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Minutes for January 22, 1964

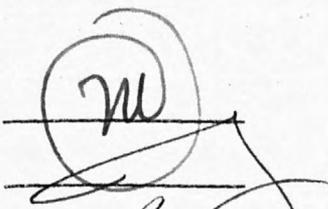
To: Members of the Board
From: Office of the Secretary

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

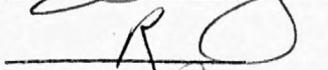
It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

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

Chm. Martin



Gov. Mills



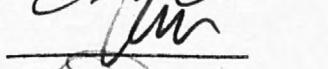
Gov. Robertson



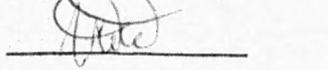
Gov. Balderston



Gov. Shepardson



Gov. Mitchell



Gov. Daane

Minutes of the Board of Governors of the Federal Reserve System on Wednesday, January 22, 1964. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Mills, Acting Chairman
Mr. Robertson
Mr. Shepardson
Mr. Daane

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Bakke, Assistant Secretary
Mr. Noyes, Adviser to the Board
Mr. Hackley, General Counsel
Mr. Brill, Director, Division of Research and Statistics
Mr. Farrell, Director, Division of Bank Operations
Mr. Hexter, Assistant General Counsel
Mr. Conkling, Assistant Director, Division of Bank Operations
Mr. Daniels, Assistant Director, Division of Bank Operations
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Collier, Chief, Current Series Section, Division of Bank Operations
Mr. Fisher, Senior Economist, Division of Research and Statistics

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

Letter to the Federal Reserve Bank of Chicago waiving the assessment of a penalty incurred by The First National Bank of Assumption, Assumption, Illinois, because of a deficiency in its required reserves.

1

Letter to Pioneer National Bank, Los Angeles, California, granting its request for permission to maintain reduced reserves.

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Item No.

Letter to the Federal Reserve Bank of Dallas regarding the bids received for the construction of a fallout shelter in the head office building.

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Requests to maintain reduced reserves (Items 4 and 5). There had been circulated a memorandum of comment and draft letters in connection with requests by Stock Yards National Bank of South Omaha, Omaha, Nebraska, and The Livestock National Bank of Kansas City, Kansas City, Missouri, for permission to maintain reduced reserves.

The Division of Bank Operations recommended that the requests be granted, unless the Board should decide to give special weight to the amount of interbank deposits usually accompanying livestock business regardless of the level of total demand deposits. The incoming material disclosed that Stock Yards National Bank had approximately \$13 million of demand deposits, excluding interbank, and \$8 million of interbank deposits. Livestock National had \$9 million in demand deposits, excluding interbank, and \$4.5 million in interbank deposits. The largest amount of interbank deposits carried by any bank that had received permission to maintain reduced reserves was \$5 million, although greater amounts were held by banks located in cities that had been changed in classification from reserve city to non-reserve city status. Approval of the current requests for permission to maintain reduced reserves would afford the applicant banks some advantage in competing with other banks in their respective cities for livestock business and for the

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resultant correspondent balances. Such inequities could presumably be rectified by approval of similar applications from other small banks in such cities if they should submit applications.

It was explained by Mr. Farrell that to grant the current requests would, in a sense, be pioneering, in that the premise supporting such action would be that the size of the bank in terms of total deposits is more important than the amount of interbank deposits held.

After further discussion, during which it was pointed out that the livestock banks had traditionally been required to maintain reserve city bank reserves against deposits because almost all of their deposits were interbank, question was raised whether approval of the current requests would cause difficulties vis-a-vis other livestock banks.

Mr. Conkling observed that some day the Board might be presented with a case involving a larger livestock bank that would require the Board to reconsider fully the test of the volume and ratio of interbank deposits in determining whether to allow a bank to carry reduced reserves. But the Division of Bank Operations was of the opinion that in the instant cases the volume of interbank deposits of the two banks in question was so small that the carrying of reduced reserves would not be objectionable. Mr. Farrell added that there were four other livestock banks in the same cities here involved that were in a similar situation to the two applicant banks.

Governor Daane expressed apprehension, however, that to grant the requests in these cases would pave the way for further erosion of the practice of considering interbank deposits as a basic criterion.

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Governor Robertson stated that he would approve the instant requests. He felt that it was unfortunate, however, that the Board had not established and announced new criteria for determination of the classification of reserve cities. Principles had been eroded, in his view, by leaving this matter in abeyance and handling requests from individual banks for reduced reserves on an ad hoc basis.

Governor Shepardson stated that his views were similar to those of Governor Robertson.

Governor Daane commented that to say, in effect, that interbank deposits did not matter, by approving these cases, might compromise the Board's ability to take a different position in future cases.

On this point, Governor Shepardson said it was his reaction that the size of these two banks was well within the size range of banks that the Board had been granting the privilege of carrying reduced reserves almost automatically. While the ratio of interbank deposits to total deposits was high, the total of interbank deposits was not large. The total deposits of the banks concerned were so low that he did not see any great hazard or serious inequity in granting the requests. Interbank deposits were of some significance, but of more significance when the banks concerned were of larger size.

Governor Robertson noted that some banks in non-reserve cities had had larger interbank deposits in total, although the ratio of such deposits to total deposits was not so high as here.

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In view of this background, Governor Daane indicated that he would reluctantly go along with approval of the instant requests. He felt, however, that the Board should undertake a review of the matter of interbank deposits as a criterion in order that some general philosophy might be worked out.

Further discussion included comment by Governor Mills that the operations of livestock banks were such that their interbank deposits were not of quite the same character as such deposits held by the ordinary commercial bank, and a statement by Mr. Farrell that the Division of Bank Operations was in the process of bringing up to date the statistics used by the Board some time ago in studying the problem of classification of reserve cities.

The requests by the two banks in question to maintain reduced reserves were then approved unanimously. Copies of the letters sent to the two banks are attached as Items 4 and 5.

Messrs. Conkling and Collier then withdrew from the meeting.

Possible destruction of unfit currency in Puerto Rico. There had been circulated a memorandum from Mr. Farrell dated January 14, 1964, dealing with the interest of the Treasury Department in exploring the possibility of destruction of unfit currency by a branch of First National City Bank of New York in San Juan, Puerto Rico.

Mr. Farrell stated that a representative of the Treasury Department had discussed with him the matter of a possible visit to Puerto Rico to survey the feasibility of utilizing the incinerator at

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the new branch of First National City Bank in San Juan for this purpose. The question raised by the Treasury related to representation of the Federal Reserve in the group visiting Puerto Rico. If such representation should be desired by the Board, Mr. Farrell expressed willingness to participate.

Mr. Hexter inquired about the relationship of this proposal to the draft legislation now in process of preparation regarding local destruction of unfit Federal Reserve notes.

Mr. Farrell stated that in the view of one Treasury official there would not necessarily be a conflict. According to this argument, under existing law the Comptroller of the Currency could designate a local representative to accept unfit Federal Reserve notes for destruction on his behalf, and therefore new legislation was not needed to avoid shipping notes to Washington. The Legal Division, of course, had taken the position that legislation would be needed to authorize local destruction of these notes, at least without sorting them by Bank of issue.

Mr. Hexter pointed out that the Board had adopted the Legal Division's position in this matter.

Governor Robertson raised the question whether an inspection trip would not be premature at this time, pending the enactment of legislation.

Mr. Farrell stated that in any event it would be necessary to determine whether the facilities in Puerto Rico are adequate and whether they should be used.

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Mr. Hexter suggested that if an inspection trip was made at this time it should be made clear that it would only be exploratory in anticipation of legislation being enacted pertaining to local destruction of Federal Reserve notes.

Governor Shepardson suggested that perhaps the proposed trip would be helpful in developing information on a practical problem of some significance that could be useful in support of the proposed legislation.

Governor Mills agreed and expressed the opinion that if the trip is made the Board should be represented and Mr. Farrell should be the designee.

Governor Robertson concurred that this should be the case, but added that the trip should not be undertaken with a view to deciding upon an arrangement whereby a private institution would be destroying Federal Reserve notes.

Governor Shepardson stated his understanding that although private facilities might be used, he gathered that the actual destruction of the unfit currency would be under the supervision of a representative of the Comptroller of the Currency, and Mr. Farrell indicated that this was one of the points that would have to be clarified.

Governor Mills stressed that if the proposed trip materialized, Mr. Farrell should bear in mind the Board's position on the proposed legislation.

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Mr. Farrell noted that he understood that the proposed legislation was being delayed in the Treasury Department because of the Comptroller's concern over some features of the draft bill. The legislation in question would permit substantial economies to be realized, however, and chances for its eventual passage would appear to be good. If the legislation was not enacted, it would still be necessary to consider the matter of destruction of unfit Federal Reserve notes in Puerto Rico under the supervision of a representative of the Comptroller.

Mr. Hexter noted that, if this were the case, the same question would be applicable to local destruction of notes in the United States. If such a procedure was considered permissible under existing law, there was the question whether the Board's position on the need for legislation should be reversed.

Mr. Farrell stated that there were two questions involved. Even if it should be decided that without the legislation in question local destruction of unfit Federal Reserve notes could be accomplished, it would be necessary first to make a sort of unfit notes by Bank of issue.

Mr. Hexter then commented that the question of the need for legislation should not be resolved incident to any trip to Puerto Rico.

Following further discussion, it was agreed that if representatives of the Treasury Department decided to undertake the trip in question, Mr. Farrell should accompany them, but that Mr. Farrell should explore with them the need for such a trip at this time. Further, if the trip should be undertaken, Mr. Farrell should make clear the Board's

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view that it was purely exploratory in nature and that his participation should in no way be construed as evidencing any Board commitment.

Governor Mills then noted that there appeared to be some difference of opinion as to the need for legislation to authorize the local destruction of Federal Reserve notes. He inquired whether the question should be explored further.

Mr. Hackley replied that, as he understood it, the purpose of any trip to Puerto Rico would be to explore the possibility of destruction of Federal Reserve notes in Puerto Rico, but only on the understanding that legislation was passed that would permit such destruction. Mr. Daniels commented, however, that in his opinion the Treasury would have authority to do this even in the absence of new legislation. Mr. Hackley said he had assumed that the question of the need for legislation to authorize local destruction of Federal Reserve notes had been settled by the Board and that the matter was not open unless the Board wished to reconsider its position. Mr. Hexter noted that draft legislation prepared by the Legal Division was in the hands of the Treasury at the present time.

Governor Mills then suggested that there be prepared for the Board's information a memorandum reviewing the question of the need for legislation, the present status of the matter, and the views of the Legal Division and the Division of Bank Operations on the subject, and it was understood that such a memorandum would be prepared.

Mr. Daniels then withdrew from the meeting.

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Housing and Community Development Act of 1964 (Item No. 6).

There had been distributed a proposed letter to the Bureau of the Budget responding to a request for the Board's views on certain draft legislation cited as the "Housing and Community Development Act of 1964."

At Governor Mills' request, Mr. Fisher explained various provisions of the draft legislation in question, and there followed a discussion of the views the Board might express on the proposed bill. It was generally agreed that the legislation appeared to have a number of undesirable features; however, it was further agreed that, since the interval between receipt of the request for views and the deadline set for submission thereof was so short, an adequate analysis and evaluation of the subject matter was scarcely possible. Therefore, it was suggested that a prudent course of action might be to rely mainly, in commenting, on the apparent conflict between the proposed legislation and recommendations contained in the November 27, 1962, report to the President by the Committee on Federal Credit Programs. Accordingly, the staff was requested to prepare and circulate a redraft of the letter, embodying this suggestion, for consideration later in the day.

The meeting then recessed and reconvened at 2:30 p.m., with Governors Mills, Robertson, Shepardson, and Daane in attendance, as well as Messrs. Sherman, Kenyon, Bakke, Noyes, Hackley, and Fisher.

As requested by the Board at the close of the morning session, there had been distributed a revised draft of a letter to the Bureau

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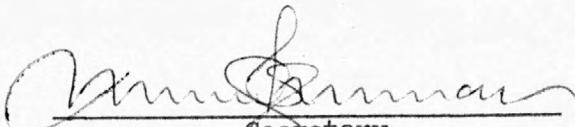
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of the Budget setting forth the Board's comments on the draft bill cited as the "Housing and Community Development Act of 1964."

Various suggestions regarding the text of the proposed letter were discussed, following which a letter was approved unanimously in the form attached to these minutes as Item No. 6.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board letters to the Federal Reserve Bank of San Francisco (attached Items 7 and 8) approving the appointment of Cecil G. Smith as assistant examiner and the designation of 26 persons as special assistant examiners.


Secretary

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

Item No. 1
1/22/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 22, 1964



Mr. L. H. Jones, Vice President
and Cashier,
Federal Reserve Bank of Chicago,
P. O. Box 834,
Chicago, Illinois. 60690

Dear Mr. Jones:

This refers to your letter of January 9, 1964, regarding the penalty of \$42.19 incurred by The First National Bank of Assumption, Assumption, Illinois, on a deficiency in its required reserves for the computation period ended December 25, 1963.

It is noted that (1) the deficiency resulted from an unusual delay in the mail of two \$100,000 transfers of funds which, if made without delay, would have resulted in excess reserves in the period; and (2) the bank has an excellent record of maintaining adequate reserves.

In the circumstances, the Board authorizes your Bank to waive assessment of the penalty of \$42.19 for the period ended December 25, 1963.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 2
1/22/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 22, 1964



Board of Directors,
Pioneer National Bank,
Los Angeles, California.

Gentlemen:

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

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

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 3
1/22/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 22, 1964

Mr. Watrous H. Irons, President,
Federal Reserve Bank of Dallas,
Dallas, Texas. 75222

Dear Mr. Irons:

This refers to First Vice President Coldwell's letter of January 9, 1964, concerning the bids received for the construction of a Fallout Shelter in the Dallas Head Office building.

It is noted that, inasmuch as the lowest bid was much higher than the July 1963 estimate of \$170,000 (on which Board approval of the project was based), your Bank, with the agreement of the Board of Directors, has decided to abandon the project and has so notified the architect and the bidders. It is also noted that certain architect's fees and related expenses will be paid in the near future, but the \$30,000 for Fallout Shelter construction in the first-half 1964 budget of your Bank can be eliminated.

The Board understands from your letter that the entire Fallout Shelter program is to be reappraised.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.



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

Item No. 4
1/22/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 22, 1964



Board of Directors,
Stock Yards National
Bank of South Omaha,
Omaha, Nebraska.

Gentlemen:

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

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

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

Item No. 5
1/22/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 22, 1964



Board of Directors,
The Livestock National Bank of
Kansas City,
Kansas City, Missouri.

Gentlemen:

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

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

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 6
1/22/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 22, 1964.



Mr. Phillip S. Hughes,
Assistant Director for
Legislative Reference,
Bureau of the Budget,
Washington, D. C. 20503.

Attention: Mr. W. H. Rommel

Dear Mr. Hughes:

The Bureau of the Budget, in a letter of January 20, 1964, has requested the Board's views on the preliminary draft bill, dated January 13, 1964, entitled "Housing and Community Development Act of 1964."

In the limited time made available by the Bureau of the Budget for study of this draft bill, the Board has not had an opportunity to assess its full implications. A brief review, however, indicates clearly that the tenor of the bill as reflected in a number of its major features would run directly counter to several of the guiding principles set forth for Federal credit agencies in the Report of the Committee on Federal Credit Programs, dated November 27, 1962, which principles the Board believes are sound.

For example, this inter-Governmental committee report recommended the adoption, wherever possible, of Federal credit programs designed to supplement or stimulate private lending, rather than substitute for it. The report also favored the disclosure of subsidies in an open and consistent fashion, so that benefits can be intelligibly assessed in terms of costs. Yet certain provisions of this draft bill would tend to substitute Federal for private credit by broadening the use of Federally-underwritten below-market interest rate loans, backstopped by FNMA special assistance which, in its effect if not in its appearance, would represent direct Federal lending.

Mr. Phillip S. Hughes

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The report also recommended that some element of private lender risk (coinsurance) should be required, as a matter of principle, in order to provide incentives for normal vigilance by lenders in making and servicing Federally underwritten loans. Yet a number of provisions of the draft bill would shift a larger share--if not the entire share--of risk away from private lenders either to the FHA or to the Treasury.

These are only two of a number of instances which could be cited of features in the draft bill which conflict with recommendations in the report. The Board feels strongly that the draft bill would be strengthened considerably by conforming any conflicting provisions to the guidelines of the report. But even if such changes were made, the Board questions whether the provisions of the proposed legislation are adequate to insure that anticipated reductions in costs will be realized by final users and not by intermediate market participants.

Whether or not housing and community development programs aimed at assisting special groups of the population should be a subject for Federal rather than local initiative--especially in communities already benefiting from other existing Federal programs--requires a closer analysis than the Board has been able to make at this time.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 7
1/22/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 22, 1964

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

Dear Mr. Galvin:

In accordance with the request contained in Mr. Cavan's letter of January 8, 1964, the Board approves the appointment of Cecil G. Smith as an assistant examiner for the Federal Reserve Bank of San Francisco. Please furnish a photograph of Mr. Smith and advise the effective date of his appointment.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 8
1/22/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 22, 1964



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

Dear Mr. Galvin:

In accordance with the request contained in Mr. Cavan's letter of January 13, 1964, the Board approves the designation of the following employees as special assistant examiners for the Federal Reserve Bank of San Francisco for the purpose of participating in examinations of State member banks:

O. P. Celli, Jr.	F. E. Frank
S. E. Seely	P. N. Genova
C. Woessner, Jr.	K. A. Hartmann
L. G. Hogan	E. E. Hartzler
J. T. Peace	R. L. Mardis
W. R. Rasmussen	J. H. Meredith
E. B. Weaver	J. L. Oborn
E. L. Cook	B. H. Thompson
B. M. Duxbury	D. B. King
E. F. Ermis	D. G. Smith

The Board also approves the designation of the following employees as special assistant examiners for your bank for the purpose of participating in examinations of State member banks except those listed opposite their names:

R. E. Prosser - United California Bank
Los Angeles, California

W. J. Peden, III - Wells Fargo Bank
San Francisco, California

D. S. Booth - The Sumitomo Bank of California
San Francisco, California

F. E. Frank - Union Bank, Los Angeles, California
A. B. McCarthy - Union Bank, Los Angeles, California
R. G. Torgeson - Union Bank, Los Angeles, California

Mr. Galvin

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Authorizations heretofore given your bank to designate these individuals as special assistant examiners are hereby canceled and appropriate notations have been made on our records of the names to be deleted from the list of special assistant examiners.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.