

Minutes for March 16, 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

The image shows a list of names with horizontal lines next to them for initials. The names are: Chm. Martin, Gov. Mills, Gov. Robertson, Gov. Balderston, Gov. Shepardson, Gov. Mitchell, and Gov. Daane. Next to Chm. Martin is a large circle containing the initials 'RM'. Next to Gov. Mills is a large circle containing the initials 'JM'. Next to Gov. Robertson is a large circle containing the initials 'JR'. Next to Gov. Balderston is a large circle containing the initials 'CB'. Next to Gov. Shepardson is a large circle containing the initials 'SS'. Next to Gov. Mitchell is a large circle containing the initials 'MM'. Next to Gov. Daane is a large circle containing the initials 'DD'. There are also some additional handwritten marks and lines around these circles.

Minutes of the Board of Governors of the Federal Reserve System on Monday, March 16, 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. Daane

Mr. Sherman, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Broida, Assistant Secretary  
Mr. Young, Adviser to the Board and Director,  
Division of International Finance  
Mr. Noyes, Adviser to the Board  
Mr. Fauver, Assistant to the Board  
Mr. Brill, Director, Division of Research  
and Statistics  
Mr. Solomon, Director, Division of Examinations  
Mr. Johnson, Director, Division of Personnel  
Administration  
Mr. Hexter, Assistant General Counsel  
Mr. O'Connell, Assistant General Counsel  
Mr. Holland, Associate Director, Division  
of Research and Statistics  
Mr. Partee, Adviser, Division of Research  
and Statistics  
Mr. Furth, Adviser, Division of International  
Finance  
Mr. Hersey, Adviser, Division of International  
Finance  
Mr. Sammons, Adviser, Division of International  
Finance  
Mr. Katz, Associate Adviser, Division of  
International Finance  
Mr. Wood, Associate Adviser, Division of  
International Finance  
Mr. Kiley, Assistant Director, Division of  
Bank Operations  
Mr. Smith, Assistant Director, Division of  
Examinations  
Mr. Thompson, Assistant Director, Division of  
Examinations

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Mr. Mattras, General Assistant, Office of  
the Secretary  
Mr. Via, Senior Attorney, Legal Division  
Mr. Donovan, Review Examiner, Division of  
Examinations

Report by Mr. Noyes. Mr. Noyes presented an informal report on the recent meeting of central bank economists held at Basle, Switzerland, under the auspices of the Bank for International Settlements.

Messrs. Broida, Young, Noyes, Brill, Holland, Partee, Furth, Hersey, Sammons, Katz, and Wood then withdrew from the meeting.

Distributed item. The following item, a copy of which is attached to these minutes as Item No. 1, was approved unanimously:

Telegram to the Federal Reserve Agent at Chicago authorizing the issuance of a general voting permit to Brenton Companies, Inc., Des Moines, Iowa, covering its stock of six specified banks located in Iowa.

Check clearing bureaus (Item No. 2). There had been distributed a memorandum from the Division of Bank Operations dated March 11, 1964, regarding a report by the Federal Reserve Bank of New York on the 1963 operations of the Nassau County and Bergen County Check Clearing Bureaus. It was noted that the two bureaus continued to provide an efficient check collection service at a saving to the Reserve Bank. No reason was seen that would warrant revoking approval of the arrangement for the Reserve Bank to pay 2/3 of the cost of handling interbank items up to a maximum of \$9 per 1,000. A draft of letter to the Federal Reserve Bank of New York in line with the Division's conclusion was attached.

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Governor Robertson raised a question as to whether other clearing house associations might request similar assistance from Reserve Banks.

Mr. Kiley stated that other inquiries had been received. In the Nassau and Bergen County situations, the New York Reserve Bank justified its subsidy on the cost advantage to the Reserve Bank. A certain portion of the items handled through the two clearing bureaus would otherwise come to the Reserve Bank, and the cost of handling would be greater, for reasons that he explained.

Governor Robertson then inquired how additional requests of the same nature could be differentiated, and Mr. Kiley recalled that in 1955 the Conference of Presidents of the Federal Reserve Banks had approved in principle contributions by Reserve Banks to regional clearing arrangements in appropriate circumstances, the amount of contribution, if any, to be tied to the benefits derived by the Reserve Banks. This reflected the general basis for consideration of any such proposals. Governor Robertson expressed the view that arrangements of this kind, to merit Reserve Bank support, should provide benefits to the public as well as the Reserve Banks.

The Board then approved unanimously the proposed letter. A copy is attached to these minutes as Item No. 2.

Application of Baystate Corporation. There had been distributed a memorandum from the Division of Examinations dated February 13, 1964, and other pertinent papers regarding the application of Baystate Corporation,

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Boston, Massachusetts, to acquire up to 100 per cent of the voting shares of Merrimack Valley National Bank, Haverhill, Haverhill, Massachusetts. As stated in a subsequent memorandum, dated March 9, 1964, the Massachusetts Board of Bank Incorporation held a public hearing on the matter on February 13, and on March 6 the Board received a telegram from the Federal Reserve Bank of Boston advising that the Massachusetts Board had approved the application. Pending receipt of such advice, Board consideration of the application had been deferred, pursuant to the understanding at the meeting on February 13, 1964.

Mr. Thompson commented on the application, basing his summary on information contained in the February 13 memorandum, and stated reasons why the Division of Examinations, like the Federal Reserve Bank of Boston, recommended favorable action.

Governor Mills said that he would approve the application for the reasons cited by the Division. He added that in resolving the case he felt it was important to bear in mind that the application was one of a holding company and was not a merger case. There was some philosophical difference, he thought, since holding companies generally operated in larger areas, while bank mergers, by and large, involved single transactions in a more localized area. Turning to the present case more specifically, he noted that a homogeneous area was involved, with a heavy concentration of population. He felt, for reasons stated by the Division of Examinations, that approval would not be inconsistent with the Bank Holding Company Act since it would not expand Baystate's

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operations to a point that could be regarded as inconsistent with sound banking or the preservation of competition in the field of banking. In the area where the Haverhill bank was located, and in the larger area in which Baystate Corporation operated, active competition would remain from commercial banks, savings banks, and other types of financial institutions. He also thought that some weight might be given to the fact that Baystate had not had a record of moving too aggressively in the direction of expansion.

Governor Robertson expressed the opinion that approval could not be justified on the basis of management problems in a bank of this size, on the basis that the bank's prospects were poor, or on the basis of convenience and needs of the community. He would, however, approve the application on the basis of three factors; namely, the linkage between First National Bank of Boston and Baystate was being effectively terminated, the case had been approved by the State Board, and the effect on the competitive situation would not appear to be significantly adverse. When any holding company became the size of Baystate, he was rather reluctant to see it expand too much further, but he did not believe that the point had been reached where the present application should be denied on those grounds.

Governor Shepardson said that he would approve the application for the reasons given by the Division of Examinations.

Governor Daane indicated that he had some difficulty in determining how to define the limit beyond which a holding company should not be

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allowed to expand further. Despite this general question, however, he would approve the present application because there seemed to be no factors that would be demonstrably inconsistent with such action.

Chairman Martin and Governor Balderston said that they would approve the application for the reasons presented by the Division of Examinations.

Thereupon, the application of Baystate Corporation was approved unanimously, with the understanding that an order and statement reflecting this decision would be prepared for the Board's consideration.

Messrs. O'Connell, Thompson, Via, and Donovan then withdrew from the meeting.

Examination of Richmond Reserve Bank (Items 3 and 4). The report of examination of the Federal Reserve Bank of Richmond made by the Board's examining staff as of November 26, 1963, had been circulated to the Board, along with the usual accompanying papers. Also, there had been distributed a memorandum from the Division of Examinations dated March 6, 1964, summarizing the examination and a memorandum dated March 12, 1964, regarding indebtedness incurred by five members of the staff of the Reserve Bank to finance purchases of securities.

The March 6 memorandum noted that there were three reserve city banks whose borrowings from the Richmond Reserve Bank had tended to be continuous. The banks involved included The Central National Bank of Richmond, Richmond, Virginia; State-Planters Bank of Commerce and Trusts,

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Richmond, Virginia; and First Union National Bank of North Carolina, Charlotte, North Carolina.

The memorandum of March 12 noted that the Board had recently reviewed the subject of outside activities and certain types of financial transactions of Reserve Bank officers and employees, and had sent a letter (S-1907) to all Federal Reserve Banks under date of February 10, 1964. It was suggested that the Board might wish to request the Richmond Bank to review the five cases of indebtedness to finance the purchase of securities in the light of the views expressed in that letter. A draft of letter to President Wayne in line with this suggestion was attached to the March 12 memorandum.

At the request of the Board, Mr. Smith summarized the information derived from the examination of the Reserve Bank, his comments being based on the report of examination and the memoranda that had been distributed.

In a discussion of the continuous borrowing at the discount window by the three member banks mentioned, it was suggested that there be obtained for the record a statement from the Reserve Bank on any analyses that might have been made to account for such borrowing and on the reasons that were construed as constituting justification. There was general agreement with this suggestion, and it was understood that an appropriate letter would be sent to the Reserve Bank.

The Board also approved unanimously the proposed letter to the Richmond Reserve Bank requesting it to review the five cases of indebtedness



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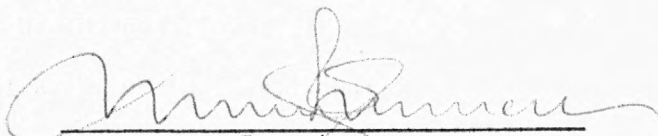
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incurred by members of its staff for the purpose of financing purchases of securities.

Copies of the letters sent to the Richmond Reserve Bank are attached to these minutes as Items 3 and 4.

It was agreed that there were no other matters disclosed by the examination that warranted action by the Board at this time.

The meeting then adjourned.

  
Secretary

T E L E G R A M  
LEASED WIRE SERVICEBOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTONItem No. 1  
3/16/64

BRIGGS -- CHICAGO

KEBJE

- A. Brenton Companies, Inc., Des Moines, Iowa.
- B. First National Bank of Davenport, Davenport, Iowa;  
National Bank of Des Moines, Des Moines, Iowa;  
Northwest Des Moines National Bank, Des Moines, Iowa;  
South Des Moines National Bank, Des Moines, Iowa;  
The Poweshiek County National Bank of Grinnell,  
Grinnell, Iowa; and  
The First National Bank of Perry, Perry, Iowa.
- C. Prior to issuance of permit authorized herein, Applicant shall execute and deliver to you, in duplicate, an agreement in form accompanying Board's letter S-964 (F.R.L.S. #7190).

(Signed) Karl E. Bakke

BAKKE

Definition of KEBJE

The Board authorizes the issuance of a general voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to the holding company affiliate named below after the letter "A", entitling such organization to vote the stock which it owns or controls of the bank(s) named below after the letter "B" at all meetings of shareholders of such bank(s), subject to the condition(s) stated below after the letter "C". The period within which a permit may be issued pursuant to this authorization is limited to thirty days from the date of this telegram unless an extension of time is granted by the Board. Please proceed in accordance with the instructions contained in the Board's letter of March 10, 1947, (S-964).

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

875  
Item No. 2  
3/16/64



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

March 17, 1964.

Mr. Marcus A. Harris, Vice President,  
Federal Reserve Bank of New York,  
New York, New York 10045.

Dear Mr. Harris:

Receipt is acknowledged of your February 19 letter reporting the 1963 operations of the Nassau County and Bergen County check clearing bureaus.

The Board notes particularly that the two bureaus continue to provide an efficient check collection service at a saving to the Reserve Bank, with significant benefits to the participating banks and their depositors, and agrees with the officers of your Bank that no change is necessary or desirable at this time in the basic agreements covering this service.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

876  
Item No. 3  
3/16/64

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

March 31, 1964.



Mr. Edward A. Wayne, President,  
Federal Reserve Bank of Richmond,  
Richmond, Virginia. 23213

Dear Mr. Wayne:

The report of examination of the Federal Reserve Bank of Richmond as at the close of business November 26, 1963, included (at pp. 32-34) certain data regarding the frequent recourse to Reserve Bank credit by three reserve city banks, namely, The Central National Bank of Richmond, Richmond, Virginia; State-Planters Bank of Commerce and Trusts, Richmond, Virginia; and the First Union National Bank of North Carolina, Charlotte, North Carolina.

The information shown in the report, supplemented by information contained in the reports (FR 527a) periodically received from your Bank, show that The Central National Bank of Richmond was a borrower in 39 of the 52 weekly reserve computation periods in 1963, and had borrowed in 37 such periods in 1962; the State-Planters Bank of Commerce and Trusts borrowed in 48 of the 52 reserve computation periods in 1963, of which the last 38 periods were consecutive; and the First Union National Bank of North Carolina borrowed in 39 of the weekly reserve computation periods in 1963, of which as many as 29 were consecutive. The State-Planters Bank continued regular use of Federal Reserve credit during the first two months of the current year. On the surface, at least, such borrowing records on the part of member banks of the size of these would give rise to a question of appropriateness in the light of the principles set forth in the foreword of Regulation A.

The Board would appreciate receiving from you any data that may have been developed by your Discount Department's analyses to account for the steady borrowing by the banks mentioned, and particularly any reasons that might be construed as justification of their protracted use of Reserve Bank credit.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

Item No. 4  
3/16/64

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

May 1, 1964.



Mr. Edward A. Wayne, President,  
Federal Reserve Bank of Richmond,  
Richmond, Virginia. 23213

Dear Mr. Wayne:

Among the matters that came to the attention of the Board as a result of the examination of the Federal Reserve Bank of Richmond as at November 26, 1963, were five cases of indebtedness, described as for the purpose of purchasing securities, which were reported by members of the Reserve Bank's staff at the July 1963 reporting date. The staff members and the amounts of indebtedness reported by each were as follows:

Benjamin U. Ratchford, Vice President and Senior Adviser	\$1,250.00
Lloyd B. Gee, Supervisor, Accounting Division, Money Department; also Special Assistant Examiner	9,886.00
Fenton L. Marsh, Supervisor, City and County Checks, Transit Department	1,244.20
Jack H. Wyatt, Senior Bank Relations Representative; also Special Assistant Examiner	570.00
Chester D. Porter, Jr., Senior Examiner	3,225.00

It is the Board's understanding that these situations were discussed with you by Chief Federal Reserve Examiner Schaeffer, and that you were satisfied that the underlying transactions were not speculative in nature but were for an investment purpose. As you may recall, the Board forwarded a letter dated February 10, 1964, to the Presidents of all the Federal Reserve Banks outlining its current views on the subject of outside activities and certain financial transactions of Federal Reserve Bank officers and employees. This letter included, among other comments, the following paragraph:

Mr. Edward A. Wayne

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"4. The Board considers it inappropriate for any officer or employee of a Federal Reserve Bank to engage in speculative dealings (as distinguished from investments), whether on a margin or a cash basis, and whether in securities, commodities, real estate, exchange, or otherwise. Frequency of trading would be a significant indicator in judging whether dealings were speculative, particularly any transactions that appeared to be for the purpose of taking advantage of short-term price fluctuations, and the use of credit also would be a pertinent consideration."

The Board would appreciate having the assurance from you that you have reviewed the five cases referred to above, particularly the brokerage accounts maintained by Mr. Gee, in the light of the views expressed in the letter of February 10, 1964.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.