

Minutes for May 15, 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

RM

Gov. Mills

[Signature]

Gov. Robertson

CCB

Gov. Balderston

[Signature]

Gov. Shepardson

[Signature]

Gov. Mitchell

[Signature]

Gov. Daane

Minutes of the Board of Governors of the Federal Reserve System on Friday, May 15, 1964. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Broida, Assistant Secretary
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. Holland, Associate Director, Division of Research and Statistics
Mr. Koch, Associate Director, 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. Spencer, General Assistant, Office of the Secretary
Mr. Axilrod, Chief, Government Finance Section, Division of Research and Statistics
Mr. Eckert, Chief, Banking Section, Division of Research and Statistics
Mr. Keir, Chief, Capital Markets Section, Division of Research and Statistics
Mr. Bernard, Economist, Division of Research and Statistics
Mr. Gemmill, Economist, Division of International Finance

Money market review. Mr. Bernard reported on recent developments in the Government securities market, after which Mr. Koch commented on

5/15/64

-2-

bank credit, the money supply, and related matters. Mr. Gemmill presented a report on foreign exchange market developments, and Mr. Furth discussed U. S. balance of payments figures for the first quarter of 1964, as reported by the Department of Commerce.

Distributed materials referred to by the speakers included tables on U. S. capital flows, money market conditions, and recent changes in selected indicators of monetary policy, and a chart showing yields on U. S. Government securities on selected dates.

Following these reports, all members of the staff except Messrs. Sherman, Kenyon, Fauver, Solomon, Furth, and Spencer withdrew from the meeting and the following entered the room:

Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank Operations
Mr. Johnson, Director, Division of Personnel Administration
Mr. Conkling, Assistant Director, Division of Bank Operations
Mr. Daniels, Assistant Director, Division of Bank Operations
Mr. O'Connell, Assistant General Counsel
Mr. Shay, Assistant General Counsel
Mr. Hooff, Assistant General Counsel
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Young, Senior Attorney, Legal Division
Mr. McClintock, Supervisory Review Examiner, Division of Examinations

Discount rates. The establishment without change by the Federal Reserve Banks of Cleveland, Richmond, St. Louis, Kansas City, and Dallas on May 14, 1964, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

5/15/64

-3-

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

	<u>Item No.</u>
Letter to Palmer First National Bank and Trust Company of Sarasota, Sarasota, Florida, with respect to the deposit of trust funds in a savings account.	1
Letter to the Bureau of the Budget expressing no objection to approval of enrolled bill S. 2214, "To amend the International Development Association Act to authorize the United States to participate in an increase in the resources of the International Development Association."	2

With respect to Item No. 1, Governor Mills suggested revising the last paragraph of the letter so as to describe in part a pertinent ruling of the Board published in the Federal Reserve Bulletin in 1959. The approved letter reflected this suggestion.

Report on competitive factors (Richmond-Waynesboro, Virginia).

There had been distributed a draft of report to the Comptroller of the Currency regarding the competitive factors involved in the proposed merger of The First National Bank of Waynesboro, Waynesboro, Virginia, into First and Merchants National Bank, Richmond, Virginia.

In discussion, a suggestion was made for the substitution of certain wording in the Richmond Reserve Bank's memorandum on the proposed merger for part of the conclusion in the draft report that had been distributed. There being general agreement with this suggestion, the report was approved unanimously for transmittal to the Comptroller in a form containing the following conclusion:

5/15/64

-4-

It appears that consummation of the proposed merger would result in the elimination of a modest amount of competition in the Waynesboro area, particularly between that community and Staunton where the two banks' nearest offices are only 11 miles apart. In Waynesboro and the immediately surrounding area, the only remaining independent bank would be replaced by branches of the State's largest bank. The city of Waynesboro would be served by offices of the State's two largest banks and banking competition in the community might become more aggressive and intensified.

While the proposal would not have serious adverse effects on other banks, it represents a further step in Virginia toward grouping of commercial banks into larger single units and a consequent decline of locally headquartered banking outlets.

Mr. Shay then withdrew from the meeting.

Request of Franklin National Bank (Item No. 3). There had been distributed under date of May 13, 1964, with a covering memorandum of the same date from Mr. Farrell, a draft of a proposed reply to a letter of May 4, 1964, from Mr. Arthur T. Roth, Chairman of Franklin National Bank, Franklin Square, New York. Mr. Roth expressed disappointment over the Board's letter of April 27, 1964, denying the application of Franklin National Bank for permission to continue to carry country bank reserves upon the establishment of a branch in New York City. His letter of May 4, which detailed various reasons in support of Franklin National's request along with suggestions for changes in the present system for determining reserve requirements, stated a belief that new and important facts were being presented that had not previously been fully considered by the Board. He requested an opportunity to discuss the subject in person.

As discussion opened, Governor Mills commented that he was in favor of a brief response. Further, he thought that the reply should not

5/15/64

-5-

invite Mr. Roth to appear personally to discuss the subject with the Board or its staff.

Governor Robertson also believed the reply should be brief, simply stating that the Board had considered the points set forth in the letter of May 4 and found no reason to change the position reflected in its letter of April 27. He suggested changes in the draft letter for this purpose.

In the course of the discussion that ensued, Mr. Farrell outlined arguments in support of a more detailed reply to Mr. Roth along the lines of the draft prepared for the Board's consideration. He pointed out that Mr. Roth in his letter had asserted, among other things, that the present system of establishing reserve requirements was discriminatory and capricious, and that "the Board...has been changing its opinion with regard to the classification of reserve city banks." If, within this framework and in light of the other assertions made by Mr. Roth, the Board simply reiterated its previous position without elaboration, Mr. Farrell felt it might be inviting an argument from Mr. Roth that it was being capricious. He recalled that when the Board earlier published in the Federal Register certain proposals for the reclassification of reserve cities, it allowed representatives of banks in Albany, New York, and Newark, New Jersey, two cities that would have been affected, to come to the Board's offices for discussion with the staff. Mr. Farrell also commented that neither in 1961 nor last month, when Franklin National applied for permission to

5/15/64

-6-

carry reduced reserves should it establish a branch in New York City, had the Board given the bank a clear statement of specific reasons for denial of the requests.

Governor Robertson again expressed the view, however, that the proposed reply should not debate the issues raised by Mr. Roth, and Governor Mills reiterated that he felt strongly that a brief reply was all that was required in this instance. If Mr. Roth should write again, it was likely that he would amplify his previous arguments, and presumably he would request a meeting, which request the Board could then consider.

Governor Mitchell concurred in the view that the reply should be brief. However, it should in his opinion include a short paragraph indicating that if Mr. Roth wished to discuss the reserve classification of Franklin National Bank, the Board would make arrangements for its staff to meet with representatives of the bank at some mutually convenient time.

After further discussion, it was agreed that the reply to Mr. Roth should be brief, that it should reiterate the Board's previously-expressed position, but (with Governor Mills dissenting) that it should include wording to the effect that the Board would make arrangements, if desired, for members of its staff to meet with representatives of the bank for discussion. A copy of the letter subsequently sent to Mr. Roth is attached as Item No. 3.

Question was raised whether some reference to today's action on the request by Franklin National Bank should be published in the weekly

5/15/64

-7-

H.2 release (Applications Received or Acted On by the Board). Mr. O'Connell expressed the opinion it might be preferable that such reference not be made in view of the manner in which the matter was being handled at this stage, with the door left open for further discussion if Mr. Roth so requested. A consensus developed in favor of this approach, with the understanding, however, that in the event of press inquiries Mr. Fauver could indicate that the Board had reiterated its previous position and had so advised Mr. Roth, but that the Board had expressed willingness, if Mr. Roth so desired, to have representatives of his bank come to the Board's offices for discussion with the Board's staff. Governor Mills dissented from the consensus. He felt that the H.2 release should include a reference to the action taken by the Board today, that (as he had previously indicated) the Board's letter to Mr. Roth should not include an invitation for discussion, and that the next step should be left up to Mr. Roth.

First National Bank of Marlin. Mr. Hackley noted receipt at the Board's offices of a memorandum and covering letter dated May 14, 1964, from Chairman Barr of the Federal Deposit Insurance Corporation to Chairman Martin inviting comments with regard to certain litigation proposed to be instituted by the Corporation in the matter of The First National Bank of Marlin, Marlin, Texas, which bank had been recently closed. The question involved was whether certain certificates of deposit issued by the bank to savings and loan associations represented insured

5/15/64

-8-

deposits or uninsured borrowed funds "by reason of the illegal amount of interest paid thereon."

Mr. Hackley stated that following telephone conversation with the staff of the Corporation concerning certain points involved in the proposed litigation, which he described, the memorandum and letter were picked up by Corporation messenger, it being indicated that the Corporation's legal staff would like to consider the matter further.

All members of the staff except Messrs. Sherman, Kenyon, and Johnson then withdrew from the meeting.

Payment of salary to officer at Philadelphia (Item No. 4). After consideration of a letter from President Bopp of the Federal Reserve Bank of Philadelphia dated May 11, 1964, the Board approved unanimously the payment of salary to David C. Melnicoff as Vice President at the rate of \$20,000 a year from the date of assuming office (as yet undetermined) to December 31, 1964. A copy of the letter sent pursuant to this action is attached as Item No. 4.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board the following items:

Letter to the Federal Reserve Bank of Cleveland (attached Item No. 5) approving the appointment of Mark Williamson as assistant examiner.

Memoranda from appropriate individuals concerned recommending the following actions relating to the Board's staff:

5/15/64

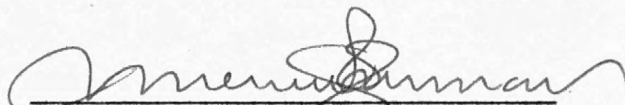
-9-

Appointment

Frederick R. Dahl as Chief, Special Studies and Operations Section, Division of International Finance, with basic annual salary at the rate of \$15,415, effective the date of entrance upon duty.

Salary increase

Allen E. Simmons, Messenger, Division of Administrative Services, from \$3,305 to \$3,620 per annum, with a change in title to Mail Clerk, effective May 24, 1964.



Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 1
5/15/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 18, 1964.



Mr. H. W. Whitman,
Executive Vice President,
Palmer First National Bank and
Trust Company of Sarasota,
Sarasota, Florida.

Dear Mr. Whitman:

This refers to your letter of May 5, 1964, with respect to the deposit of trust funds in a savings account. It is stated that moneys representing temporarily uninvested trust funds in various trust accounts would be deposited in a savings account, under a special agreement providing for the payment of interest on daily balances at one per cent, and subject to the reservation of the right to require 30 days' notice of withdrawal. It is also stated that deposits and withdrawals in this savings account would be made frequently.

The deposit of trust funds in savings accounts was considered by the Board some years ago and in a ruling, published at page 119 of the Federal Reserve Bulletin for February 1936, it was stated that "assuming that such deposits comply with all of the other requirements of the definition of savings deposits contained in section 1(e) of Regulation Q, such deposits would be savings deposits if the beneficial interest therein were held by one or more individuals or by a corporation, association, or other organization operated primarily for religious, philanthropic, charitable, educational, fraternal, or other similar purposes and not operated for profit, and that it is the duty of a member bank to ascertain the facts with regard to the beneficiaries of such accounts and to classify as savings deposits only the accounts in which the beneficial interest is held by one or more individuals or by an organization of the type described above."

The deposit of trust funds in a special savings account, as proposed in your letter, would not be in violation of Regulation Q, provided that, in conformity with the ruling above mentioned, the beneficial interest in such funds is held only by individuals and organizations of the types described in Regulation Q. The funds of a

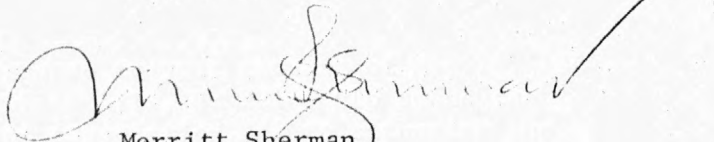
Mr. H. W. Whitman

-2-

trust having business corporations or other nonqualifying organizations as beneficiaries could not be included in the savings deposit regardless of the rate of interest paid thereon. Such funds could, of course, be deposited in a time deposit, bearing interest at one per cent, but 30 days' notice in writing before withdrawal would have to be given and not waived in any case except in an emergency as provided under section 217.4(d) of Regulation Q.

The deposit of trust funds in a time deposit was considered in a Board ruling published in the 1959 Federal Reserve Bulletin at p. 1475, which, in part, stated that the bank should, of course, be satisfied, by consultation with its counsel or otherwise, that the time deposit is within the authority of the trust department in its capacity as trustee - in other words, that it is not inconsistent with any applicable State law or with the terms of any applicable trust instrument or court order.

Very truly yours,



Merritt Sherman,
Secretary.

1786

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 2
5/15/64

OFFICE OF THE VICE CHAIRMAN

May 15, 1964.



Mr. Phillip S. Hughes,
Assistant Director for
Legislative Reference,
Executive Office of the President,
Bureau of the Budget,
Washington 25, D. C.

Attention Mrs. Garziglia.

Dear Mr. Hughes:

This is in response to your request of May 14, 1964,
for a report on the enrolled bill, S. 2214, "To amend the
International Development Association Act to authorize the
United States to participate in an increase in the resources
of the International Development Association."

You are advised that the Board has no objection to
the approval of this bill.

Sincerely yours,

A handwritten signature in cursive script that reads "C. Canby Balderston".

C. Canby Balderston,
Vice Chairman.

1787

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 3
5/15/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 15, 1964.



Mr. Arthur T. Roth,
Chairman of the Board,
Franklin National Bank,
925 Hempstead Turnpike,
Franklin Square, New York 11010.

Dear Mr. Roth:

The Board has given consideration to the information contained in your letter of May 4, 1964, regarding the continuation of country bank reserve status for the Franklin National Bank after the establishment of a branch in New York City.

After further review of this matter in the light of the information submitted in your letter, the Board finds no reason to change the position taken in its letters of July 10, 1961, and April 27, 1964, advising your bank that permission to carry reduced reserves would not be granted if a branch were established in New York City.

If you still think it would be helpful, the Board would be pleased to make arrangements for members of its staff to meet with you or representatives of your bank at a time of mutual convenience.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 4
5/15/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 28, 1964



CONFIDENTIAL (FR)

Mr. Karl R. Bopp, President,
Federal Reserve Bank of Philadelphia,
Philadelphia, Pennsylvania 19101.

Dear Mr. Bopp:

Reference is made to your letter of May 11 advising of the election of Mr. David C. Melnicoff, as an officer of the Federal Reserve Bank of Philadelphia with the title of Vice President.

As requested, the Board of Governors approves payment of salary to Mr. Melnicoff at the rate of \$20,000 per annum from the date of entrance on duty through December 31, 1964.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

1789

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

Item No. 5
5/15/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 18, 1964



Mr. Paul C. Stetzelberger, Vice President,
Federal Reserve Bank of Cleveland,
Cleveland, Ohio. 44101

Dear Mr. Stetzelberger:

In accordance with the request contained in your letter of May 13, 1964, the Board approves the appointment of Mark Williamson, as an assistant examiner for the Federal Reserve Bank of Cleveland. Please advise the effective date of the appointment.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.