen County Bank's competent executive staff would provide a solution for Englewood Bank's management succession problem. The slight increase in banking concentration that would result from consummation of this proposal loses its prominence as an adverse factor when viewed in the light of competition provided the Bergen County banks by banks in the adjoining counties and New York City and by numerous nonbanking financial institutions. Locally, numerous banking alternatives that provide strong and effective competition would remain easily accessible to the residents and commercial firms of the Englewood area.

For notes see p. 271.

**21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION
OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY
THE BOARD OF GOVERNORS DURING 1963¹—Continued**

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated
No. 25— West Branch Bank and Trust Company, Williamsport, Pa. <i>to merge with</i>	28.5	1	} 2
Bank of Newberry, Williamsport, Pa.	12.5	1	

SUMMARY REPORT BY ATTORNEY GENERAL (5-29-63)

West Branch Bank conducts a commercial banking and trust business through 1 office located at 102 West Fourth Street, Williamsport. As of December 31, 1962, it had total deposits of \$15.6 million, total net loans and discounts of \$12.2 million, and total capital of \$2.3 million. In 1962 its net current operating income was 16 per cent of total capital.

Bank of Newberry conducts a commercial banking business through 1 office located at 2001 West Fourth Street in Williamsport, about 2 miles west of West Branch. As of December 31, 1962, it had total deposits of \$11.3 million, total net loans and discounts of \$6.1 million, and total capital of \$955,000. For the year 1962, its net current operating income was 10.8 per cent of total capital.

There are 3 other banks located in the city of Williamsport and 10 other banks in the remainder of Lycoming County. West Branch Bank is now 1 of the 2 largest of these banks, and Bank of Newberry is fourth largest. The proposed merger would permanently eliminate competition between 2 banks which now hold 29 and 14 per cent, respectively, of the deposit and loan business done by all Williamsport banks, and 20 and 9 per cent, respectively, of the business done by all banks in Lycoming County. Concentration of resources in the city's largest bank would be increased to 43 per cent, and one of the few substantial competitive alternatives would be eliminated.

The proposal, if approved, would thus appear to have an adverse effect upon competition in the relevant areas.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (10-23-63)

Williamsport (population about 42,000), where both institutions are located, is the seat of Lycoming County, situated in north central Pennsylvania. A large part of the county is forested and mountainous, and most of its 110,000 residents are in the southern section where Williamsport serves as the main trade center. The economy of the Williamsport area is based principally on diversified industrial activity, with some 166 industrial establishments engaged in the manufacture of diversified products.

West Branch Bank now holds approximately 20 per cent of the total IPC³ deposits in Lycoming County. The resulting bank would hold approximately 29 per cent of such deposits and would become the largest in the county. The sole offices of the merging banks are located about 2 miles apart, and competition exists between them. The principal other

For notes see p. 271.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1963¹—Continued

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY BOARD OF GOVERNORS—Cont.

competitors of the merging institutions are 3 other commercial banks in the immediate Williamsport area. One has deposits about equal to those of West Branch Bank; the remaining 2, which operate a total of 3 offices, are somewhat smaller, holding approximately 15 and 4 per cent of deposits in the county.

The merger will provide West Branch Bank with expanded resources and strengthened management that should enable it to meet the needs of its growing industrial community better than can either constituent bank. Strong and effective competition will continue to be maintained by the remaining banks and other types of financial institutions in the Williamsport area, which will offer a wide range of services to the residents and businesses of the community.

No. 26— Security Savings Bank, Marshalltown, Iowa. <i>to acquire the assets and assume the liabilities of</i> Peoples Savings Bank, Laurel, Iowa.	18.1	1	} 2
	1.2	1	

SUMMARY REPORT BY ATTORNEY GENERAL (9-16-63)

Security Bank, the largest bank in a service area extending over a 25-mile radius, proposes to acquire Peoples Bank, located in a village 14 miles distant, and operate it as a limited branch office. The acquisition would increase slightly the size of Security Bank, already the largest in its service area, and may invite similar moves by smaller banks in the general area. However, on balance we do not believe the effect on competition would be significantly adverse.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (11-6-63)

Laurel is 12 miles south of Marshalltown. The small community's economy is almost entirely dependent upon agriculture. Its declining population totals 225. Future prospects for Peoples Bank, Laurel's only banking office, are not favorable. The chief executive officer who owns a majority of Peoples Bank's stock is near retirement age and desires to be relieved of his banking responsibilities. The acquisition of Peoples Bank by Security Bank would solve this management problem. Since Iowa statutes limit the operations of the proposed Laurel branch of Security Bank to paying and receiving deposits, consummation of the proposal would reduce somewhat the range of banking services available in Laurel. Any inconvenience which would result from such statutory restrictions would be minor in view of the relatively short distances to Security Bank's main office and to other banks.

For notes see p. 271.

**21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION
OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY
THE BOARD OF GOVERNORS DURING 1963¹—Continued**

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated
No. 27— Wachovia Bank and Trust Company, Winston-Salem, N.C. <i>to merge with</i> The Bank of Randolph, Asheboro, N.C.	900.6	82	} 83
	10.5	1	

SUMMARY REPORT BY ATTORNEY GENERAL (8-27-63)

This merger of a small independent bank (Randolph) with the largest bank in North Carolina (Wachovia) will continue a merger trend in that State in which Wachovia Bank has been a principal participant, which trend is leading to the concentration of North Carolina's banking business in the hands of a few large banks. The merger would also upset the relative competitive equality now prevailing in the Asheboro service area.

For these reasons, it is our opinion that this merger will have an adverse effect on competition.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (11-14-63)

The operations and policies of Randolph Bank have been controlled throughout the more than 60 years of the bank's existence by the chairman of the board of directors (age 88) who has been incapacitated by a serious illness. While it is a financially sound banking institution, its management problem, complicated by unusual circumstances, creates an impasse unlikely to be resolved without undue delay. The community of Asheboro requires the services of 2 fully competitive banks, and during any such delay it would, in effect, be denied a choice of banking services over much of the range appropriate to its needs. While the merger of Randolph Bank into 1 of the 3 large banks, which already divide the major share of banking in the area, is not an ideal solution, it appears to be a feasible one in the circumstances. The vigor of the remaining competing bank in Asheboro should enable it to maintain its relative position in a growing community, and the effect on the 1 other small bank at Cole-ridge in Randolph County (10 miles distant) should not be adverse.

No. 28— The Bank of Virginia, Richmond, Va. <i>to merge with</i> The Hallwood National Bank, Hallwood, Va.	188.8	26	} 27
	5.1	1	

SUMMARY REPORT BY ATTORNEY GENERAL (10-11-63)

Virginia Bank is the fourth largest bank in Virginia and operates 26 banking offices in the State. As of June 30, 1963, its assets totaled \$188.8 million.

For notes see p. 271.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1963¹—Continued

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

SUMMARY REPORT BY ATTORNEY GENERAL—Cont.

Hallwood Bank is located in the town of Hallwood, 170 miles distant from Richmond, and as of June 30, 1963, had assets of \$5.1 million.

These banks are so widely separated that direct competition between them is practically nonexistent. The small increase in the size of Virginia Bank as a result of the merger would not appear to have a significant adverse effect on competition.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (12-4-63)

Hallwood (population 269), where the sole office of Hallwood Bank is located, is situated in the northern part of Accomack County (population 30,635). Accomack County borders on Maryland and is the northernmost of the 2 counties comprising the Virginia portion of the Eastern Shore Peninsula, which lies between the Atlantic Ocean and Chesapeake Bay. The county's economy is expected to show decided gains with the completion of the Chesapeake Bay bridge-tunnel, scheduled for 1964, which will join the Virginia portion of the peninsula to the Norfolk area.

Virginia Bank, a subsidiary of Virginia Commonwealth Corporation, a registered bank holding company, ranks fifth in size in the State. Consummation of the proposal would increase the total deposits held by either Virginia Bank or the Virginia Commonwealth group of banks by only $\frac{1}{40}$ of 1 per cent of the total deposits held by commercial banks of Virginia. While Virginia Bank's rank in size would change to fourth, the resources to be gained would be so small that this slight change in its competitive position in the State as a whole or in the primary areas it now services would be inconsequential.

Consummation of the proposed merger would provide successor management for Hallwood Bank's only banking office, and make available to individuals and industry in Hallwood and the surrounding Accomack County area the broad range of services provided by large banks. Competition for business and industrial accounts would be intensified for banks located in the Maryland portion of the peninsula.

No. 29— Fidelity-Philadelphia Trust Company, Philadelphia, Pa. <i>to merge with</i>	598.9	31	} 42
Liberty Real Estate Bank and Trust Company, Philadelphia, Pa.	149.9	11	

SUMMARY REPORT BY ATTORNEY GENERAL (9-10-63)

Fidelity, the fourth largest bank in Philadelphia, with total resources of \$598.9 million, total deposits of \$536.3 million, and operating 31 offices in the 4-county area, proposes to acquire by merger Liberty, the eighth largest bank in Philadelphia, with total resources of \$149.9 million, total deposits of \$134.3 million, and operating 11 offices.

The merger would increase Fidelity's share of IPC³ deposits among

For notes see p. 271.

**21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION
OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY
THE BOARD OF GOVERNORS DURING 1963¹—Continued**

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

SUMMARY REPORT BY ATTORNEY GENERAL—Cont.

competing banks by 2.7 per cent, from 10.9 per cent to 13.6 per cent, and its share of loans by 2 per cent, from 10.4 per cent to 12.4 per cent, but would not change its fourth place position. After the merger the 6 largest banks in Philadelphia would hold 84.6 per cent of total IPC deposits and 86.1 per cent of loans among the competing commercial banks in the area.

This is the situation about which the Supreme Court expressed concern in the case of *United States v. Philadelphia National Bank* when it spoke of the trend toward merger in the Philadelphia area, the lack of new entrants, and the increase in concentration, pointing out that “. . . if concentration is already great, the importance of preventing even slight increases in concentration . . . is correspondingly great.”

We point out that the application states “This merger has come about solely as the result of the acute management problem facing Liberty.” The failure of the board of directors of a financial organization with total resources of almost \$150 million to take the necessary steps to insure its continuing effective operation is a serious abdication of its responsibilities to depositors, stockholders, community, and the economy as a whole, and should be viewed with serious concern by the appropriate banking agency.

The proposed merger may have a substantial adverse effect on competition in commercial banking in the 4-county area.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (12-13-63)

The city of Philadelphia (having boundaries coterminous with those of Philadelphia County) and the adjoining 3 counties of Delaware, Montgomery, and Bucks, had a 1960 population exceeding 3.3 million. (Under Pennsylvania law, a bank with headquarters in Philadelphia County may establish branches in any of the 4 counties.) The Standard Metropolitan Statistical Area of Philadelphia, which consists of these 4 counties and also the 3 New Jersey counties of Burlington, Camden, and Gloucester, had a 1961 population of about 4.3 million. There are 15 banks with head offices in Philadelphia operating branches at various points in the 4-county area. Eight of the banks range fairly evenly along a scale from First Pennsylvania Banking and Trust Company, which has close to \$1 billion of IPC deposits, down to Liberty. Each of the 7 other institutions has IPC deposits in a range below \$55 million. In addition, Montgomery County has 2 banks with around \$100 million each in IPC deposits, while Delaware County has 1 with IPC deposits of \$72 million; and in nearby Camden, New Jersey, there is 1 bank with \$173 million and another with \$126 million of IPC deposits.

Under this proposal the fourth and eighth largest of the 15 banks headquartered in Philadelphia would merge, the offices of the latter becoming branches of the former. The resulting bank would continue to rank in fourth place in deposit size. In limited areas direct competition exists between offices of the 2 banks, and this would be eliminated by the merger. In addition, alternative sources of banking services for small to medium-sized customers would be reduced by 1. On the other hand, the resulting bank would be able to offer its customers and customers of Liberty a

For notes see p. 271.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1963¹—Continued

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY BOARD OF GOVERNORS—Cont.

substantially higher loan limit, and to customers of the latter bank there would be available a broadened range of banking services. The merger would encourage a livelier competitive climate for the largest banks in Philadelphia, and provide an additional large community bank, while leaving an ample range of alternative sources of banking services. Viewed in the light of the standards of the Bank Merger Act, the Board concludes that the benefits to the public expected to result from effectuation of the proposal would outweigh any resulting disadvantages.

No. 30— The County Trust Company, White Plains, N.Y. <i>to merge with</i>	673.0	46	} 47
The First National Bank of Brewster, Brewster, N.Y.	4.2	1	

SUMMARY REPORT BY ATTORNEY GENERAL (10-29-63)

Under the proposed merger, County Trust will acquire the sole commercial banking office in the Village of Brewster, and eliminate an independent banking institution from southeastern Putnam County. County Trust, heretofore a dominant bank in Westchester County, will extend this position of dominance into adjacent Putnam County. The proposed merger will have an adverse effect upon competition.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (12-18-63)

First National serves principally the Village of Brewster (1960 population 1,700), and the town of Southeast (1960 population 6,800), both located in Putnam County (1960 population 31,700), contiguous to Westchester County to the south. While in the past Putnam County has been essentially a rural summer resort area, there has been in recent years a substantial increase in the number of year-round residents due principally to the construction of important highways. About half of the county's 27 manufacturing concerns are located in the Brewster area. First National, the only banking office in Brewster, offers a limited range of banking services and pursues unusually restrictive loan policies. Consequently, many residents of the Brewster area, including many of the bank's customers, must seek satisfaction of their banking needs from banks in surrounding towns or cities. The service area of County Trust does not overlap that of First National.

The active executive officer of First National is not in good health and desires to be relieved of his responsibilities of managing the bank. Interests identified with him own control of the bank, no provision has been made for management succession, and prospects for obtaining a competent successor from outside the bank are not favorable. Consummation of the proposed merger would solve the management succession problem at First National and bring to the people of the growing Brewster area many im-

For notes see p. 271.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1963¹—Continued

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY BOARD OF GOVERNORS—Cont.

portant banking services not presently available there. At the same time, the proposed merger would have only a slight effect on competition.

No. 31—Old Kent Bank and Trust Company, Grand Rapids, Mich. <i>to consolidate with</i>	349.7	27	} 29
Community State Bank, Grandville, Mich.	21.3	2	

SUMMARY REPORT BY ATTORNEY GENERAL (11-29-63)

Old Kent Bank, operating 27 offices in Grand Rapids, and with over \$349 million in assets, proposes to consolidate with the Community Bank, Grandville, with assets of \$21.3 million.

This consolidation would eliminate substantial competition between the largest and third largest banks with main offices in the service area affected, increase concentration in the area which has been brought about in large part by prior acquisitions by Old Kent Bank, and endanger the ability of smaller rivals to effectively compete. Thus, the consolidation would have substantial adverse effects on competition.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (12-24-63)

The proposed consolidation is the direct result of serious difficulties that came to light in Community Bank, centered principally in its mobile home financing department. The bank's capital has declined to a dangerously low point because of charge-offs relating to loans in this department, and its present condition is regarded as hazardous. Moreover, there are potential losses, including large contingent liabilities arising from the servicing of mobile home or trailer paper sold to other banks. This condition is due to deficiencies in the present management which owns a majority of Community Bank's stock. The future earnings prospects of Community Bank are highly unfavorable, and there has been no alternative proposal that would remedy the bank's distressed condition.

The proposed consolidation would enhance the competitive position of Old Kent Bank, already the dominant bank among the 8 banks serving the Grand Rapids and Grandville-Hudsonville areas, and, through elimination of the fifth of these 8 banks, would have an adverse effect on banking competition. However, continuation and probable deterioration of the extremely hazardous situation confronting Community Bank might have a substantially detrimental effect on the public interest, and the only practical solution to this problem is consummation of the proposed consolidation with Old Kent Bank.

¹ During 1963 the Board disapproved 3 mergers, etc. However, under Section 18(c) of the Federal Deposit Insurance Act, only those transactions approved by the Board must be described in its ANNUAL REPORT to Congress.

² Except where specifically stated, the merger, etc., was effected under the charter of the first named bank.

³ The abbreviation "IPC" designates deposits of individuals, partnerships, and corporations.

⁴ Includes 11 branch offices established by Wells Fargo Bank, San Francisco, Calif., subsequent to the date of application but prior to the date of merger with State Center Bank, Fresno, Calif.

Federal Reserve Directories and Meetings

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

(December 31, 1963)

Term expires

WM. MCC. MARTIN, JR., of New York, <i>Chairman</i>	January 31, 1970
C. CANBY BALDERSTON of Pennsylvania, <i>Vice Chairman</i>	January 31, 1966
A. L. MILLS, JR., of Oregon.....	January 31, 1972
J. L. ROBERTSON of Nebraska.....	January 31, 1964
CHAS. N. SHEPARDSON of Texas.....	January 31, 1968
GEORGE W. MITCHELL of Illinois.....	January 31, 1976
J. DEWEY DAANE of Virginia.....	January 31, 1974

RALPH A. YOUNG, *Adviser to the Board*
CHARLES MOLONY, *Assistant to the Board*
ROBERT L. CARDON, *Legislative Counsel*
CLARKE L. FAUVER, *Assistant to the Board*

OFFICE OF THE SECRETARY

MERRITT SHERMAN, *Secretary*
KENNETH A. KENYON, *Assistant Secretary*
ELIZABETH L. CARMICHAEL, *Assistant Secretary*
ARTHUR L. BROIDA, *Assistant Secretary*

LEGAL DIVISION

HOWARD H. HACKLEY, *General Counsel*
DAVID B. HEXTER, *Assistant General Counsel*
THOMAS J. O'CONNELL, *Assistant General Counsel*
JEROME W. SHAY, *Assistant General Counsel*
WILSON L. HOOFF, *Assistant General Counsel*

DIVISION OF RESEARCH AND STATISTICS

GUY E. NOYES, *Director*
ALBERT R. KOCH, *Associate Director*
DANIEL H. BRILL, *Adviser*
FRANK R. GARFIELD, *Adviser*
ROBERT C. HOLLAND, *Adviser*
KENNETH B. WILLIAMS, *Adviser*
LEWIS N. DEMBITZ, *Associate Adviser*
ROBERT SOLOMON, *Associate Adviser*

FEDERAL RESERVE SYSTEM

BOARD OF GOVERNORS—Cont.

DIVISION OF INTERNATIONAL FINANCE

RALPH A. YOUNG, *Director*
J. HERBERT FURTH, *Adviser*
A. B. HERSEY, *Adviser*
ROBERT L. SAMMONS, *Adviser*
SAMUEL I. KATZ, *Associate Adviser*
RALPH C. WOOD, *Associate Adviser*

DIVISION OF BANK OPERATIONS

JOHN R. FARRELL, *Director*
GERALD M. CONKLING, *Assistant Director*
M. B. DANIELS, *Assistant Director*
JOHN N. KILEY, JR., *Assistant Director*

DIVISION OF EXAMINATIONS

FREDERIC SOLOMON, *Director*
ROBERT C. MASTERS, *Associate Director*
GLENN M. GOODMAN, *Assistant Director*
HENRY BENNER, *Assistant Director*
JAMES C. SMITH, *Assistant Director*
BRENTON C. LEAVITT, *Assistant Director*
ANDREW N. THOMPSON, *Assistant Director*
LLOYD M. SCHAEFFER, *Chief Federal Reserve Examiner*

DIVISION OF PERSONNEL ADMINISTRATION

EDWIN J. JOHNSON, *Director*
H. FRANKLIN SPRECHER, JR., *Assistant Director*

DIVISION OF ADMINISTRATIVE SERVICES

JOSEPH E. KELLEHER, *Director*
HARRY E. KERN, *Assistant Director*

OFFICE OF THE CONTROLLER

J. J. CONNELL, *Controller*
SAMPSON H. BASS, *Assistant Controller*

OFFICE OF DEFENSE PLANNING

INNIS D. HARRIS, *Coordinator*

DIVISION OF DATA PROCESSING

M. H. SCHWARTZ, *Director*
LEE W. LANGHAM, *Assistant Director*

FEDERAL OPEN MARKET COMMITTEE

(December 31, 1963)

MEMBERS

WM. MCC. MARTIN, JR. *Chairman* (Board of Governors)
ALFRED HAYES, *Vice Chairman* (Elected by Federal Reserve Bank of New York)
C. CANBY BALDERSTON (Board of Governors)
KARL R. BOPP (Elected by Federal Reserve Banks of Boston, Philadelphia, and Richmond)
GEORGE H. CLAY (Elected by Federal Reserve Banks of Minneapolis, Kansas City, and San Francisco)
J. DEWEY DAANE (Board of Governors)
WATROUS H. IRONS (Elected by Federal Reserve Banks of Atlanta, St. Louis, and Dallas)
A. L. MILLS, JR. (Board of Governors)
GEORGE W. MITCHELL (Board of Governors)
J. L. ROBERTSON (Board of Governors)
CHARLES J. SCANLON (Elected by Federal Reserve Banks of Cleveland and Chicago)
CHAS. N. SHEPARDSON (Board of Governors)

OFFICERS

RALPH A. YOUNG, *Secretary*

MERRITT SHERMAN, <i>Assistant Secretary</i>	DAVID P. EASTBURN, <i>Associate Economist</i>
KENNETH A. KENYON, <i>Assistant Secretary</i>	J. HERBERT FURTH, <i>Associate Economist</i>
HOWARD H. HACKLEY, <i>General Counsel</i>	GEORGE GARVY, <i>Associate Economist</i>
DAVID B. HEXTER, <i>Assistant General Counsel</i>	RALPH T. GREEN, <i>Associate Economist</i>
GUY E. NOYES, <i>Economist</i>	ROBERT C. HOLLAND, <i>Associate Economist</i>
ERNEST T. BAUGHMAN, <i>Associate Economist</i>	ALBERT R. KOCH, <i>Associate Economist</i>
DANIEL H. BRILL, <i>Associate Economist</i>	CLARENCE W. TOW, <i>Associate Economist</i>
ROBERT W. STONE, <i>Manager, System Open Market Account</i>	
CHARLES A. COOMBS, <i>Special Manager, System Open Market Account</i>	

During 1963 the Federal Open Market Committee met approximately every three weeks as indicated in the Record of Policy Actions taken by the Committee (see pp. 47-125 of this Report).

FEDERAL RESERVE BANKS AND BRANCHES

(December 31, 1963)

CHAIRMEN AND DEPUTY CHAIRMEN OF BOARDS OF DIRECTORS

Federal Reserve Bank of—	Chairman and Federal Reserve Agent	Deputy Chairman
Boston.....	Erwin D. Canham.....	William Webster
New York.....	Philip D. Reed.....	James DeCamp Wise
Philadelphia.....	Walter E. Hoadley.....	David C. Bevan
Cleveland.....	Joseph B. Hall.....	Logan T. Johnston
Richmond.....	Edwin Hyde.....	William H. Grier
Atlanta.....	Jack Tarver.....	Henry G. Chalkley, Jr.
Chicago.....	Robert P. Briggs.....	James H. Hilton
St. Louis.....	Raymond Rebsamen.....	J. H. Longwell
Minneapolis.....	Atherton Bean.....	Judson Bemis
Kansas City.....	Homer A. Scott.....	Dolph Simons
Dallas.....	Robert O. Anderson.....	Vacancy
San Francisco.....	F. B. Whitman.....	John D. Fredericks

CONFERENCE OF CHAIRMEN

The Chairmen of the Federal Reserve Banks are organized into a Conference of Chairmen that meets from time to time to consider matters of common interest and to consult with and advise the Board of Governors. Such a meeting, attended also by Deputy Chairmen of the Reserve Banks, was held in Washington on December 5-6, 1963.

Mr. Whitman, Chairman of the Federal Reserve Bank of San Francisco, who was elected Chairman of the Conference and of the Executive Committee in December 1962, served in that capacity until the close of the 1963 meeting. Mr. Briggs, Chairman of the Federal Reserve Bank of Chicago, and Mr. Bean,

FEDERAL RESERVE SYSTEM

FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1963—Cont.

Chairman of the Federal Reserve Bank of Minneapolis, served with Mr. Whitman in 1963 as members of the Executive Committee; Mr. Briggs also served as Vice Chairman of the Conference.

On December 6, 1963, Mr. Bean, Chairman of the Minneapolis Bank, was elected Chairman of the Conference and of the Executive Committee to serve for the succeeding year; Mr. Briggs, Chairman of the Chicago Bank, was elected Vice Chairman of the Conference and a member of the Executive Committee; and Mr. Canham, Chairman of the Federal Reserve Bank of Boston, was elected as the other member of the Executive Committee.

DIRECTORS

Class A and Class B directors are elected by the member banks of the district. Class C directors are appointed by the Board of Governors of the Federal Reserve System.

The Class A directors are chosen as representatives of member banks and, as a matter of practice, are active officers of member banks. The Class B directors may not, under the law, be officers, directors, or employees of banks. At the time of their election they must be actively engaged in their district in commerce, agriculture, or some other industrial pursuit.

The Class C directors may not, under the law, be officers, directors, employees, or stockholders of banks. They are appointed by the Board of Governors as representatives not of any particular group or interest, but of the public interest as a whole.

Federal Reserve Bank branches have either 5 or 7 directors, of whom a majority are appointed by the Board of Directors of the parent Federal Reserve Bank and the others are appointed by the Board of Governors of the Federal Reserve System.

DIRECTORS	District 1 — Boston	<i>Term expires Dec. 31</i>
<i>Class A:</i>		
Arthur F. Maxwell.....	President, The First National Bank of Biddeford, Maine.....	1963
William M. Lockwood...	President, The Howard National Bank and Trust Company, Burlington, Vt.....	1964
Ostrom Enders.....	Chairman, Hartford National Bank and Trust Company, Hartford, Conn.....	1965

ANNUAL REPORT OF BOARD OF GOVERNORS

FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1963—Cont.

DIRECTORS—Cont. **District 1 — Boston — Cont.** *Term expires Dec. 31*

Class B:

William R. Robbins Vice President for Finance, United Aircraft Corporation, East Hartford, Conn. 1963
 James R. Carter President, Nashua Corporation, Nashua, N.H. 1964
 John R. Newell President, Bath Iron Works Corp., Bath, Maine 1965

Class C:

William Webster Chairman and Chief Executive Officer, New England Electric System, Boston, Mass. 1963
 Erwin D. Canham Editor, The Christian Science Monitor, Boston, Mass. 1964
 John T. Fey President, University of Vermont, Burlington, Vt. 1965

District 2 — New York

Class A:

A. Leonard Mott President, The First National Bank of Moravia, N.Y. 1963
 George Champion Chairman of the Board, The Chase Manhattan Bank, New York, N.Y. 1964
 Ralph H. Rue Chairman, The Schenectady Trust Company, Schenectady, N.Y. 1965

Class B:

Albert L. Nickerson Chairman of the Board, Socony Mobil Oil Company, Inc., New York, N.Y. 1963
 B. Earl Puckett Formerly Chairman of the Board, Allied Stores Corporation, New York, N.Y. 1964
 Kenneth H. Hannan Executive Vice President, Union Carbide Corporation, New York, N.Y. 1965

Class C:

Everett N. Case President, Alfred P. Sloan Foundation, New York, N.Y. 1963
 James DeCamp Wise Formerly Chairman of the Board, Bigelow-Sanford, Inc., Frenchtown, N.J. 1964
 Philip D. Reed Formerly Chairman of the Board, General Electric Company, New York, N.Y. 1965

FEDERAL RESERVE SYSTEM

FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1963—Cont.

DIRECTORS—Cont. District 2 — New York — Cont. *Term expires Dec. 31*

Buffalo Branch

Appointed by Federal Reserve Bank:

John M. Galvin.....	Chairman, Executive Committee, The Marine Trust Company of Western New York, Buffalo, N.Y.....	1963
Anson F. Sherman.....	President, The Citizens Central Bank, Arcade, N.Y.....	1964
Elmer B. Milliman.....	President, Central Trust Company, Rochester, N.Y.....	1964
Arthur S. Hamlin.....	President, The Canandaigua National Bank and Trust Company, Canandaigua, N.Y.....	1965

Appointed by Board of Governors:

Thomas E. LaMont.....	Farmer, Albion, N.Y.....	1963
Whitworth Ferguson.....	President, Ferguson Electric Construction Co., Inc., Buffalo, N.Y.....	1964
Maurice R. Forman.....	President, B. Forman Company, Inc., Rochester, N.Y.....	1965

District 3 — Philadelphia

Class A:

J. Milton Featherer.....	Executive Vice President and Trust Officer, The Penn's Grove National Bank and Trust Company, Penns Grove, N.J.....	1963
Eugene T. Gramley.....	President, Milton Bank and Safe Deposit Company, Milton, Pa.....	1964
Benjamin F. Sawin.....	Vice Chairman of the Board, Provident Tradesmens Bank and Trust Company, Philadelphia, Pa.....	1965

Class B:

Leonard P. Pool.....	President, Air Products and Chemicals, Inc., Allentown, Pa.....	1963
Frank R. Palmer.....	Chairman of the Board, The Carpenter Steel Company, Reading, Pa.....	1964
Ralph K. Gottshall.....	Chairman of the Board and President, Atlas Chemical Industries, Inc., Wilmington, Del...	1965

ANNUAL REPORT OF BOARD OF GOVERNORS

FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1963—Cont.

DIRECTORS—Cont.	District 3 — Philadelphia — Cont.	<i>Term expires Dec. 31</i>
<i>Class C:</i>		
Walter E. Hoadley	Vice President and Treasurer, Armstrong Cork Company, Lancaster, Pa.	1963
Willis J. Winn	Dean, Wharton School of Finance and Commerce, University of Pennsylvania, Philadelphia, Pa.	1964
David C. Bevan	Chairman, Finance Committee, The Pennsylvania Railroad Company, Philadelphia, Pa.	1965

District 4 — Cleveland

<i>Class A:</i>		
Paul A. Warner	President, The Oberlin Savings Bank Company, Oberlin, Ohio.	1963
C. N. Sutton	President, The Richland Trust Company, Mansfield, Ohio.	1964
Frank E. Agnew, Jr.	Chairman of the Board, Pittsburgh National Bank, Pittsburgh, Pa.	1965

<i>Class B:</i>		
Edwin J. Thomas	Chairman of the Board and Chief Executive Officer, The Goodyear Tire & Rubber Company, Akron, Ohio.	1963
David A. Meeker	Chairman of the Board, The Hobart Manufacturing Company, Troy, Ohio.	1964
Walter K. Bailey	Chairman of the Board, The Warner & Swasey Company, Cleveland, Ohio.	1965

<i>Class C:</i>		
Aubrey J. Brown	Professor of Agricultural Marketing and Head of Department of Agricultural Economics, University of Kentucky, Lexington, Ky.	1963
Joseph B. Hall	Chairman of the Board, The Kroger Co., Cincinnati, Ohio.	1964
Logan T. Johnston	President, Armco Steel Corporation, Middletown, Ohio.	1965

FEDERAL RESERVE SYSTEM

FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1963—Cont.

DIRECTORS—Cont. **District 4 — Cleveland — Cont.** *Term
expires
Dec. 31*

Cincinnati Branch

Appointed by Federal Reserve Bank:

John W. Humphrey President, The Philip Carey Manufacturing
Company, Cincinnati, Ohio 1963
H. W. Gillaugh President, The Third National Bank and Trust
Company of Dayton, Ohio 1963
G. Carlton Hill Chairman of the Board, The Fifth Third Union
Trust Co., Cincinnati, Ohio 1964
John W. Woods, Jr. President, The Third National Bank of Ash-
land, Ky. 1965

Appointed by Board of Governors:

Walter C. Langsam President, University of Cincinnati, Ohio 1963
Barney A. Tucker President, Burley Belt Plant Food Works, Inc.,
Lexington, Ky. 1964
Howard E. Whitaker Chairman of the Board, The Mead Corporation,
Dayton, Ohio 1965

Pittsburgh Branch

Appointed by Federal Reserve Bank:

Chas. J. Heimberger President, The First National Bank of Erie
Pa. 1963
S. L. Drumm President, West Penn Power Company, Greens-
burg, Pa. 1963
James B. Grieves President, Commonwealth Bank and Trust
Company, Pittsburgh, Pa. 1964
Alfred H. Owens President, The Citizens National Bank of New
Castle, Pa. 1965

Appointed by Board of Governors:

G. L. Bach Maurice Falk Professor of Economics and
Social Science, Carnegie Institute of Tech-
nology, Pittsburgh, Pa. 1963
William A. Steele Chairman of the Board and President, Wheeling
Steel Corporation, Wheeling, W.Va. 1964
F. L. Byrom President, Koppers Company, Inc., Pittsburgh,
Pa. 1965

ANNUAL REPORT OF BOARD OF GOVERNORS

FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1963—Cont.

DIRECTORS—Cont.	District 5 — Richmond	<i>Term expires Dec. 31</i>
<i>Class A:</i>		
Addison H. Reese.....	President, North Carolina National Bank, Charlotte, N.C.....	1963
J. McKenny Willis, Jr....	Director, Maryland National Bank (Baltimore), Easton, Md.....	1964
David K. Cushwa, Jr.....	President, The Washington County National Savings Bank, Williamsport, Md.....	1965
<i>Class B:</i>		
Robert E. L. Johnson....	Chairman of the Board, Woodward & Lothrop, Incorporated, Washington, D.C.....	1963
Robert R. Coker.....	President, Coker's Pedigreed Seed Company, Hartsville, S.C.....	1964
R. E. Salvati.....	Chairman of the Board, Island Creek Coal Company, Huntington, W.Va.....	1965
<i>Class C:</i>		
William H. Grier.....	President, Rock Hill Printing & Finishing Com- pany, Rock Hill, S.C.....	1963
Edwin Hyde.....	President, Miller & Rhoads, Inc., Richmond, Va.....	1964
Wilson H. Elkins.....	President, University of Maryland, College Park, Md.....	1965
Baltimore Branch		
<i>Appointed by Federal Reserve Bank:</i>		
J. N. Shumate.....	President, The Farmers National Bank of Annapolis, Md.....	1963
Harvey E. Emmart.....	Senior Vice President and Cashier, Maryland National Bank, Baltimore, Md.....	1964
Martin Piribek.....	Executive Vice President, The First National Bank of Morgantown, W.Va.....	1964
Joseph B. Browne.....	President, Union Trust Company of Maryland, Baltimore, Md.....	1965
<i>Appointed by Board of Governors:</i>		
Harry B. Cummings....	Vice President & General Manager, Metal Products Division, Koppers Company, Inc., Baltimore, Md.....	1963
Leonard C. Crewe, Jr....	President and Treasurer, Maryland Fine & Specialty Wire Co., Inc., Cockeysville, Md....	1964
E. Wayne Corrin.....	President, Hope Natural Gas Company, Clarks- burg, W.Va.....	1965

FEDERAL RESERVE SYSTEM

FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1963—Cont.

DIRECTORS—Cont.	District 5 — Richmond — Cont.	<i>Term expires Dec. 31</i>
	Charlotte Branch	
<i>Appointed by Federal Reserve Bank:</i>		
W. W. McEachern	President, The South Carolina National Bank, Greenville, S.C.	1963
Joe H. Robinson	Senior Vice President, Wachovia Bank and Trust Company, Charlotte, N.C.	1964
Wallace W. Brawley	President, The Commercial National Bank of Spartanburg, S.C.	1964
G. Harold Myrick	Executive Vice President and Trust Officer, The First National Bank of Lincolnton, N.C.	1965
<i>Appointed by Board of Governors:</i>		
George H. Aull	Consulting Economist, The South Carolina National Bank, Clemson, S.C.	1963
Clarence P. Street	President, McDevitt & Street Company, Char- lotte, N.C.	1964
J. C. Cowan, Jr.	Vice Chairman of the Board, Burlington In- dustries, Inc., Greensboro, N.C.	1965
District 6 — Atlanta		
<i>Class A:</i>		
George S. Craft	President, Trust Company of Georgia, Atlanta, Ga.	1963
D. C. Wadsworth, Sr.	President, The American National Bank, Gadsden, Ala.	1964
M. M. Kimbrel	Chairman of the Board, First National Bank, Thomson, Ga.	1965
<i>Class B:</i>		
W. Maxey Jarman	Chairman, Genesco, Inc., Nashville, Tenn.	1963
James H. Crow, Jr.	Vice President, The Chemstrand Corporation, Decatur, Ala.	1964
McGregor Smith	Chairman of the Board, Florida Power & Light Company Miami, Fla.	1965
<i>Class C:</i>		
Henry G. Chalkley, Jr.	President, The Sweet Lake Land & Oil Company, Lake Charles, La.	1963
Jack Tarver	President, Atlanta Newspapers, Inc., Atlanta, Ga.	1964
J. M. Cheatham	President, Dundee Mills, Incorporated, Griffin, Ga.	1965

ANNUAL REPORT OF BOARD OF GOVERNORS

FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1963—Cont.

DIRECTORS—Cont. **District 6 — Atlanta — Cont.** *Term expires Dec. 31*

Birmingham Branch

Appointed by Federal Reserve Bank:

Frank A. Plummer	Chairman of the Board and President, Birmingham Trust National Bank, Birmingham, Ala.	1963
John H. Neill, Jr.	President, Union Bank & Trust Co., Montgomery, Ala.	1964
W. H. Mitchell	President, The First National Bank of Florence, Ala.	1964
A. Calvin Smith	President, First National Bank, Greenville, Ala.	1965

Appointed by Board of Governors:

Selden Sheffield	Cattleman, Greensboro, Ala.	1963
C. Caldwell Marks	Chairman of the Board, Owen-Richards Company, Inc., Birmingham, Ala.	1964
Jack W. Warner	Chairman of the Board and President, Gulf States Paper Corporation, Tuscaloosa, Ala.	1965

Jacksonville Branch

Appointed by Federal Reserve Bank:

Godfrey Smith	President, Capital City First National Bank of Tallahassee, Fla.	1963
J. T. Lane	Chairman of the Board, The Atlantic National Bank, Jacksonville, Fla.	1964
Harry Fagan	President, First National Bank in Fort Myers, Fla.	1964
Arthur W. Saarinen	President, Broward National Bank of Fort Lauderdale, Fla.	1965

Appointed by Board of Governors:

J. Ollie Edmunds	President, Stetson University, DeLand, Fla.	1963
Harry T. Vaughn	President, United States Sugar Corporation, Clewiston, Fla.	1964
Claude J. Yates	Vice President and General Manager, Southern Bell Telephone and Telegraph Company, Jacksonville, Fla.	1965

FEDERAL RESERVE SYSTEM

FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1963—Cont.

DIRECTORS—Cont.	District 6 — Atlanta — Cont.	<i>Term expires Dec. 31</i>
	Nashville Branch	
<i>Appointed by Federal Reserve Bank:</i>		
D. W. Johnston.....	Executive Vice President, Third National Bank in Nashville, Tenn.....	1963
Travis Hitt.....	President, Farmers National Bank, Winchester, Tenn.....	1964
Harry M. Nacey, Jr.....	President, Hamilton National Bank, Knox- ville, Tenn.....	1964
R. S. Walling.....	President, First National Bank, McMinnville, Tenn.....	1965
<i>Appointed by Board of Governors:</i>		
W. N. Krauth.....	President and General Manager, Colonial Baking Company of Nashville, Tenn.....	1963
V. S. Johnson, Jr.....	Chairman of the Board and President, Aladdin Industries, Inc., Nashville, Tenn.....	1964
Andrew D. Holt.....	President, University of Tennessee, Knoxville, Tenn.....	1965
	New Orleans Branch	
<i>Appointed by Federal Reserve Bank:</i>		
Giles W. Patty.....	President, First National Bank, Meridian, Miss.	1963
Lewis Gottlieb.....	Chairman of the Board, City National Bank, Baton Rouge, La.....	1964
John Oulliber.....	President, The National Bank of Commerce in New Orleans, La.....	1964
J. R. McCravey, Jr.....	Vice President, Bank of Forest, Miss.....	1965
<i>Appointed by Board of Governors:</i>		
Frank A. Godchaux, III.....	Vice President, Louisiana State Rice Milling Company, Inc., Abbeville, La.....	1963
Kenneth R. Giddens.....	President, WKRG-TV, Inc., Mobile, Ala.....	1964
J. O. Emmerich.....	Editor, Enterprise-Journal, McComb, Miss.....	1965

District 7 — Chicago

<i>Class A:</i>		
David M. Kennedy.....	Chairman of the Board, Continental Illinois National Bank and Trust Company of Chicago, Ill.....	1963
John H. Crocker.....	Chairman of the Board, The Citizens National Bank of Decatur, Ill.....	1964
Harry W. Schaller.....	President, The Citizens First National Bank of Storm Lake, Iowa.....	1965

ANNUAL REPORT OF BOARD OF GOVERNORS

FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1963—Cont.

DIRECTORS—Cont.	District 7 — Chicago — Cont.	<i>Term expires Dec. 31</i>
<i>Class B:</i>		
G. F. Langenohl.....	Treasurer and Assistant Secretary, Allis-Chalmers Manufacturing Company, Milwaukee, Wis.....	1963
William E. Rutz.....	Director, Giddings & Lewis Machine Tool Company, Fond du Lac, Wis.....	1964
William A. Hanley.....	Director, Eli Lilly and Company, Indianapolis, Ind.....	1965
<i>Class C:</i>		
John W. Sheldon.....	President, Chas. A. Stevens & Co., Chicago, Ill.	1963
Robert P. Briggs.....	Executive Vice President, Consumers Power Company, Jackson, Mich.....	1964
James H. Hilton.....	President, Iowa State University of Science and Technology, Ames, Iowa.....	1965

Detroit Branch

Appointed by Federal Reserve Bank:

William A. Mayberry....	Chairman of the Board, Manufacturers National Bank of Detroit, Mich.....	1963
Franklin H. Moore.....	President, The Commercial and Savings Bank, St. Clair, Mich.....	1963
Donald F. Valley.....	Chairman of the Board, National Bank of Detroit, Mich.....	1964
C. Lincoln Linderholm...	President, Central Bank, Grand Rapids, Mich.	1965

Appointed by Board of Governors:

Max P. Heavenrich, Jr....	President and General Manager, Heavenrich Bros. & Company, Saginaw, Mich.....	1963
James William Miller....	President, Western Michigan University, Kalamazoo, Mich.....	1964
Guy S. Peppiatt.....	President, Federal-Mogul-Bower Bearings, Inc., Detroit, Mich.....	1965

FEDERAL RESERVE SYSTEM

FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1963—Cont.

DIRECTORS—Cont.	District 8 — St. Louis	<i>Term expires Dec. 31</i>
<i>Class A:</i>		
H. Lee Cooper.....	President, Ohio Valley National Bank of Henderson, Ky.....	1963
Arthur Werre, Jr.....	Executive Vice President, First National Bank of Steeleville, Ill.....	1964
Harry F. Harrington.....	Chairman of the Board and President, The Boatmen's National Bank of Saint Louis, Mo.	1965
<i>Class B:</i>		
Edgar M. Queeny.....	Chairman of the Finance Committee and mem- ber of Board of Directors, Monsanto Chemical Company, St. Louis, Mo.....	1963
Mark Townsend.....	Chairman of the Board, Townsend Lumber Company, Inc., Stuttgart, Ark.....	1964
Harold O. McCutchan.....	Senior Executive Vice President, Mead Johnson & Company, Evansville, Ind.....	1965
<i>Class C:</i>		
Jesse D. Wooten.....	Executive Vice President, Mid-South Chemical Corporation, Memphis, Tenn.....	1963
J. H. Longwell.....	Director, Special Studies and Programs, College of Agriculture, University of Missouri, Columbia, Mo.....	1964
Raymond Rebsamen.....	Chairman of the Board, Rebsamen & East, Inc., Little Rock, Ark.....	1965

Little Rock Branch

Appointed by Federal Reserve Bank:

J. W. Bellamy.....	President, National Bank of Commerce of Pine Bluff, Ark.....	1963
R. M. LaGrone, Jr.....	President, The Citizens National Bank of Hope, Ark.....	1963
Ross E. Anderson.....	Chairman of the Board, The Commercial National Bank of Little Rock, Ark.....	1964
H. C. Adams.....	Executive Vice President, The First National Bank of De Witt, Ark.....	1965

ANNUAL REPORT OF BOARD OF GOVERNORS

FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1963—Cont.

DIRECTORS—Cont.	District 8 — St. Louis — Cont.	<i>Term expires Dec. 31</i>
	Little Rock Branch—Cont.	
<i>Appointed by Board of Governors:</i>		
Frederick P. Blanks	Planter, Parkdale, Ark.	1963
Waldo E. Tiller	President, Tiller Tie and Lumber Company, Inc., Little Rock, Ark.	1964
Carey V. Stabler	President, Little Rock University, Little Rock, Ark.	1965
	Louisville Branch	
<i>Appointed by Federal Reserve Bank:</i>		
Ray A. Barrett	President, The State Bank of Salem, Ind.	1963
John G. Russell	President, The Peoples First National Bank & Trust Company of Paducah, Ky.	1963
John R. Stroud	Executive Vice President, The First National Bank of Mitchell, Ind.	1964
John H. Hardwick	President, The Louisville Trust Company, Louisville, Ky.	1965
<i>Appointed by Board of Governors:</i>		
Philip Davidson	President, University of Louisville, Ky.	1963
Richard T. Smith	Farmer, Madisonville, Ky.	1964
C. Hunter Green	Vice President and General Manager, Southern Bell Telephone and Telegraph Company, Louisville, Ky.	1965
	Memphis Branch	
<i>Appointed by Federal Reserve Bank:</i>		
John E. Brown	Chairman of the Board and President, Union Planters National Bank of Memphis, Tenn.	1963
Simpson Russell	Chairman of the Board, the National Bank of Commerce of Jackson, Tenn.	1963
Leon C. Castling	President, First National Bank at Marianna, Ark.	1964
Charles R. Caviness	President, National Bank of Commerce of Corinth, Miss.	1965
<i>Appointed by Board of Governors:</i>		
Edward B. LeMaster	President, Edward LeMaster Company, Inc., Memphis, Tenn.	1963
Frank Lee Wesson	President, Wesson Farms, Inc., Victoria, Ark.	1964
William King Self	President, Riverside Industries, Marks, Miss.	1965

FEDERAL RESERVE SYSTEM

FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1963—Cont.

DIRECTORS—Cont.	District 9 — Minneapolis	<i>Term expires Dec. 31</i>
<i>Class A:</i>		
Harold C. Reffing.....	Executive Vice President, First National Bank in Bottineau, N. Dak.....	1963
Rollin O. Bishop.....	Consultant, The American National Bank of Saint Paul, Minn.....	1964
Curtis B. Mateer.....	Executive Vice President, The Pierre National Bank, Pierre, S. Dak.....	1965
<i>Class B:</i>		
Ray C. Lange.....	President, Chippewa Canning Company, Inc., Chippewa Falls, Wis.....	1963
T. G. Harrison.....	Chairman of the Board, Super Valu Stores, Inc., Minneapolis, Minn.....	1964
Hugh D. Galusha, Jr....	Lawyer and Certified Public Accountant, Helena, Mont.....	1965
<i>Class C:</i>		
Judson Bemis.....	President, Bemis Bro. Bag Co., Minneapolis, Minn.....	1963
John H. Warden.....	Chairman of the Board, Upper Peninsula Power Company, Houghton, Mich.....	1964
Atherton Bean.....	President, International Milling Company, Inc., Minneapolis, Minn.....	1965
Helena Branch		
<i>Appointed by Federal Reserve Bank:</i>		
O. M. Jorgenson.....	Chairman of the Board, Security Trust and Savings Bank, Billings, Mont.....	1963
Roy G. Monroe.....	Chairman of the Board and President, The First State Bank of Malta, Mont.....	1964
Harald E. Olsson.....	President, Ronan State Bank, Ronan, Mont....	1964
<i>Appointed by Board of Governors:</i>		
John M. Otten.....	Farmer and rancher, Lewistown, Mont.....	1963
C. G. McClave.....	President & General Manager, Montana Flour Mills Co., Great Falls, Mont.....	1964
District 10 — Kansas City		
<i>Class A:</i>		
Harold Kountze.....	Chairman of the Board, The Colorado National Bank of Denver, Colo.....	1963
W. S. Kennedy.....	President and Chairman of the Board, The First National Bank of Junction City, Kans.....	1964
Burton L. Lohmuller....	President, The First National Bank of Centralia, Kans.....	1965

ANNUAL REPORT OF BOARD OF GOVERNORS

FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1963—Cont.

	<i>Term expires Dec. 31</i>
DIRECTORS—Cont. District 10 — Kansas City — Cont.	
<i>Class B:</i>	
Max A. Miller.....Livestock rancher, Omaha, Nebr.....	1963
Robert A. Olson.....President, Kansas City Power & Light Company, Kansas City, Mo.....	1964
K. S. Adams.....Chairman of the Board, Phillips Petroleum Company, Bartlesville, Okla.....	1965
<i>Class C:</i>	
Homer A. Scott.....Vice President and District Manager, Peter Kiewit Sons' Company, Sheridan, Wyo.....	1963
Dolph Simons.....Editor and President, The Lawrence Daily Journal-World, Lawrence, Kans.....	1964
Dean A. McGee.....Chairman of the Board, Kerr-McGee Oil In- dustries, Inc., Oklahoma City, Okla.....	1965
Denver Branch	
<i>Appointed by Federal Reserve Bank:</i>	
Eugene H. Adams.....President, The First National Bank of Denver, Colo.....	1963
J. H. Bloedorn.....President, The Farmers State Bank of Fort Morgan, Colo.....	1964
J. P. Brandenburg.....President, The First State Bank of Taos, N. Mex.....	1964
<i>Appointed by Board of Governors:</i>	
Robert T. Person.....President, Public Service Company of Colorado, Denver, Colo.....	1963
R. A. Burghart.....Ingle Land and Cattle Company, Colorado Springs, Colo.....	1964
Oklahoma City Branch	
<i>Appointed by Federal Reserve Bank:</i>	
C. P. Stuart.....Chairman of the Board, The Fidelity National Bank & Trust Company, Oklahoma City, Okla.....	1963
R. L. Kelsay.....Chairman of the Board and President, The First National Bank in Hobart, Okla.....	1964
Guy L. Berry, Jr.....President, The American National Bank and Trust Company, Sapulpa, Okla.....	1964
<i>Appointed by Board of Governors:</i>	
James E. Allison.....Consultant, Warren Petroleum Corporation, Tulsa, Okla.....	1963
Otto C. Barby.....Attorney and rancher, Beaver, Okla.....	1964

FEDERAL RESERVE SYSTEM

FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1963—Cont.

*Term
expires
Dec. 31*

DIRECTORS—Cont. **District 10 — Kansas City — Cont.**

Omaha Branch

Appointed by Federal Reserve Bank:

R. E. Barton.....	President, The Wyoming National Bank of Casper, Wyo.....	1963
Henry D. Kosman.....	Chairman of the Board and President, Scottsbluff National Bank, Scottsbluff, Nebr.....	1963
John F. Davis.....	President, First National Bank, Omaha, Nebr...	1964

Appointed by Board of Governors:

John T. Harris.....	Merchant and cattleman, McCook, Nebr.....	1963
Clifford Morris Hardin...	Chancellor, The University of Nebraska, Lincoln, Nebr.....	1964

District 11 — Dallas

Class A:

Roy Riddel.....	President, First National Bank at Lubbock, Tex.	1963
J. Edd McLaughlin.....	President, Security State Bank & Trust Company, Ralls, Tex.....	1964
Ralph A. Porter.....	Executive Vice President, The State National Bank of Denison, Tex.....	1965

Class B:

D. A. Hulcy.....	Chairman of the Board, Lone Star Gas Company, Dallas, Tex.....	1963
H. B. Zachry.....	President and Chairman of the Board, H. B. Zachry Co., San Antonio, Tex.....	1964
J. B. Perry, Jr.....	President and General Manager, Perry Brothers, Inc., Lufkin, Tex.....	1965

Class C:

(Vacancy).....		1963
C. J. Thomsen.....	Senior Vice President, Texas Instruments, Inc., Dallas, Tex.....	1964
Robert O. Anderson.....	Owner, Lincoln County Livestock Co., Roswell, N.Mex.....	1965

El Paso Branch

Appointed by Federal Reserve Bank:

Floyd Childress.....	Vice Chairman of the Board, The First National Bank of Roswell, N.Mex.....	1963
Dick Rogers.....	President, First National Bank in Alpine, Tex...	1963
Joseph F. Irvin.....	President, Southwest National Bank of El Paso, Tex.....	1964
Chas. B. Perry.....	Chairman of the Board, First State Bank, Odessa, Tex.....	1965

ANNUAL REPORT OF BOARD OF GOVERNORS

FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1963—Cont.

DIRECTORS—Cont.	District 11 — Dallas — Cont.	<i>Term expires Dec. 31</i>
	El Paso Branch—Cont.	
<i>Appointed by Board of Governors:</i>		
William R. Mathews.....	Editor and Publisher, The Arizona Daily Star, Tucson, Ariz.....	1963
Dysart E. Holcomb.....	Director of Research, El Paso Natural Gas Products Company, El Paso, Tex.....	1964
Roger B. Corbett.....	President, New Mexico State University, Univer- sity Park, N.Mex.....	1965
	Houston Branch	
<i>Appointed by Federal Reserve Bank:</i>		
J. A. Elkins, Jr.....	Chairman of the Board, First City National Bank of Houston, Tex.....	1963
John E. Gray.....	President, First Security National Bank of Beaumont, Tex.....	1963
J. W. McLean.....	President, Texas National Bank of Houston, Tex.....	1964
M. M. Galloway.....	President, First Capitol Bank, West Columbia, Tex.....	1965
<i>Appointed by Board of Governors:</i>		
Max Levine.....	President, Foley's, Houston, Tex.....	1963
Edgar H. Hudgins.....	Ranching—Partner in Hudgins Division of J. D. Hudgins, Hungerford, Tex.....	1964
D. B. Campbell.....	Works Manager, Sabine River Works, E. I. du Pont de Nemours & Company, Orange, Tex...	1965
	San Antonio Branch	
<i>Appointed by Federal Reserve Bank:</i>		
Donald D. James.....	Vice President, The Austin National Bank, Austin, Tex.....	1963
Forrest M. Smith.....	President, National Bank of Commerce of San Antonio, Tex.....	1963
Max A. Mandel.....	President, The Laredo National Bank, Laredo, Tex.....	1964
Dwight D. Taylor.....	President, Pan American State Bank, Browns- ville, Tex.....	1965
<i>Appointed by Board of Governors:</i>		
G. C. Hagelstein.....	President and General Manager, Union Stock Yards San Antonio, Tex.....	1963
Harold D. Herndon.....	Independent Oil Operator, San Antonio, Tex...	1964
John R. Stockton.....	Professor of Business Statistics and Director of Bureau of Business Research, The University of Texas, Austin, Tex.....	1965

FEDERAL RESERVE SYSTEM

FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1963—Cont.

DIRECTORS—Cont.	District 12 — San Francisco	<i>Term expires Dec. 31</i>
<i>Class A:</i>		
Carroll F. Byrd	Chairman of the Board and President, The First National Bank of Willows, Calif.	1963
Charles F. Frankland	President, The Pacific National Bank of Seattle, Wash.	1964
M. Vilas Hubbard	President and Chairman of the Board, Citizens Commercial Trust and Savings Bank of Pasadena, Calif.	1965

<i>Class B:</i>		
Joseph Rosenblatt	President, The Eimco Corporation, Salt Lake City, Utah	1963
Walter S. Johnson	Chairman of the Board, American Forest Products Corporation, San Francisco, Calif.	1964
Fred H. Merrill	President, Fireman's Fund American Insurance Companies, San Francisco, Calif.	1965

<i>Class C:</i>		
John D. Fredericks	President, Pacific Clay Products, Los Angeles, Calif.	1963
Frederic S. Hirschler	President, The Emporium Capwell Company, San Francisco, Calif.	1964
F. B. Whitman	President, The Western Pacific Railroad Company, San Francisco, Calif.	1965

Los Angeles Branch

Appointed by Federal Reserve Bank:

Ralph V. Arnold	Chairman of the Board and President, First National Bank and Trust Company, Ontario, Calif.	1963
Douglas Shively	President, Citizens State Bank of Santa Paula, Calif.	1964
Roy A. Britt	Vice Chairman of the Board and Chairman, Executive Committee, Crocker-Citizens National Bank, Los Angeles, Calif.	1964

Appointed by Board of Governors:

Robert J. Cannon	President, Cannon Electric Company, Los Angeles, Calif.	1963
S. Alfred Halgren	Vice President and Director, Carnation Company, Los Angeles, Calif.	1964

ANNUAL REPORT OF BOARD OF GOVERNORS

FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1963—Cont.

DIRECTORS—Cont. **District 12 — San Francisco — Cont.** *Term expires Dec. 31*

Portland Branch

Appointed by Federal Reserve Bank:

C. B. Stephenson.....Chairman of the Board, The First National Bank of Oregon, Portland, Ore..... 1963
 D. S. Baker.....President, The Baker-Boyer National Bank, Walla Walla, Wash..... 1964
 E. M. Flohr.....President, The First National Bank of Wallace, Idaho..... 1964

Appointed by Board of Governors:

Graham J. Barbey.....President, Barbey Packing Corporation, Astoria, Ore..... 1963
 Raymond R. Reter.....Reter Fruit Company, Medford, Ore..... 1964

Salt Lake City Branch

Appointed by Federal Reserve Bank:

Oscar Hiller.....President, Butte County Bank, Arco, Idaho.... 1963
 Alan B. Blood.....Executive Vice President, Barnes Banking Company, Kaysville, Utah..... 1964
 Reed E. Holt.....President, Walker Bank & Trust Company, Salt Lake City, Utah..... 1964

Appointed by Board of Governors:

Howard W. Price.....President, The Salt Lake Hardware Company, Salt Lake City, Utah..... 1963
 Thomas B. Rowland.....President and General Manager, Rowland's Inc., Pocatello, Idaho..... 1964

Seattle Branch

Appointed by Federal Reserve Bank:

Joshua Green, Jr.....Chairman of the Board, Peoples National Bank of Washington, Seattle, Wash..... 1963
 Chas. H. Parks.....Executive Vice President, Seattle-First National Bank, Spokane, Wash..... 1964
 M. F. Hastings.....President, The First National Bank of Ferndale, Wash..... 1964

Appointed by Board of Governors:

Henry N. Anderson.....President, Twin Harbors Lumber Company, Aberdeen, Wash..... 1963
 Robert D. O'Brien.....President, Pacific Car and Foundry Company, Seattle, Wash..... 1964

FEDERAL RESERVE SYSTEM

FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1963—Cont.
PRESIDENTS and VICE PRESIDENTS

Federal Reserve Bank or branch	President First Vice President	Vice Presidents	
Boston	George H. Ellis E. O. Latham	D. Harry Angney Luther M. Hoyle, Jr. Charles E. Turner	Ansgar R. Berge Oscar A. Schlaikjer G. Gordon Watts
New York	Alfred Hayes William F. Treiber	Harold A. Bilby Charles A. Coombs Marcus A. Harris Robert G. Rouse Horace L. Sanford Thomas O. Waage	John J. Clarke Howard D. Crosse Alan R. Holmes Walter H. Rozell, Jr. Robert W. Stone
Buffalo		Insley B. Smith	
Philadelphia	Karl R. Bopp Robert N. Hilkert	Hugh Barrie Joseph R. Campbell David P. Eastburn Harry W. Roeder Richard G. Wilgus	John R. Bunting Norman G. Dash Murdoch K. Goodwin J. V. Vergari
Cleveland	W. Braddock Hickman Donald S. Thompson	Roger R. Clouse Elmer F. Fricek Maurice Mann Martin Morrison	Edward A. Fink Fred S. Kelly Clifford G. Miller Paul C. Stetzelberger Fred O. Kiel Clyde E. Harrell
Cincinnati Pittsburgh			
Richmond	Edward A. Wayne Aubrey N. Heflin	Robert P. Black Upton S. Martin J. M. Nowlan R. E. Sanders, Jr.	J. G. Dickerson, Jr. John L. Nosker Benj. U. Ratchford
Baltimore Charlotte		D. F. Hagner E. F. MacDonald	

ANNUAL REPORT OF BOARD OF GOVERNORS

FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1963—Cont.
PRESIDENTS and VICE PRESIDENTS—Cont.

Federal Reserve Bank or branch	President First Vice President	Vice Presidents	
Atlanta..... Birmingham Jacksonville Nashville New Orleans	Malcolm Bryan Harold T. Patterson	J. E. Denmark L. B. Raisty Charles T. Taylor E. C. Rainey T. A. Lanford R. E. Moody, Jr. M. L. Shaw	J. E. McCorvey Brown R. Rawlings
Chicago..... Detroit	C. J. Scanlon Hugh J. Helmer	E. T. Baughman Paul C. Hodge C. T. Laibly H. J. Newman Harry S. Schultz R. A. Swaney	A. M. Gustavson L. H. Jones Richard A. Moffatt Leland M. Ross
St. Louis..... Little Rock Louisville Memphis	Harry A. Shuford Darryl R. Francis	Marvin L. Bennett Dale M. Lewis Joseph C. Wotawa Fred Burton Donald L. Henry E. Francis DeVos	Homer Jones Howard H. Weigel Orville O. Wyrick
Minneapolis..... Helena	Frederick L. Deming A. W. Mills	Kyle K. Fossum M. B. Holmgren H. G. McConnell M. H. Strothman, Jr. Clement A. Van Nice	C. W. Groth A. W. Johnson Franklin L. Parsons
Kansas City..... Denver Oklahoma City Omaha	George H. Clay Henry O. Koppang	Wilbur T. Billington Ray J. Doll L. F. Mills J. T. White Cecil Puckett H. W. Pritz George C. Rankin	John T. Boysen J. R. Euans Clarence W. Tow

FEDERAL RESERVE SYSTEM

FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1963—Cont.

PRESIDENTS and VICE PRESIDENTS—Cont.

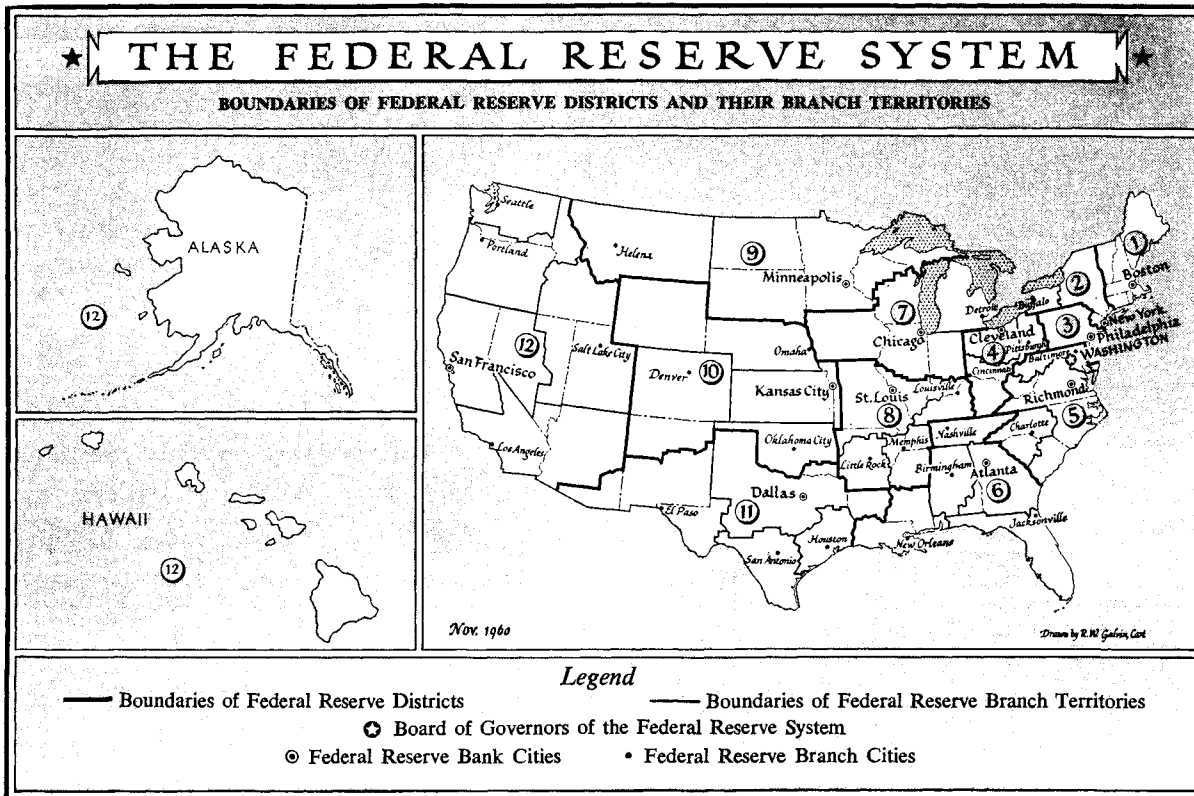
Federal Reserve Bank or branch	President First Vice President	Vice Presidents	
Dallas El Paso Houston San Antonio	Watrous H. Irons Philip E. Coldwell	James L. Cauthen T. A. Hardin James A. Parker W. M. Pritchett	Ralph T. Green G. R. Murff T. W. Plant Thomas R. Sullivan Roy E. Bohne J. L. Cook Carl H. Moore
San Francisco . . . Los Angeles Portland Salt Lake City Seattle	Eliot J. Swan H. E. Hemmings	J. L. Barbonchielli E. H. Galvin A. B. Merritt	P. W. Cavan David L. Grove C. H. Watkins D. M. Davenport (vacancy) A. L. Price E. R. Bargebaugh

CONFERENCE OF PRESIDENTS

The Presidents of the Federal Reserve Banks are organized into a Conference of Presidents that meets from time to time to consider matters of common interest and to consult with and advise the Board of Governors.

Mr. Irons, President of the Federal Reserve Bank of Dallas, and Mr. Hayes, President of the Federal Reserve Bank of New York, were elected Chairman of the Conference and Vice Chairman, respectively, in March 1963, and served in those capacities during 1963.

Mr. Robert H. Boykin of the Federal Reserve Bank of Dallas and Mr. Thomas M. Timlen, Jr. of the Federal Reserve Bank of New York were appointed Secretary of the Conference and Assistant Secretary, respectively, in March 1963, and served during the remainder of the year.



NOTE.—District and branch territories described in ANNUAL REPORT for 1953, p. 24; later changes in branch territories, in ANNUAL REPORT for 1954, p. 57, and in F.R. Bulletin for Jan. 1959, p. 17, and Sept. 1959, p. 1141.

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