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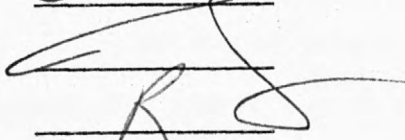
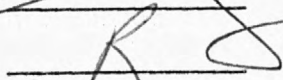
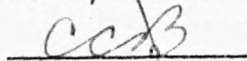
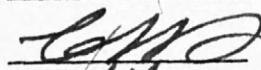

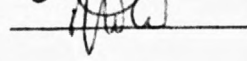
Minutes for March 9, 1964

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 | <u></u> |
| Gov. Mills | <u></u> |
| Gov. Robertson | <u></u> |
| Gov. Balderston | <u></u> |
| Gov. Shepardson | <u></u> |
| Gov. Mitchell | <u></u> |
| Gov. Daane | <u></u> |

Minutes of the Board of Governors of the Federal Reserve System on Monday, March 9, 1964. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Cardon, Legislative Counsel
 Mr. Fauver, Assistant to the Board
 Mr. Johnson, Director, Division of Personnel Administration
 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. Sprecher, Assistant Director, Division of Personnel Administration
 Mr. Mattras, General Assistant, Office of the Secretary
 Mr. Veenstra, Chief, Call Report Section, Division of Bank Operations
 Mr. Solodow, Analyst, Division of Bank Operations

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

Item No.

Letter to Fair Lawn-Radburn Trust Company, Fair Lawn, New Jersey, approving the establishment of a branch at 14-03 Saddle River Road, rather than at 21-17 Saddle River Road, as approved by the Board on August 16, 1963.

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| | <u>Item No.</u> |
|---|-----------------|
| Letter to Union Bank, Los Angeles, California, approving the establishment of a branch in Fullerton. | 2 |
| Letter to Wells Fargo Bank, San Francisco, California, approving the establishment of a branch in Rancho Cordova. | 3 |
| Letter to United California Bank, Los Angeles, California, approving an extension of time to establish a branch in an unincorporated area adjacent to and west of the city of Santa Barbara. | 4 |
| Letter to Metropolitan National Bank, Kansas City, Missouri, granting its request for permission to maintain reduced reserves. | 5 |
| Letter to the Federal Reserve Bank of Richmond authorizing waiver of a penalty incurred by Shenandoah County Bank and Trust Company, Woodstock, Virginia, because of a deficiency in its required reserves. | 6 |
| Letter to the Presidents of all Federal Reserve Banks regarding the schedule for showing the motto "In God We Trust" on all paper currency. | 7 |
| Letter to Merchants Trust & Savings Bank, Kenner, Louisiana, granting a further extension of time in which to withdraw from membership in the Federal Reserve System. | 8 |

Window dressing (Items 9 and 10). There had been distributed a memorandum from the Division of Bank Operations dated February 28, 1964, regarding the results of System efforts to eliminate the practice of window dressing. There had also been distributed draft letters that might be sent to the Mid-Continent Banker, St. Louis, Missouri, and to Chairman Fascell of the Legal and Monetary Affairs Subcommittee of the

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House Committee on Government Operations. (A similar letter would be sent to Chairman Dawson of the House Committee on Government Operations.)

The memorandum noted that the program reflected the request in the Board's letter of November 21, 1963, to all Reserve Banks that the Banks, in cooperation with representatives of the Federal Deposit Insurance Corporation, take certain steps to attempt to dissuade bankers from engaging in the practice of window dressing. Reports had now been received from all Reserve Banks except one (Atlanta) describing letters written, meetings held, and banker reactions. Comments were almost entirely favorable to the program, and encouraging expectations of a reduction in bank-initiated window dressing were expressed. Bankers in most districts noted, however, that temporary transactions initiated by customers for the purpose of improving their own statements and natural phenomena, such as the accumulation of local tax receipts or of deposits for expected dividend pay-outs and an unavoidable slowdown in the processing of cash items before the New Year holiday, were contributory reasons to year-end results in condition statements.

Studies by the Division of Bank Operations of changes in accounts most subject to window dressing at the end of 1962 and 1963 indicated that the program was generally successful. There remained some question as to what extent the apparent improvement in 1963 was due to the elimination of window dressing by banks or other factors. Definitive answers could not be determined statistically. However,

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continuing watchfulness on the part of the Reserve Banks might help to keep the practice of window dressing under control.

After discussion, the Board approved unanimously letters to Chairman Fascell (with a similar letter to Chairman Dawson) and to the Mid-Continent Banker. Copies of the letters sent pursuant to this understanding are attached to these minutes as Items 9 and 10.

Messrs. Conkling, Daniels, Veenstra, and Solodow then withdrew from the meeting.

Retirement System of the Reserve Banks. Mr. Sherman noted that on January 28, 1964, the Conference of Presidents of the Federal Reserve Banks approved certain changes in benefits under the Bank Plan of the Retirement System of the Federal Reserve Banks that were recommended by the Subcommittee on Personnel. Thus, the matter was now before the Board, and an analytical memorandum was being prepared by the Division of Personnel Administration. If the changes should be approved by the Board and other required steps were accomplished within the Reserve Banks and the Retirement System, an effective date would be fixed, possibly July 1, 1964.

Governor Mills stated that the memorandum to be prepared on this matter should be comprehensive since the proposed changes in benefits were far-reaching. The memorandum should give an adequate comparison of Bank Plan benefits with those provided under the Civil Service Retirement System. It was easy to fall into the pattern of relating Bank Plan benefits to those available under programs in effect in certain

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segments of private industry, selecting the particular programs that offered more generous benefits than the present and proposed benefits under the Bank Plan and overlooking the fact that the programs of other commercial and industrial concerns were not so generous. Some of the more generous private industry programs reflected, among other things, the pressures of collective bargaining. Whether that was a pattern that should be approved by the Board for inclusion in the Bank Plan, he did not know; it was up to the Board to scrutinize the matter to determine whether the proposed package of benefits was more than would be consistent and appropriate for an agency of the Federal Government to approve.

Chairman Martin noted that Mr. Byron Johnson had been engaged as a consultant to the House Banking and Currency Committee to study the Board and Bank Plans of the Federal Reserve Retirement System. There followed comments by staff members on conversations with Mr. Johnson and the information that had been conveyed to him. Question was raised, in this connection, as to how the proposed changes in the Bank Plan should be handled, and there was agreement with a statement by Chairman Martin that the usual practice of full disclosure would be in order, the staff to make it clear, of course, that the current proposals were under study and the Board had not committed itself with respect to them.

Salaries of retirees. It was noted that Chairman Patman of the House Banking and Currency Committee had requested by letter dated

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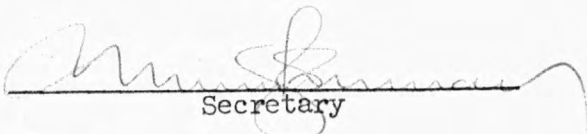
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March 2, 1964, information on cases under the Federal Reserve Retirement System where benefits were being paid at rates of \$10,000 per annum or more.

After discussion, it was agreed that the response should be cast in terms of providing, for the applicable cases, the title of the position occupied at date of retirement, salary rate at the time of separation from active service, and annual retirement benefits currently being paid.

The meeting then adjourned.

Secretary's Note: Pursuant to the recommendation contained in a memorandum from Governors Balderston and Robertson, Governor Shepardson today approved on behalf of the Board the transfer of William Edward Hardy from the position of Messenger, Division of Administrative Services, to the position of Messenger in the Board Members' Offices, with an increase in basic annual salary from \$4,295 to \$4,565, effective the date of assuming his new duties.


Secretary

Item No. 1
3/9/64

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 9, 1964



Board of Directors,
Fair Lawn-Radburn Trust Company,
Fair Lawn, New Jersey.

Gentlemen:

On August 16, 1963, the Board of Governors of the Federal Reserve System approved the establishment of an in-town branch at 21-17 Saddle River Road by Fair Lawn-Radburn Trust Company, Fair Lawn, New Jersey. Your letter of December 6, 1963 indicates that you now wish to establish this branch at 14-03 Saddle River Road. The Board does not object to establishment of the branch at the new location provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

Item No. 2
3/9/64

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



March 9, 1964

Board of Directors,
Union Bank,
Los Angeles, California.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by Union Bank, Los Angeles, California, in the vicinity of the intersection of Orangethorpe Avenue and Harbor Boulevard, Fullerton, Orange County, California, provided the branch is established within one year from the date of this letter. It is understood that the branch will not be opened until permanent quarters are available.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

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

Item No. 3
3/9/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 9, 1964

Board of Directors,
Wells Fargo Bank,
San Francisco, California.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by Wells Fargo Bank, San Francisco, California, in the vicinity of the northeast corner of the intersection of Coloma Road and U. S. Highway 50 in the unincorporated town of Rancho Cordova, Sacramento County, California, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 4
3/9/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 9, 1964

Board of Directors,
United California Bank,
Los Angeles, California.

Gentlemen:

The Board of Governors of the Federal Reserve System extends to December 22, 1964, the time within which United California Bank, Los Angeles, California, may establish a branch on State Street between La Cumbre Road and San Roque Road in an unincorporated area adjacent to and west of the city of Santa Barbara, California.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.



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

Item No. 5
3/9/64



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 9, 1964

Board of Directors,
Metropolitan National Bank,
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 Metropolitan National Bank 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
3/9/64



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 9, 1964

Mr. Aubrey N. Heflin,
First Vice President,
Federal Reserve Bank of Richmond,
Richmond, Virginia. 23213

Dear Mr. Heflin:

This refers to your letter of February 24, 1964, regarding a penalty of \$135.77 incurred by the Shenandoah County Bank and Trust Company, Woodstock, Virginia, on an average daily deficiency in reserves of \$64,357 for the biweekly computation period ended February 5, 1964.

It is noted that (1) the deficiency resulted from an oversight by the member bank; (2) the deficiency could have been discovered sooner had the member bank been computing its reserve requirement on a daily basis, a practice that has since been adopted; and (3) your Bank's records indicate that the member bank previously had a perfect record for maintenance of required reserves.

In the circumstances, the Board authorizes your Bank to waive the assessment of the penalty of \$135.77 for the period ended February 5, 1964.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 7
3/9/64



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 9, 1964.

Dear Sir:

You may have seen some reference in the press to the schedule for showing the motto "In God We Trust" on all paper currency. The Bureau of Engraving and Printing's tentative schedule for the conversion was contained in the Appendix of the Congressional Record for January 20, 1964 (pages A191-192).

The design of the 1963 Series Federal Reserve note includes the motto "In God We Trust" on the back. The first printing of these notes in denominations higher than \$1 will be in April, when some \$10 notes of three Reserve Banks will be delivered to the Federal Reserve vault. During fiscal year 1965, some notes of the remaining denominations will be delivered in 1963 Series form. Not all Reserve Banks will have the new 1963 Series notes printed in all denominations in fiscal year 1965, but all Banks will have some denominations printed during the year. Complete conversion of the \$50 and \$100 notes to the new design is expected in fiscal year 1966, and complete conversion of the \$5's, \$10's, and \$20's in fiscal year 1969.

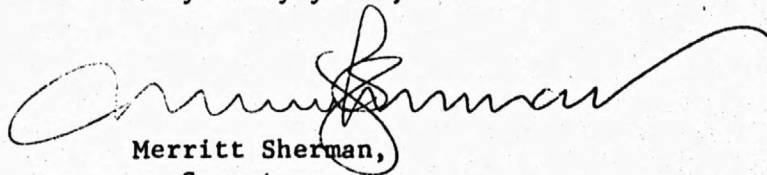
It is the Board's feeling that no interruption of normal procedures in the handling of 1963 Series Federal Reserve notes of the \$5 through \$100 denominations should be made. New notes would continue to be shipped from the Federal Reserve vault on a first-in-first-out basis. At the Reserve Banks and Branches, the 1963 Series notes would be issued by the Federal Reserve Agents, and paid into circulation, in the normal course of operations. No public announcement would be made by the Board or by any of the Reserve Banks when the first 1963 Series notes are released. It is recognized, of course, that there nevertheless will be requests for low numbered notes of the new series, and it is suggested that such requests might be declined with an explanation that the new notes are being shipped from Washington and paid out in the regular course of business and that no special consideration is being given to the numbers on the notes.

If your Bank sees any objection to such a plan, please let the Board know the reasons why some other procedure is recommended.

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A copy of this letter is being sent to the Federal Reserve Agent
at your Bank for his information.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Merritt Sherman". The signature is written in dark ink and is positioned above the typed name.

Merritt Sherman,
Secretary,

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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Item No. 8
3/9/64

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



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 9, 1964.

Board of Directors,
Merchants Trust & Savings Bank,
Kenner, Louisiana.

Gentlemen:

The Board of Governors of the Federal Reserve System extends to June 6, 1964, the time within which the Merchants Trust & Savings Bank, Kenner, Louisiana, may withdraw from membership in the Federal Reserve System.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

Item No. 9
3/9/64BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

OFFICE OF THE CHAIRMAN

April 1, 1964.

The Honorable Dante B. Fascell,
Chairman,
Legal and Monetary Affairs Subcommittee,
Committee on Government Operations,
House of Representatives,
Washington, D. C. 20515

Dear Mr. Chairman:

This is in further reference to your letter of November 27, 1963 and supplements my letter of December 4 regarding window dressing in year-end bank condition reports. In the Board's letter to all Federal Reserve Bank Presidents dated November 21, a copy of which was furnished to you earlier, the Board asked that joint Federal Reserve Bank-Federal Deposit Insurance Corporation efforts be made to eliminate the practice of window dressing.

A program of moral suasion was undertaken and responses have been received from the Presidents of the Reserve Banks describing their activities and banker reactions thereto. Comments of the Presidents and of individual bankers were almost entirely favorable to the program, and they expressed expectations of reductions in bank-initiated window dressing. Bankers in most districts also noted that some short-term changes in year-end bank statements reflect both (a) temporary transactions initiated by customers for the purpose of improving their own statements and (b) natural phenomena, such as the accumulation of local tax receipts, the accumulation of deposits for expected dividend payouts, and an unavoidable seasonal slowdown in the processing of cash items before the New Year holiday.

Comparative studies of year-end reports of condition, using aggregate figures showing short-term changes in those accounts most subject to window dressing at the end of 1962 and of 1963, indicate that this program was quite successful. This opinion is generally substantiated by Reserve Bank analyses of

The Honorable Dante B. Fascell -2-

individual bank reports of deposits for reserve purposes. Needless to say, there remain some questions as to the extent to which the apparent improvement in 1963 resulted from the elimination of window dressing by banks or by their customers, and how much resulted from other factors. Definitive answers to these questions cannot be shown statistically.

A continuing watchfulness on the part of the Federal Reserve Banks is expected to assist in keeping the objectionable practice of window dressing under control.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

(Similar letter sent to Chairman Dawson of the House Committee on Government Operations.)

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Item No. 10
3/9/64

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



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 8, 1964.

Miss Rosemary McKelvey,
Associate Editor,
Mid-Continent Banker,
406 Olive Street,
St. Louis 2, Missouri.

Dear Miss McKelvey:

On January 8, 1964, you wrote to the Federal Reserve Banks inquiring about the results of their discussions during the latter part of 1963 with member banks on the subject of "window dressing" in year-end statements of condition. Several of the Banks forwarded your inquiry to the Board, and by letter of January 14 the Board advised you that it was then too early to make a meaningful evaluation of the program and that comment on results would be premature. It was also stated, however, that any information developed by the System for release would be forwarded to you.

The program of discussions undertaken by the Reserve Banks with member banks in their Districts in an effort to treat with the problem of year-end "window dressing" on a basis of moral suasion has now been reviewed, and the consensus of the Reserve Banks is that the discussions were well-received and should prove productive. This view appears to be borne out by the results of comparative studies of aggregate short-term changes at the end of 1962 and 1963 in those accounts most subject to window dressing, which suggest that the program has helped reduce the extent of the practice.

In the course of their discussions with commercial bankers, the Reserve Banks found that the reported account fluctuations suggesting "window dressing" were a matter not entirely within the province of the banks to control. Among the phenomena cited as contributing to marked fluctuation in the account structure of the banks at year-end were temporary transactions initiated by customers for the purpose of improving their own statements, as well as natural year-end account activity arising out of accumulation of local tax receipts and deposits for expected dividend pay-outs, and an unavoidable slow-down in processing of cash items before the New Year holiday.

Miss McKelvey

It may be concluded that this program of moral suasion has had a degree of positive success in controlling window dressing to the extent the circumstances suggestive of such practice are within the power of the member banks themselves to control. It is equally apparent, however, that to some indeterminate extent the fluctuations in published data relative to their year-end account structure reflect circumstances and conditions that are not, properly speaking, window dressing at all, and therefore the subject will require further analysis and evaluation.

It is hoped that these comments will be of some assistance to you.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.