

Minutes for July 1, 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 Thursday, July 1, 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
Miss Carmichael, Assistant Secretary
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Solomon, Director, Division of Examinations
Mr. Johnson, Director, Division of Personnel Administration
Mr. Daniels, Assistant Director, Division of Bank Operations
Mr. Young, Senior Attorney, Legal Division
Mr. McClintock, Supervisory Review Examiner, Division of Examinations
Mr. Harris, Assistant Review Examiner, Division of Examinations

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 The Middle Tennessee Bank, Columbia, Tennessee, approving the establishment of a branch in the vicinity of the intersection of West Seventh Street and Hastings Street.	1
Letter to The First National Bank of Bear Valley, Denver, Colorado, granting its request for permission to maintain reduced reserves.	2
Telegram to the Federal Reserve Agent at Richmond authorizing the issuance to Virginia Commonwealth Corporation, Richmond, Virginia, of a general voting permit covering its stock of The Peoples National Bank of Pulaski, Pulaski, Virginia.	3

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Mr. Daniels then withdrew from the meeting and Messrs. Noyes, Adviser to the Board, Brill, Director, Division of Research and Statistics, and Veenstra, Chief, Financial Statistics Section, Division of Data Processing, entered the room.

Payment of dividends (Item No. 4). Pursuant to the understanding at the meeting of the Board on June 8, 1964, there had been distributed a memorandum from the Division of Examinations dated June 26, 1964, supplementing the Division's earlier memorandum of June 1, 1964, with reference to (1) dividends declared by First State Bank of Chinook, Chinook, Montana, a subsidiary of Bancorporation of Montana, in contravention of Federal statutes, and (2) a request by that bank for permission to declare an additional dividend of \$10,000. The June 26 memorandum, which had been prepared after checking with the Federal Reserve Bank of Minneapolis, contained information on several questions that had been raised at the June 8 meeting, including (1) the nature of a \$15,000 loan recovery shown in the June 1 memorandum and whether the recovery involved in any way the other banks in the holding company group; (2) the dividend policy of the holding company with respect to the other banks in the group; and (3) the Reserve Bank's general attitude toward the holding company.

The information received from the Reserve Bank also revealed that the situation had changed somewhat since the Bank first reported on the request of the Chinook bank; it now appeared that the Chinook

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bank's earnings would not be sufficient at the end of 1964 to permit payment of the proposed \$10,000 dividend without further reducing capital accounts. In view of this development, the general condition and management of most of the banks in the holding company group, and the dividend policies pursued by the holding company, the Division of Examinations had changed its earlier recommendation and concluded that the request for permission to declare an additional \$10,000 in dividends should be denied. A proposed letter to the Chinook bank, stating that the Board would interpose no objection to the dividends paid on January 18, 1963, and February 20, 1964, and denying the request to pay an additional dividend of \$10,000, was attached to the memorandum.

At the Board's request, Mr. Solomon outlined the points covered in the June 26 memorandum.

Governor Robertson expressed agreement with the recommendation of the Division of Examinations but suggested that the portion of the letter indicating that the Board would interpose no objection to dividends paid on January 18, 1963, and February 20, 1964, be changed to state that the Board did not propose to take any action with respect to payment of those dividends.

Other members of the Board indicated that they would concur in the recommendation presented by Mr. Solomon at this meeting, and they also concurred in the suggested revision of the letter proposed by Governor Robertson.

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The letter to First State Bank of Chinook was then approved unanimously in the form attached as Item No. 4.

Mr. Harris withdrew from the meeting at this point.

Report on H. R. 11218. There had been distributed a memorandum from the Legal Division dated June 30, 1964, with reference to a request from the Bureau of the Budget for the Board's views on H. R. 11218, a bill "To authorize certain loans by national banks to aid in the rehabilitation of urban areas." The bill would amend section 24 of the Federal Reserve Act so as to permit national banks to make more liberal loans to individuals for redeveloping real property in an urban area where such redevelopment was in accordance with an official plan approved by the local governing body. Under the terms of the bill these loans could be used for rehabilitation of existing buildings and improvements, through the demolition of such buildings and improvements and the construction, reconstruction, and installation of new buildings. Loans so made would be permitted in an amount equal to the cost of the redevelopment involved, or 90 per centum of the appraised value of the property (as so redeveloped), whichever was less, and for a maximum term of 30 years. The Bureau of the Budget had advised that a formal report from the Board would not be necessary but that telephonic advice as to the Board's position was desired.

Reference was made in the memorandum to Chairman Martin's testimony in September 1963 before the House Banking and Currency Committee on H. R. 7878, which would have increased the maximum maturity on conventional

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real estate loans by national banks from 20 to 30 years and would have increased the maximum loan-to-value ratio from 75 to 80 per cent. Since H. R. 11218 would permit even more liberal terms for real estate loans by national banks than H. R. 7878, on which Chairman Martin had testified unfavorably, it was suggested that the Board might wish to submit an adverse report on H. R. 11218. A draft letter was attached to the memorandum for the Board's consideration in the event the Board should prefer sending a formal reply.

During consideration of the proposed report it developed that the Board wished to take an unfavorable position with respect to the bill, and there was a general preference for replying by telephone rather than by letter. Also, it was noted that the bill was rather loosely drafted, making it difficult, for example, to determine the area in which loans would be permitted.

At the conclusion of the discussion it was understood that the Legal Division would advise the Bureau of the Budget by telephone that the Board was not favorable to the bill and suggest that, if support of the bill was contemplated, consideration be given to tightening some of its provisions.

Report on bill proposed by Farm Credit Administration (Item No. 5). At the meeting of the Board on June 30, 1964, consideration was given to a draft of response to the Bureau of the Budget's request for the Board's views on a draft bill proposed by the Farm Credit

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Administration that would amend the Federal Farm Loan Act and the Farm Credit Act of 1933 "to provide means for expediting the retirement of Government capital in the Federal intermediate credit banks, including an increase in the debt permitted such banks in relation to their capital and provision for the production credit associations to acquire additional capital stock therein, to provide for allocating certain earnings of such banks and associations to their users, and for other purposes." As drafted, the Board's letter to the Bureau of the Budget would indicate that the Board had no comments to offer since the provisions of the draft bill were not closely related to the work of the Federal Reserve System or the responsibilities of the Board of Governors.

At the June 30 meeting, question had been raised as to the reasons for the Treasury Department's adverse report to the Bureau of the Budget on the draft bill. A memorandum from Mr. Noyes dated June 30, 1964, covering his telephone conversation with a representative of the Treasury Department on this subject had been distributed. Apparently the Treasury's adverse report on the bill did not involve a matter of credit policy, but rather it stemmed from the Treasury's dissatisfaction with the terms and conditions under which the stock in intermediate credit banks was to be transferred to the privately-owned production credit associations. Unless the Board wished to intervene in a question of this kind, Mr. Noyes suggested that a reply along the lines originally drafted by the Legal Division would seem to be in order.

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Governor Robertson stated that, on the basis of the information from the Treasury Department, he also would favor sending the letter. The effect would be to indicate that the Board had no comments on the draft bill since it involved Treasury-Farm Credit relations that were not in the Board's area of responsibility.

There being general agreement with this position, the letter to the Bureau of the Budget was approved unanimously. A copy is attached as Item No. 5.

Major medical insurance contract (Item No. 6). In a letter dated June 25, 1964, Mr. Hayes, Chairman of the Conference of Presidents, requested Board approval of an amendment to increase benefits under the Federal Reserve Banks' major medical insurance contract with the Prudential Insurance Company of America, effective July 1, 1964. The proposed benefits, which were now incorporated in all new standard contracts underwritten by Prudential, were available to the Reserve Banks with no immediate increase in premium.

There had been distributed, with an explanatory memorandum from the Division of Personnel Administration dated June 30, 1964, a draft of reply that would approve the modifications covered in Mr. Hayes' letter.

After comments by Mr. Johnson based principally on information in the June 30 memorandum, the letter to Mr. Hayes was approved unanimously. A copy of the letter is attached as Item No. 6.

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Call report. Governor Robertson reported that as a result of a meeting on June 30, 1964, of Chairman Barr of the Federal Deposit Insurance Corporation and Comptroller of the Currency Saxon, Chairman Barr had agreed to delay announcing the midyear call until July 10, in consideration for which the Comptroller had indicated that he would join in signing the usual document for determination of the call date. It was understood, however, that up to this time the document had not yet been signed by the Comptroller.

During discussion it was brought out that no definite information was available as to the Comptroller's reason for wishing to delay the announcement of the call.

In the Board's letter of June 19, 1964, the Reserve Banks had been advised that it was expected that the face of the call report form to be distributed to national banks by the Comptroller would be the same as used by that agency for the April 15, 1964, call date and thus would differ in several respects from the form being used by State banks. It was understood that the reverse of the national bank form would be the same as for State member banks. In order that comparable and continuous statistical series for all member and all insured banks might be compiled for the midyear call date, the Reserve Banks had been supplied with copies of a supplementary reconciliation statement that could be sent to national banks.

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It was reported at today's meeting that as yet there was no definite information as to whether the face of the Comptroller's call report form would actually be the same as for the April 1964 call, and there was a possibility that a more abbreviated form might be used.

In order to be prepared for such a possibility, Governor Robertson suggested that it would be appropriate to take two steps at this time: (1) advise the Federal Reserve Banks to delay transmitting call report forms to national as well as State member banks until receipt of official advice of announcement of the midyear call date; and (2) print a supply of the same form that would be sent to State member banks (FR 105 - Call 172) that could be forwarded to national banks in the event the call report form of the Comptroller was more abbreviated than had been contemplated and would not, even with the supplementary reconciliation statement, provide consistent statistical information for the all commercial bank series as of the June call date.

After discussion it was agreed to follow the suggestions of Governor Robertson with respect to communicating with the Reserve Banks and printing a supply of the State member bank form for possible use by national banks.

The meeting then adjourned.

Secretary's Notes: A letter was sent today to First National City Bank, New York, New York, acknowledging receipt of notice of its intent to establish a branch in West Berlin, Germany.

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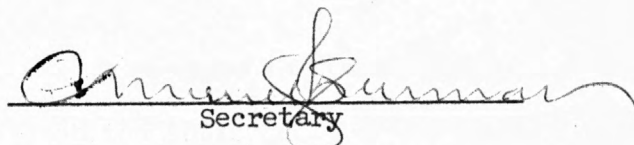
Governor Shepardson today approved on behalf of the Board the following items:

Letter to the Federal Reserve Bank of New York (attached Item No. 7) approving the appointment of five persons as examiners.

Memoranda recommending increases in the basic annual salaries of the following persons on the Board's staff, effective July 5, 1964:

Patricia E. Gardosik, Clerk-Stenographer, Division of Bank Operations, from \$4,090 to \$4,355.

Holly Wyand, Research Assistant, Division of International Finance, from \$4,690 to \$5,235.


Secretary

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 1
7/1/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 1, 1964.

Board of Directors,
The Middle Tennessee Bank,
Columbia, Tennessee.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by The Middle Tennessee Bank, Columbia, Tennessee, of a branch in the vicinity of the intersection of West Seventh Street and Hastings Street, Columbia, Tennessee, 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. 2
7/1/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



July 1, 1964.

Board of Directors,
The First National Bank
of Bear Valley,
Denver, Colorado.

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 First National Bank of Bear Valley to maintain the same reserves against deposits as are required to be maintained by non-reserve city banks, effective as of the date it opened 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.

T E L E G R A M
LEASED WIRE SERVICE

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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 3
7/1/64

July 1, 1964

HYDE - RICHMOND

K E B J E

- A. Virginia Commonwealth Corporation, Richmond, Virginia.
- B. The Peoples National Bank of Pulaski, Pulaski, Virginia.
- C. None. Stop. Due to the fact that Virginia Commonwealth has executed voting permit agreement, pursuant to F.R.L.S. #7190, which is in force and effect, an additional agreement is not needed.

(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, D. C. 20551

Item No. 4
7/1/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 1, 1964.

Board of Directors,
First State Bank of Chinook,
Chinook, Montana.

Gentlemen:

The Board has received a letter written by Mr. F. L. Servoss, Vice President and Cashier, First State Bank of Chinook, regarding the payment of dividends by the Bank on January 18, 1963, and February 20, 1964, and requesting approval for the proposed payment of an additional dividend of \$10,000.

As you were previously advised by the Federal Reserve Bank of Minneapolis, payment of the dividends on January 18, 1963, and February 20, 1964, was in contravention of the provisions of section 9, paragraph 6, of the Federal Reserve Act and section 5119(b), United States Revised Statutes. In each case, these dividends exceeded the sum of net profits for the year to date of declaration plus retained net profits of the preceding two years. Under these circumstances the Board's approval should have been sought prior to their declaration, as required by statute. In this connection, your attention is called to paragraph 2307 of the Interpretations of the Board of Governors of the Federal Reserve System.

Prior approval cannot be given for dividends already declared and paid. However, the Board does not propose to take any action with respect to the dividends paid on January 18, 1963, and February 20, 1964.

After consideration of the facts, including your bank's over-all condition, net earnings, and the dividends already paid in 1964, the Board denies your request for approval of an additional dividend of \$10,000.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 5
7/1/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 1, 1964.



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

Dear Mr. Hughes:

This is in reponse to your letter of June 19, 1964, requesting the Board's views on a draft bill proposed by the Farm Credit Administration "To amend the Federal Farm Loan Act and the Farm Credit Act of 1933 to provide means for expediting the retirement of Government capital in the Federal intermediate credit banks, including an increase in the debt permitted such banks in relation to their capital and provision for the production credit associations to acquire additional capital stock therein, to provide for allocating certain earnings of such banks and associations to their users, and for other purposes."

The provisions of the draft bill are not closely related to the work of the Federal Reserve System or the responsibilities of the Board of Governors and the Board has no comments to offer with respect to them.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 6
7/1/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 1, 1964

Mr. Alfred Hayes, Chairman
Conference of Presidents
of the Federal Reserve Banks,
Federal Reserve Bank of New York,
New York, New York 10045.

Dear Mr. Hayes:

The Board of Governors approves the modifications, enclosed with your letter of June 25, 1964, to the Federal Reserve Banks' major medical insurance contract underwritten by the Prudential Insurance Company of America.

It is understood that the amendment will be effected through the Federal Reserve Bank of Chicago, on behalf of all the Federal Reserve Banks, effective July 1, 1964.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.





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

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Item No. 7
7/1/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 1, 1964

Mr. Howard D. Crosse, Vice President,
Federal Reserve Bank of New York,
New York, New York 10045.

Dear Mr. Crosse:

In accordance with the request contained in your letter of June 25, 1964, the Board approves the appointment of the following named individuals, at present assistant examiners, as examiners for the Federal Reserve Bank of New York, effective July 9, 1964.

Charles A. Burleson, Jr.
Richard A. Duncan
Frank A. McKeown
Charles W. Ruskin
Harold N. Wasniewski

Please advise the salary rates.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.