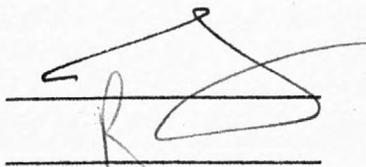


The attached set of minutes of the meeting of the Board of Governors of the Federal Reserve System on July 29, 1964, which you have previously initialed, has been amended at the request of Governor Balderston to make certain changes in his remarks on page 10.

If you approve the minutes as amended, please initial below.

Governor Mills

Governor Robertson

Handwritten initials 'R' and a scribble over two horizontal lines.

Minutes for July 29, 1964.

To: Members of the Board

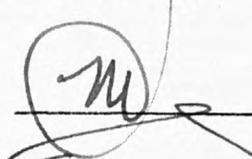
From: Office of the Secretary

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

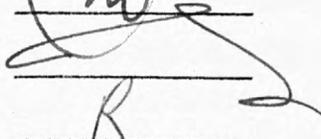
It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

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.)

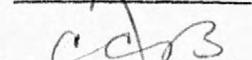
Chm. Martin



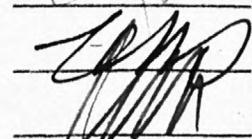
Gov. Mills



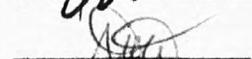
Gov. Robertson



Gov. Balderston



Gov. Shepardson



Gov. Mitchell

Gov. Daane

## Minutes of the Board of Governors of the Federal Reserve System

on Wednesday, July 29, 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. Young, Adviser to the Board and Director,  
Division of International Finance  
Mr. Noyes, Adviser to the Board  
Mr. Molony, Assistant to the Board  
Mr. Cardon, Legislative Counsel  
Mr. Fauver, Assistant to the Board  
Mr. Hackley, General Counsel  
Mr. Farrell, Director, Division of Bank  
Operations  
Mr. Solomon, Director, Division of Examinations  
Mr. Kakalec, Controller  
Mr. Shay, Assistant General Counsel  
Mr. Holland, Associate Director, Division of  
Research and Statistics  
Mr. Kiley, Assistant Director, Division of Bank  
Operations  
Mr. Smith, Assistant Director, Division of  
Examinations  
Mr. Leavitt, Assistant Director, Division of  
Examinations  
Mrs. Semia, Technical Assistant, Office of the  
Secretary  
Mr. Via, Senior Attorney, Legal Division  
Mr. Smith, Senior Economist, Division of Research  
and Statistics  
Mr. Egertson, Supervisory Review Examiner, Division  
of Examinations  
Mr. McClintock, Supervisory Review Examiner,  
Division of Examinations  
Mr. Poundstone, Review Examiner, Division of  
Examinations  
Mr. Sundberg, Review Examiner, Division of  
Examinations

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Request of Morgan Guaranty International (Item No. 1). There had been distributed a memorandum dated July 27, 1964, from the Division of Examinations relating to the request of Morgan Guaranty International Finance Corporation, New York, New York, for permission to participate in underwriting an offering of common shares of Compania Fundidora de Fierro y Acero de Monterrey S. A., a Mexican corporation, and to acquire up to approximately 150,000 of such shares. Attached to the memorandum was a draft of letter that would grant the Board's consent.

The letter, a copy of which is attached as Item No. 1, was approved unanimously.

Mr. Poundstone then withdrew from the meeting.

Application of Provident Tradesmens Bank and Trust Company. There had been distributed memoranda dated July 22 and 23, 1964, from the Division of Examinations regarding the application of Provident Tradesmens Bank and Trust Company, Philadelphia, Pennsylvania, for consent to merge with Second National Bank of Philadelphia. The memoranda contained a detailed analysis of the application, on the basis of which the Division recommended approval.

The memoranda brought out, among other things, that although both banks were in sound financial condition, Second National had encountered difficulties involving earnings and management. Its deposit and loan growth over the past 6 years was better than the average for all Philadelphia banks, but its earnings growth fell short of the average, due

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principally to increased expenses and conservative policies. The bank relied to a considerable extent on loans purchased from others. The top executive officer of Second National was seriously ill and not expected to return to the bank, and there was no adequate replacement for him on the bank's staff. One of the other three principal officers had resigned, and another was working only part time, following a heart attack.

Second National was located in one of the fastest-growing residential and commercial sections of the metropolitan Philadelphia area, yet it had apparently found the competition of larger and more progressive Philadelphia institutions too intense. It had invited three Philadelphia banks to submit merger proposals. The proposed merger into Provident Tradesmens, the fifth largest bank in Philadelphia, would solve Second National's earnings and management problems and reportedly would considerably expand the range of banking services offered to residents and commercial and industrial enterprises in the areas served by Second National's offices.

Although two offices of Provident Tradesmens were situated fairly close to offices of Second National, there was not believed to be a substantial amount of competition between the two banks, because of city traffic patterns and intervening offices of other competing banks. Second National offered no competition to Provident Tradesmens or the other large Philadelphia banks for large corporate deposit, loan, and

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trust accounts, and in view of the substantial volume of purchased paper in Second National's loan portfolio, it might be questionable, in the judgment of the Division of Examinations, whether the bank was a significant competitor for even the medium and smaller accounts.

The Division cited figures to support the view that the effect of the proposed transaction on over-all banking competition in the Philadelphia four-county area would be negligible: Provident Tradesmens' share of area offices, deposits (of individuals, partnerships, and corporations), and loans would increase about 1 per cent each to 8.8, 10.6, and 10.6, respectively. Second National's offices, concentrated in Northeast Philadelphia, comprised 10 per cent of the banking offices there; and the bank held about 10 per cent of the time deposits of the 11 banks serving the section. The institution that would result from the proposed merger would have 14 per cent of that area's banking offices and 12 per cent of its time deposits.

In competitive factor reports, the Comptroller of the Currency had concluded that the effect of the proposed merger on competition would be adverse, while the Federal Deposit Insurance Corporation concluded that the effect would not be unfavorable. The Department of Justice expressed the view that the proposed merger might seriously affect competition in commercial banking in the four-county area, and suggested that the application failed to recognize the Supreme Court's decision of June 17, 1963, in the Philadelphia National Bank case "despite its relevance to this proposal."

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At the invitation of the Board, Mr. McClintock made summary comments on the application based primarily on the Division's memoranda.

Chairman Martin then called for the views of members of the Board, in response to which Governor Mills presented the following statement:

The proposed merger should be denied. The result of the merger would not elevate the size of the Provident Tradesmens Bank and Trust Company to a dominant level in the City of Philadelphia, nor result in an undue total concentration of banking resources within one commercial banking institution; nor would the proposed merger tend to diminish commercial banking competition consequentially in the City of Philadelphia. However, the merger, if approved, would eliminate a viable competitive commercial banking unit in Northeast Philadelphia, which is a growing and prosperous section of the City of Philadelphia in which the Second National Bank of Philadelphia had been established for a great many years.

The fact that the Second National Bank of Philadelphia has not risen in competitive status with other Philadelphia commercial banks which have invaded its trade area with the establishment of branches is not necessarily a fault of smaller size, but a failure to grasp favorable opportunities for growth in the home area in which its operations are conducted. Moreover, the Second National Bank of Philadelphia is of a size able to compete effectively with the branches of "outside home office" large Philadelphia banks which do not enjoy the advantage of intimate home office contact with the industrial and business entities situated in Northeast Philadelphia. Furthermore, the Second National Bank of Philadelphia is large enough to attract the services of competent management that should be willing to capitalize the advantages of the bank's home location and clientele in a way that would produce an aggressive commercial bank independent unit in Northeast Philadelphia fully capable of growing with the needs of the community.

The turn toward the concentration of banking resources among a few large institutions located in the City of Philadelphia has reached the point where further mergers should not be permitted, in the absence of compelling reasons in their favor, which are not present in the instant case. The facts that the Second National Bank has sought to auction off its property to the highest bidder and that the Provident Tradesmens Bank and Trust Company has offered a very high purchase premium are not factors that lend themselves in favor of the application.

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In recommending against approval of the proposed merger, full account is taken of the Fidelity-Philadelphia Trust Company-Liberty Real Estate Bank and Trust Company merger which was approved by the Board on December 13, 1963. In that instance, the merger combined the services of the proponent banks over a broad area of metropolitan Philadelphia and thereby represented a spreading and dilution of services among the large City of Philadelphia banks without an adverse effect by way of limiting competition. On the contrary, competition among the larger banks stood to be enhanced without at the same time producing an undue concentration of resources or a trend to monopoly. In the case of the proposed merger of the Provident Tradesmens Bank and Trust Company with the Second National Bank of Philadelphia, the result would be to eliminate an active independent bank serving a broad area of greater Philadelphia, thereby eliminating competition from an effective unit bank without measurably adding to the banking services of the area, which presently has accessible the services of the more important Philadelphia commercial banks. Although no undue concentration of banking resources would result from the proposed merger, the elimination of a viable unit bank serving a selective clientele would be contrary to the letter and spirit of the Bank Merger Act as regards competition effects and a tendency toward monopoly. Moreover, even if there were a great similarity in the circumstances of the Fidelity-Philadelphia Trust Company-Liberty Real Estate Bank and Trust Company and the Provident Tradesmens Bank and Trust Company-Second National Bank of Philadelphia cases, the latter proposal could not be justified inasmuch as momentum would be given to an existing trend toward the concentration of commercial banking resources in Philadelphia. In other words, even if the two cases were similar, which they are not, a stopping point in merger proposals is called for and should be held at this point.

The application should be denied.

Governor Robertson stated that he also would deny the application.

Although Second National was not a large bank, it was a good one, being rated 1-A-S/1. Its capital was more than adequate, it had shown a growth of 34.2 per cent in deposits and 66.5 per cent in loans in the past 6 years, and its offices were in the fastest-growing area of Philadelphia. The only factor he could see upon which to base approval was the management

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situation, and it was his view that mergers should not be approved simply as a means of solving management problems. If the Board approved mergers on that basis, banks would be encouraged to fail to improve and provide depth in management, and it would be unwise to give such encouragement. As he saw the situation, Second National was a competitive institution on the basis of the business it had developed. Although its earnings were not great, and had wobbled up and down, neither were they poor; they had increased 8.9 per cent in 1963. The bank's earnings potential seemed good; all it needed was management of better quality and depth. To eliminate the bank, in his opinion, would be to eliminate an existing and potential competitor from the field for no good reason.

Governor Shepardson remarked that he had not found the case as clear-cut as the two preceding statements might indicate. There was a problem relating to determination of the point at which a line against further mergers should be drawn, and conceivably that point might be found in the situation here presented. Yet the increase in concentration that would result from the merger seemed to him to be minimal. There appeared to be no evidence that significant competition between the merging banks would be eliminated. Second National's management problem was a real one, and he did not believe it was as easy to provide adequate management in such a situation as some of the other members of the Board apparently thought. Another consideration was the question to what extent people should be required to stay in business if they wanted to.

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discontinue. On balance, the increase in concentration that would result from the proposed merger did not seem so significant as to require denial, and he would be inclined to approve on the basis of the information presented by the Division of Examinations.

Governor Mitchell agreed that this was a close case. He had a negative reaction to the arguments, encountered here in greater abundance than had been seen for some time, that improved services to the community would result from the merger. Ample services were generally available from the offices of other Philadelphia banks. Also, he believed that the adverse effect on competition was more pronounced than the staff had indicated. As he saw it, the kind of competition that was significant in this case was not competition for large accounts but for small business and personal accounts. The diminution in that kind of competition that would result from the proposed transaction was, in his judgment, a strong reason for opposing the application. The general principle on which he liked to appraise merger cases, a principle that he regarded as realistic, was that if he could not find anything really wrong with a merger proposal, he would vote in favor of it. However, in the present case he would vote to disapprove.

Governor Daane remarked that he agreed with much of Governor Mitchell's reasoning, but disagreed with his conclusion. Governor Daane had the feeling that there was a public benefit to be derived from approval of the application that could not be dismissed out of hand. The resulting

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availability of services would be greater, and more effective management would be introduced. By a narrow margin, he would conclude on the side of approval.

Governor Balderston stated that he would approve. He noted that Provident Trust was once the trust department of Provident Mutual Life Insurance Company. After it was split off, it had a strong volume of personal trust business but was a weak competitor in commercial lending. Even now one heard queries as to whether its commercial banking side was holding its own in the competitive race in Philadelphia. Despite its 3 existing offices in the regions surrounding Frankford, a former village that might be thought of as the heart of Northeast Philadelphia, Provident was clearly deficient in branch office representation in that area.

The Northeast section would have 10 commercial banking alternatives, Governor Balderston continued, after the substitution of Provident for Second National. The latter had a lending limit of only \$300,000, as against \$6,000,000 for the institution that would result from the merger. Also, Second National made no construction loans and did no export and import financing. As to trust activity, Provident, with its common trust fund, had one of the six outstanding trust departments in the city, and was fourth in trust volume. As to the service side of the problem, it could be concluded that customers in Northeast Philadelphia, despite the loss of one option, would gain more than enough to compensate

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in quality of service offered. One might ask how many options were really needed for adequate freedom of customer choice.

As to the competitive factor, Governor Balderston was of the view that the impact upon Provident's relative strength in the four-county area would be so small as scarcely to be relevant: it would remain fifth in rank after the merger. But the Northeast situation was different. Second National was a bank with 11 per cent of the deposits and 15 per cent of total loans, of which 57 per cent were consumer loans. In its area, Second National ranked fifth in deposits and third in loans, but here mere ranking was deceptive. Girard Trust Bank and First Pennsylvania Banking and Trust Company had deposits in the Northeast almost twice as large as Second National's. Girard's total loans were 50 per cent larger than those of Second National, and its commercial and industrial loans were six times as great. The bank that would result from the merger would be first only in consumer loans (which was the present ranking of Second National), third in total loans and demand deposits (ranking after Girard and First Pennsylvania Company in deposits), and no better than fourth in other measures of market shares.

In summary, Governor Balderston agreed with the Division of Examinations that the injection of a bank that would have larger resources, a higher lending limit, and a greater variety of services could be accomplished without deleterious effects on market competition and the number of alternatives available to customers.

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Chairman Martin stated that he would approve for the reasons cited by the Division of Examinations and the Philadelphia Reserve Bank. He thought, on balance, that the public interest would be served, although the favorable balance might be rather small. He gave some weight to the fact that Second National wanted to consummate a merger, and better service apparently would be provided to the community as a result of the merger than if the proposal was denied. He could not see an adverse effect on either competition or on banking generally.

The application of Provident Tradesmens Bank and Trust Company was thereupon approved, Governors Mills, Robertson, and Mitchell dissenting. It was understood that the Legal Division would draft for the Board's consideration an order and statement reflecting this decision, and that a dissenting statement or statements also would be prepared.

Mr. Hexter, Assistant General Counsel, entered the room during the preceding discussion, and at its conclusion Messrs. Shay, Via, Smith (Division of Research and Statistics), Egertson, McClintock, and Sundberg withdrew.

Estimates of coin needs and distribution procedures (Items 2 and 3). There had been distributed drafts of two letters to Chairman Fascell of the Legal and Monetary Affairs Subcommittee of the House Committee on Government Operations. The first draft letter would respond to the request in his letter of July 14, 1964, for information regarding the bases for computation of estimates furnished to the Bureau of the

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Mint of coin required for fiscal years 1965 and 1966 and for the first six months of fiscal 1965. The estimates had been the subject of comments by the Director of the Mint during the Subcommittee's current hearings regarding the coin shortage. The second draft letter would respond to requests made during Chairman Martin's testimony at the hearings for information regarding the procedures used by the Federal Reserve Banks in distributing coins to commercial banks before and after the development of shortages, and the amounts of coin flowback allowed for in preparing estimates of coin needs that had been furnished to the Subcommittee.

During discussion there was agreement upon a change in the first draft letter to refer to amounts of coin needed to rebuild inventories as one of the bases for estimates. In response to a suggestion that the letter might include a reference to the meeting the Board and the Reserve Bank Presidents had held on May 26, 1964, with Mr. Wallace, Assistant Secretary of the Treasury, and Miss Adams, Director of the Mint, to discuss the problem of the coin shortage, it was explained that reference to the meeting had been omitted because it was not deemed relevant to the estimates of coin needs. Also, the fact that such a meeting was held had been brought out at the hearings. Governor Mitchell mentioned that Assistant Secretary Wallace in a recent conversation had expressed interest in having another discussion with the Reserve Bank Presidents sometime when the latter were in Washington.

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After further discussion the letters were approved unanimously in the form attached as Items 2 and 3.

Legislative proposals regarding discounts and advances. There had been distributed a memorandum dated July 23, 1964, from Mr. Hackley regarding a substitute recently proposed by the Comptroller of the Currency for a bill recommended in 1963 by the Board to liberalize the authority of the Federal Reserve Banks to extend credit to member banks.

The Comptroller's substitute proposal, the memorandum pointed out, would revise the first sentence of the eighth paragraph of section 13 of the Federal Reserve Act, which now authorized advances secured by Government obligations, obligations of Federal intermediate credit banks, the Federal Farm Mortgage Corporation, and the Home Owners' Loan Corporation, and paper eligible for discount or purchase by the Reserve Banks. His revision would add to those 5 types of collateral 7 additional types and "such other security as may be satisfactory to the lending Federal reserve bank." His bill would repeal the present requirement that bankers acceptances have a maturity of not more than 90 days at the time of discount and that sight drafts not be held by a Reserve Bank for more than 90 days. It would also repeal the third paragraph of section 13, authorizing discounts for individuals, partnerships, and corporations in emergency circumstances; the last paragraph of section 13, authorizing 90-day advances on direct obligations of the United States to individuals, partnerships, and corporations; and section 10(b), authorizing advances to member banks on any satisfactory assets at a penalty rate.

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A statement issued by the Comptroller indicated that he favored broadening the eligibility requirements and believed this change was overdue, but that, instead of repealing all existing eligibility requirements, specific types of paper should be added to the present eligible list in order that there would be no doubt as to the legislative purpose and that the Board would have clear guidelines as well as flexibility. He also stated that his bill differed from the Board's proposal in philosophy as well as in content in that it was based on the notion that the Federal Reserve should base its discounting decisions on monetary policy considerations alone and never upon the type of collateral offered, other than to insure the soundness of particular pieces of the latter. He asserted that there was nothing in the Board's bill to prevent a future "bad" Board from adopting "an unwisely restrictive discount policy."

In commenting on the matter, Mr. Hackley brought out, among other things, that it was difficult to see how the expressed purpose of forestalling any future unduly restrictive policy would be accomplished by the substitute bill any better than it was under present law, since Reserve Bank discretion as to whether or not to make advances or discounts would remain. However, the bill conceivably could be interpreted as requiring a Reserve Bank to make advances on collateral of the types specified; the tone of the Comptroller's statement had pointed toward an intention that discounts would be mandatory. The statement, in

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explaining the proposed elimination of the power of the Reserve Banks to make advances to individuals, partnerships, and corporations, had commented that "This Office sees no reason why the Federal Reserve should be permitted to compete with private lenders." Yet, Mr. Hackley remarked, that provision never had been used for such competition; it had been used only rarely, only in emergencies, and never for advances to individuals and corporations but only for advances to nonmember banks. Mr. Hackley was of the view that the Comptroller's bill ran contrary to the principle underlying the Board's bill, and presumably, if hearings were held, any one who might testify for the Board would wish to take such a position.

In the ensuing discussion it was brought out that, whereas the Treasury Department had endorsed the Board's proposed bill on advances by Federal Reserve Banks, the Comptroller's substitute bill was apparently his own proposal and the Department had not indicated a position regarding it. Also, the Comptroller's substitute bill, which had been submitted to the House Committee on Banking and Currency, apparently had not been submitted to the Senate Committee.

At the conclusion of the discussion, Chairman Martin observed that no action was required at this time, the matter having been brought up only for informational purposes.

Messrs. Hexter and Holland then withdrew and Mr. Brill, Director, Division of Research and Statistics, entered the room.

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Federal Open Market Committee minutes. There had been distributed a memorandum dated July 28, 1964, from Mr. Sherman, stating that in connection with the pending transfer to National Archives of 28 volumes of minutes of the Federal Open Market Committee from 1936 through 1960, representatives of several of the Reserve Banks had raised the question of obtaining copies for their library reference shelves. Archives was prepared to furnish microfilm copies at cost to anyone requesting them, and it was assumed that most interested university libraries would ordinarily prefer microfilm because it required relatively little storage space. Some Reserve Banks, however, had indicated that they would prefer facsimile copies of the original signed minutes, and there seemed to be merit, as a matter of convenience to interested parties, in having a copy available at each Federal Reserve office as well as at Archives. The estimated cost for reproducing 15 sets of the 1936-1960 minutes in form suitable for placement on library shelves was \$6,700; 40 copies, which would permit a copy to be placed at each Federal Reserve Bank and branch, would cost approximately \$15,000. It was recommended that the Board authorize the Secretary to arrange for the purchase of 40 sets, with the understanding that one set would be placed in each Federal Reserve Bank and branch, one would be placed in the Board's Research Library, and the three remaining sets would be held by the Secretary for such use within the System as might seem appropriate. Since there was no provision in the budget for this expenditure in 1964, approval of the recommendation would call for approval of the budget overexpenditure.

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After comments by Mr. Sherman based on his memorandum, discussion indicated a consensus in favor of placing two sets of the volumes with each Federal Reserve Bank and one at each branch. The possibility of placing sets with selected branches according to probable use was mentioned, but was thought to present practical difficulties. The tenor of comments indicated an inclination to retain in the Board's offices a somewhat larger reserve supply of sets than Mr. Sherman's memorandum had contemplated.

At the conclusion of the discussion the Board authorized the Secretary to arrange for the purchase of as many as 100 sets of the minutes. The resulting overexpenditure in the budget of the Division of Administrative Services was also authorized.

Messrs. Young, Molony, Cardon, Fauver, and Kakalec then withdrew from the meeting.

Form of examination report. There had been distributed a memorandum dated July 23, 1964, from Mr. Solomon, regarding changes proposed to be made in the form of report of examination of the Federal Reserve Banks in light of the Board's discussion on June 18, 1964, of a pro forma report that had accompanied and been commented on in Mr. Solomon's memorandum of May 28, 1964.

For reasons set out in his July 23 memorandum, Mr. Solomon proposed that in the case of the next Federal Reserve Bank examination report to be prepared, the summarizing memorandum to the Board be replaced by a

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simple note, to be circulated with the report, indicating certain pages that might deserve special attention. He also proposed that the text submitted in the pro forma report be used as a guide to the items to be covered in the written text, and that, as contemplated by the pro forma report, the omissions from schedules and appendix, the transfer of certain schedules from the report to a separate memorandum, and the contemplated reduction of the number of schedules be approved.

The pro forma report had proposed a reduction of branch reports to about 3 pages of text and 6 pages of financial statements. During the June 18 discussion, questions had been raised as to whether the amount of this material submitted to the Board might be still further shortened, and Mr. Solomon's July 23 memorandum commented on two possibilities.

After summary comments by Mr. Solomon, the ensuing discussion indicated a consensus in favor of using the proposed examination report form on a trial basis, after which further consideration could be given to the matter against a background of experience with the proposed revisions. Governor Mitchell, while agreeing to such a trial application, believed that a substantial amount of material remaining in the report served no useful purpose and could be omitted. Governor Shepardson suggested that, instead of having only one copy circulated to the members of the Board, the forthcoming report might be duplicated so that each member could have a copy to facilitate analysis of it.

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All members of the staff then withdrew and the Board went into executive session. Following the meeting the Secretary was informed that during the executive session the Board took the following actions:

Designation of Governor Shepardson. The Board vested in Governor Shepardson for the year beginning August 1, 1964, the direction at the Board level of its internal administrative affairs, including matters pertaining to Board personnel, budget, and housekeeping. The Board as a whole would continue to keep in touch with the operating problems of the staff and would determine questions of policy.

The designation continued Governor Shepardson's authorization to approve requests for domestic travel and requests for foreign travel falling within categories specified by the Board, in accordance with the provisions of the official travel regulations of the Board.

The action also continued Governor Shepardson's authorization to approve on behalf of the Board (1) all proposed personnel actions relating to Board employees other than members of the official staff; and (2) the proposed appointment of examiners, assistant examiners, and special or special assistant examiners of the Federal Reserve Banks. It continued to be the understanding that all approvals by Governor Shepardson under the authorization of this paragraph would be entered in the minutes as of the date of his approval.

Committee on Organization, Compensation, and Building Plans.  
Governors Balderston, Shepardson, and Mitchell were designated as members

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of the Committee on Organization, Compensation, and Building Plans, with Governor Mitchell as Chairman. There was no change in the previous understanding that the function of the Committee would be to meet with each Federal Reserve Bank President for the purpose of considering officer development and compensation and any contemplated changes in major Reserve Bank programs, including sizable building projects, but with no intention of over-all budget review. (It likewise continued to be the understanding that if nothing seemed to require a meeting with a particular Reserve Bank President, such meeting need not be scheduled by the Chairman of the Committee.)

Retention of employee in active service (Item No. 4). Chairman Martin referred to a request by President Hayes of the Federal Reserve Bank of New York that the Bank be permitted to retain Miss Mary Cordia Regan, Administrative Secretary to the President, in active service for one year beyond March 1, 1965, her normal service retirement date.

After discussion, it was agreed to interpose no objection, provided a review of the matter by Governor Shepardson and the Division of Personnel Administration disclosed no information that would suggest taking a different position.

Secretary's Note: Following a review of the matter, the letter of which a copy is attached as Item No. 4 was sent to the Federal Reserve Bank of New York on August 6, 1964, with Governor Shepardson's approval.

The meeting then adjourned.

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Secretary's Notes: On July 28, 1964, a letter was sent to First National City Bank, New York, New York, acknowledging receipt of notice of its intent to establish a branch on Avenida Central, Panama City, Republic of Panama.

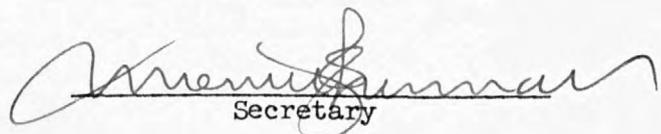
Pursuant to the so-called "Dillon procedure," the Board on July 13, 1964, sent to designated officials of the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Treasury a proposed interpretation as to whether California Bond Anticipation Notes constituted "general obligations" within the meaning of paragraph seventh of section 5136 of the Revised Statutes of the United States. Comments were requested not later than the close of business July 27, 1964, and it was understood that the proposed interpretation would then be issued in the absence of receipt of comments warranting further consideration by the Board. The General Counsel of the Federal Deposit Insurance Corporation subsequently advised that he had no comments or recommendations; no word was received from the other sources by the date indicated. Accordingly, the interpretation was sent to the Federal Register under date of July 28, 1964; a copy of the interpretation, as sent to the Register, is attached as Item No. 5. Attached as Items 6 and 7 are copies of letters sent in this connection to the Federal Reserve Bank of San Francisco and to Bankers Trust Company, New York, New York.

Governor Shepardson approved on behalf of the Board on July 28, 1964, the following items:

Letter to the Federal Reserve Bank of Richmond (attached Item No. 8) approving the appointment of Jackson L. Blanton as assistant examiner.

Memorandum from the Division of Research and Statistics recommending acceptance of the resignation of Paul W. Kuznets, Economist in that Division, effective at the close of business August 21, 1964.

Governor Shepardson today approved on behalf of the Board a letter to the Federal Reserve Bank of Chicago (attached Item No. 9) approving the appointment of David W. Minster and Mendal C. Mearkle as examiners.

  
Secretary

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

Item No. 1  
7/29/64

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 29, 1964.

Morgan Guaranty International  
Finance Corporation,  
23 Wall Street,  
New York 15, New York.

Gentlemen:

In accordance with the request and on the basis of the information furnished in your letters of July 21 and July 22, 1964, the Board of Governors grants its consent for Morgan Guaranty International Finance Corporation ("MGIFC") to participate, as a member of an underwriting group headed by Credito Bursatil, S.A., a Mexican corporation, and International Finance Corporation, in the underwriting of additional common shares of Compania Fundidora de Fierro y Acero de Monterrey S.A. ("CFFAM"), a Mexican corporation, with a par value of Mexican Pesos 100 per share. It is understood that MGIFC will agree to purchase up to the Mexican Peso equivalent of US\$1,500,000 (approximately Mexican Pesos 18,750,000) of such common stock as is not subscribed to by the shareholders. Accordingly, the Board of Governors grants consent for MGIFC to purchase and hold up to approximately 150,000 shares of stock of CFFAM at a cost not to exceed approximately US\$1,500,000, provided such stock is acquired within one year from the date of this letter.

The Board also approves the purchase and holding of the shares of CFFAM within the terms of the above consent in excess of 10 per cent of your Corporation's capital and surplus.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.





BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 2  
7/29/64

OFFICE OF THE CHAIRMAN

July 30, 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:

In your letter of July 14 you referred to "tables transmitted to the Mint and labeled as estimates of coin required for fiscal years 1965 and 1966 and for the first six months of fiscal 1965." You asked that we supply for inclusion in the record of your hearings the bases on which these estimates were computed and any correspondence from the Board to the Mint in connection with the copies which were furnished to the Mint on June 24 and June 29, 1964.

The methodology used by the various Reserve Banks in preparing the estimates in question is shown in the accompanying enclosure. The Board requested these estimates, primarily for its own purposes, in the light of the following chain of events:

- (1) On January 13, 1964, the Board addressed a letter to Secretary of the Treasury Dillon enclosing comments from the Presidents of each of the Reserve Banks indicating that the coin shortage was worsening in most parts of the country. In this letter the Board expressed the view that this situation was harmful to the conduct of the Nation's business and that drastic measures to deal with it are warranted. In his reply dated January 28, 1964, Secretary Dillon assured the Board that the Treasury would continue to do everything possible to increase coinage within the limitations of existing facilities and operating funds, and would replace the Mint facilities at Philadelphia as rapidly as possible when the funds for this purpose are appropriated by Congress.

The Honorable Dante B. Fascell -2-

- (2) Discussions with Reserve Bank officials during the next three months indicated that flowback, which during this period of the year would normally be increasing, was continuing to decline, and that the coin shortage would reach calamitous proportions later on in the year unless something more were soon done to alleviate the situation.
- (3) In order that it might have better information than was theretofore available to determine its course of action in meeting the worsening situation, the Board on May 12, 1964, asked each of the Reserve Banks to submit to it estimates of their coin needs for each of the next two fiscal years. The Mint was informed of this inquiry.
- (4) On June 19, 1964, your Committee announced its intention to hold hearings to investigate the coin shortage. At about that time the Board's staff had nearly completed tabulation of the estimates being received in response to the Board's inquiry of May 12. As a result of subsequent discussions with the Mint staff, in preparation for the hearings before your Committee, the Mint was given on June 24, for such help as it might be, a preliminary copy of a table showing "Estimates of New Coin Requirements by Federal Reserve Banks for Fiscal Years 1965 and 1966." This table was later appended to the statement I presented to your Committee.
- (5) During the telephone discussions with the Mint staff following the announcement of the hearings by your Committee, the Board's staff learned of the plans by the Treasury (later set forth in the Treasury Department release dated June 26, 1964) to increase coin production to an annual rate of over 9 billion pieces by June 1965 and to produce 3.5 billion pieces in the last half of 1964. In order to appraise the effectiveness of the proposed Treasury plan in breaking the coin shortage this fall, the Board on June 25 asked all Federal Reserve Banks to furnish by the next day estimates of their coin needs for each of the two-month periods: July-August, September-October, and November-December. In making these estimates, the Banks were asked to take into account the current environment of hoarding and rationing. These estimates were received

The Honorable Dante B. Fascell -3-

by the Board on Friday, June 26. They were summarized in tabular form on Monday, June 29, and a copy of this table, showing total needs for the period July-December of 5.6 billion pieces, was furnished to the Mint staff on that day.

On the face of it, an estimate of 5.6 billion pieces needed for the first half of fiscal year 1965 might seem to indicate a need for twice that amount for the whole fiscal year, thus invalidating the estimate of 6.8 billion pieces for the year. The two figures are, however, compatible. This is because normally the heaviest outflow of coin from the Reserve Banks occurs in the first half of the fiscal year and the greatest flowback takes place in the second half, and because the estimates for the first half included amounts needed to rebuild inventories to a workable level. Thus, if the Mint were able to supply the Reserve Banks with 5.6 billion pieces during July-December 1964, the substantial flowback that would ensue in January-April 1965 would sharply reduce the need for new coin in the second half of the fiscal year.

The estimates mentioned in your letter of July 14, 1964, were furnished to the Mint without letters or notes of transmittal. The only correspondence having any connection with these estimates consisted of two letters to Assistant Secretary of the Treasury Wallace in reply to a request from him inviting comments on the Treasury's plan to increase coin production. One of these was a letter from Governor Mitchell dated June 29, 1964, and the other was a letter from the Director of the Board's Division of Bank Operations, Mr. Farrell, dated July 2, 1964. Copies of these letters are enclosed.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Enclosures



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 3  
7/29/64

OFFICE OF THE CHAIRMAN

July 30, 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:

In response to requests made during my appearance at your Subcommittee's hearings on July 1, 1964, concerning the coin shortage, enclosed are (1) a statement showing amounts of flowback allowed for by the Federal Reserve Banks in preparing the estimates of the need for coin in fiscal years 1965 and 1966 that were furnished to your Subcommittee, and (2) descriptions by the Federal Reserve Banks of procedures employed in distributing coins to commercial banks before and after the development of shortages.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Enclosures

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

Item No. 4  
7/29/64

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

August 6, 1964.

CONFIDENTIAL (FR)

Mr. Alfred Hayes, President,  
Federal Reserve Bank of New York,  
New York, New York. 10045

Dear Mr. Hayes:

The Board of Governors approves your recommendation that Miss Mary Cordia Regan, Administrative Secretary to the President, be retained in the active service of the Federal Reserve Bank of New York for one year beyond her normal service retirement date of March 1, 1965.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.



## TITLE 12 - BANKS AND BANKING

## CHAPTER II - FEDERAL RESERVE SYSTEM

## SUBCHAPTER A - BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

[Reg. H]

PART 208 - MEMBERSHIP OF STATE BANKING INSTITUTIONS  
IN THE FEDERAL RESERVE SYSTEM

## Underwriting of Bond Anticipation Notes

§ 208.113 Underwriting of notes payable from proceeds of subsequent sale of general obligation bonds.

(a) The Board of Governors has received inquiries whether California Bond Anticipation Notes constitute "general obligations" of the State of California within the meaning of paragraph Seventh of section 5136 of the United States Revised Statutes (12 U.S.C. 24).

(b) The Board understands that, in anticipation of the sale of general obligation bonds duly authorized, Finance Committees of certain public authorities of the State are empowered, under section 16736 of the Government Code of California, to direct the State Treasurer to issue Bond Anticipation Notes whenever "the committee deems it in the best interests of the State".

(c) Although there appears to be no judicial decision as to the nature of Bond Anticipation Notes under California law, the State Attorney General has issued an opinion (No. 63/182 of November 8, 1963) concluding that the Notes do not constitute "a general obligation of the State in the sense that they are secured by the State General Fund and general taxing power of the State".

-2-

(d) While the California Attorney General's opinion is not controlling in a determination as to whether the Notes are "general obligations" within the meaning of section 5136, a Federal statute, it is significant in such a determination insofar as it indicates that the Notes are not secured by the State's "general powers of taxation, including property taxation", a sine qua non of "general obligations" under section 5136. (29 Federal Register 6061)

(e) Although the Board of Governors has recognized that the pledge of the "general powers of taxation, including property taxation" may be indirect as well as direct, with respect to payment of the principal of its Bond Anticipation Notes the State of California does not commit its general taxing powers either directly or indirectly. The principal of such Notes is payable solely from the proceeds of subsequent sale of other securities, which means that the State retires the Notes through the exercise of its borrowing powers as distinct from its taxing powers.

(f) That the general obligation bonds, from the proceeds of whose sale the Notes are expected to be paid, will pledge the State's taxing powers cannot be considered an indirect pledge of that power to secure the Notes, because the pledge of the State's taxing powers attaches to the general obligation bonds only after they are sold and can in no way be utilized for the payment of the Notes. In order for obligations to be secured directly or indirectly by general taxing

power, that power must be available for use, if necessary, to provide funds for the required payments of both principal and interest.

(g) The Board of Governors accordingly concludes that California Bond Anticipation Notes do not constitute general obligations within the meaning of section 5136. The Notes, therefore, would not be eligible for underwriting and dealing in by member State banks.

(12 U.S.C. 248(i). Interprets 12 U.S.C. 24 and 335.)

Dated at Washington, D. C., this 28th day of July, 1964.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

( SEAL)

(Signed) Merritt Sherman

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Merritt Sherman,  
Secretary.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 6  
7/29/64

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 29, 1964.



Mr. Walter F. Scott, General Counsel,  
Federal Reserve Bank of San Francisco,  
San Francisco, California. 94120

Dear Mr. Scott:

This is in reply to your letter of April 8, 1964, in regard to a request by Wells Fargo Bank for a ruling by the Board of Governors as to whether California Bond Anticipation Notes, issued or to be issued in connection with the California Water Resources Development System, are "general obligations" of the State of California within the meaning of paragraph Seventh of section 5136 of the United States Revised Statutes (12 U.S.C. 24). The Board has received a similar inquiry from Bankers Trust Company of New York.

Although there no longer is any legal impediment to the issuance of general obligation bonds in connection with the California Water Resources Development System, the Board of Governors understands that, in anticipation of the sale of general obligation bonds duly authorized, the California Water Resources Development Finance Committee nevertheless is empowered, under section 16736 of the Government Code of California, to direct the State Treasurer to issue Bond Anticipation Notes whenever "the committee deems it in the best interest of the State". It is further understood that section 16736 is applicable also to Finance Committees of other authorities of the State of California.

Although there appears to be no judicial decision as to the nature of Bond Anticipation Notes under California law, the State Attorney General has issued an opinion (No. 63/182 of November 8, 1963) concluding that the Notes do not constitute "a general obligation of the State in the sense that they are secured by the State General Fund and general taxing power of the State".

While the California Attorney General's opinion is not controlling in a determination as to whether the Notes are "general obligations" within the meaning of section 5136, a Federal statute,

Mr. Walter F. Scott

-2-

it is significant in such a determination insofar as it indicates that the Notes are not secured by the State's "general powers of taxation, including property taxation", a sine qua non of "general obligations" under section 5136. (1964 Federal Reserve Bulletin 564)

Although the Board of Governors has recognized that the pledge of the "general powers of taxation, including property taxation" may be indirect as well as direct, with respect to payment of the principal of its Bond Anticipation Notes the State of California does not commit its general taxing powers either directly or indirectly. The principal of such Notes is payable solely from the proceeds of subsequent sale of other securities, which means that the State retires the Notes through the exercise of its borrowing powers as distinct from its taxing powers.

That the general obligation bonds, from the proceeds of whose sale the Notes are expected to be paid, will pledge the State's taxing powers cannot be considered an indirect pledge of that power to secure the Notes, because the pledge of the State's taxing powers attaches to the general obligation bonds only after they are sold and can in no way be utilized for the payment of the Notes. In order for obligations to be secured directly or indirectly by general taxing power, that power must be available for use, if necessary, to provide funds for the required payments of both principal and interest.

The Board of Governors accordingly concludes that California Bond Anticipation Notes do not constitute general obligations within the meaning of section 5136. The Notes, therefore, would not be eligible for underwriting and dealing in by member State banks.

You are requested to inform Wells Fargo Bank of the contents of this letter.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

Item No. 7  
7/29/64BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 29, 1964.

Mr. Robert H. Brome,  
General Counsel and Secretary,  
Bankers Trust Company,  
280 Park Avenue,  
New York, New York.

Dear Mr. Brome:

This is in reply to your letter of April 2, 1964, supplemented by your letter of May 19, 1964, as to whether California Bond Anticipation Notes, issued or to be issued in connection with the California Water Resources Development System, are "general obligations" of the State of California within the meaning of paragraph Seventh of section 5136 of the United States Revised Statutes (12 U.S.C. 24). The Board has received a similar inquiry on behalf of Wells Fargo Bank.

Although there no longer is any legal impediment to the issuance of general obligation bonds in connection with the California Water Resources Development System, the Board of Governors understands that, in anticipation of the sale of general obligation bonds duly authorized, the California Water Resources Development Finance Committee nevertheless is empowered, under section 16736 of the Government Code of California, to direct the State Treasurer to issue Bond Anticipation Notes whenever "the committee deems it in the best interests of the State". It is further understood that section 16736 is applicable also to Finance Committees of other authorities of the State of California.

Although there appears to be no judicial decision as to the nature of Bond Anticipation Notes under California law, the State Attorney General has issued an opinion (No. 63/182 of November 8, 1963) concluding that the Notes do not constitute "a general obligation of the State in the sense that they are secured by the State General Fund and general taxing power of the State".

While the California Attorney General's opinion is not controlling in a determination as to whether the Notes are "general obligations" within the meaning of section 5136, a Federal statute, it is significant in such a determination insofar as it indicates that the Notes are not secured by the State's "general powers of taxation,

Mr. Robert H. Brome

-2-

including property taxation", a sine qua non of "general obligations" under section 5136. (1964 Federal Reserve Bulletin 564)

Although the Board of Governors has recognized that the pledge of the "general powers of taxation, including property taxation" may be indirect as well as direct, with respect to payment of the principal of its Bond Anticipation Notes the State of California does not commit its general taxing powers either directly or indirectly. The principal of such Notes is payable solely from the proceeds of subsequent sale of other securities, which means that the State retires the Notes through the exercise of its borrowing powers as distinct from its taxing powers.

That the general obligation bonds, from the proceeds of whose sale the Notes are expected to be paid, will pledge the State's taxing powers cannot be considered an indirect pledge of that power to secure the Notes, because the pledge of the State's taxing powers attaches to the general obligation bonds only after they are sold and can in no way be utilized for the payment of the Notes. In order for obligations to be secured directly or indirectly by general taxing power, that power must be available for use, if necessary, to provide funds for the required payments of both principal and interest.

The Board of Governors accordingly concludes that California Bond Anticipation Notes do not constitute general obligations within the meaning of section 5136. The Notes, therefore, would not be eligible for underwriting and dealing in by member State banks.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 8  
7/29/64

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 28, 1964.

CONFIDENTIAL (FR)

Mr. John L. Nosker, Vice President,  
Federal Reserve Bank of Richmond,  
Richmond, Virginia. 23213

Dear Mr. Nosker:

In accordance with the request contained in your letter of July 23, 1964, the Board approves the appointment of Jackson L. Blanton as an assistant examiner for the Federal Reserve Bank of Richmond, effective today.

It is noted that Mr. Jackson is indebted to the Bank of Powhatan, Powhatan, Virginia, a State member bank. Accordingly, the Board's approval of the appointment of Mr. Jackson is given with the understanding that he will not participate in any examination of that bank until his indebtedness has been liquidated.

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. 9  
7/29/64

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 29, 1964.

CONFIDENTIAL (FR)

Mr. Leland Ross, Vice President,  
Federal Reserve Bank of Chicago,  
Chicago, Illinois. 60690

Dear Mr. Ross:

In accordance with the requests contained in your letters of July 22, 1964, the Board approves the appointments of David W. Minster and Mendal C. Mearkle, at present assistant examiners, as examiners for the Federal Reserve Bank of Chicago, effective August 10, 1964.

It is noted that Mr. Minster is indebted to Hartford Plaza Bank, Chicago, Illinois, a nonmember bank. Accordingly, the Board's approval of the appointment of Mr. Minster is given with the understanding that he will not participate in any examination of that bank until his indebtedness has been liquidated.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.

