

Minutes for October 16, 1964

To: Members of the Board

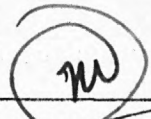
From: Office of the Secretary

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

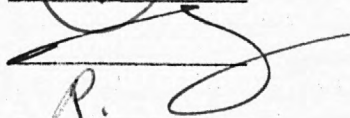
It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, please initial below. If you were present at the meeting, your initials will indicate approval of the minutes. If you were not present, your initials will indicate only that you have seen the minutes.

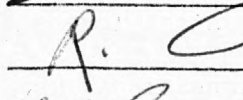
Chm. Martin



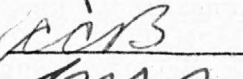
Gov. Mills



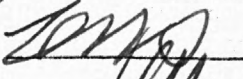
Gov. Robertson



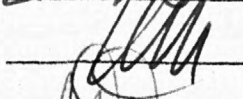
Gov. Balderston



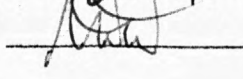
Gov. Shepardson



Gov. Mitchell



Gov. Daane



Minutes of the Board of Governors of the Federal Reserve
System on Friday, October 16, 1964. The Board met in the Board Room
at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Broida, 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. 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. Partee, Adviser, Division of Research
and Statistics
Mr. Sammons, Adviser, Division of International
Finance
Mr. Katz, Associate Adviser, Division of
International Finance
Mr. Reynolds, Associate Adviser, Division of
International Finance
Mr. Spencer, General Assistant, Office of the
Secretary
Mr. Morgan, Staff Assistant, Board Members'
Offices
Mr. Axilrod, Chief, Government Finance Section,
Division of Research and Statistics
Mr. Eckert, Chief, Banking Section, Division of
Research and Statistics
Mr. Baker, Economist, Division of International
Finance

10/16/64

-2-

Money market review. There were distributed tables on money market perspective for the period January-October 14, 1964, perspective on bank reserve utilization for the period September 1963-October 14, 1964, and changes in bank lending practices for the period June-September 1964.

Mr. Axilrod presented a report on developments in the Government securities market, following which Mr. Eckert discussed bank reserves, bank credit, and the money supply. Mr. Baker then reviewed recent developments in the foreign exchange market.

Following these reports, all members of the staff except Messrs. Sherman, Broida, Young, Noyes, Molony, Cardon, Fauver, Solomon, Holland, Eckert, and Spencer withdrew from the meeting and the following entered the room:

Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank Operations
Mr. Davis, Acting Director, Division of Data Processing
Mr. Daniels, Assistant Director, Division of Bank Operations
Mr. Kiley, Assistant Director, Division of Bank Operations
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Egertson, Supervisory Review Examiner, Division of Examinations
Mr. Smith, Review Examiner, Division of Examinations
Mr. Gedanken, Statistician, Division of Data Processing
Mr. Solodow, Economist, Division of Research and Statistics

Discount rates. The establishment without change by the Federal Reserve Banks of New York, Philadelphia, and San Francisco on October 15, 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.

10/16/64

-3-

Circulated 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 Fidelity-Philadelphia Trust Company, Philadelphia, Pennsylvania, approving the establishment of a branch in the Delcroft Shopping Center, Folcroft.	1
Letter to The First Pennsylvania Banking and Trust Company, Philadelphia, Pennsylvania, approving the establishment of a branch at 555 City Line Avenue, Lower Merion Township.	2
Letter to Birmingham-Bloomfield Bank, Birmingham, Michigan, approving the establishment of a branch at 1040 East Maple Road and commenting on the need for strengthening the bank's capital structure.	3
Letter to Old Kent Bank and Trust Company, Grand Rapids, Michigan, approving the establishment of a branch in the vicinity of East Beltline, S.E., and 28th Street, S.E.	4
Letter to United California Bank, Los Angeles, California, approving the establishment of a branch at 61607 Twentynine Palms Highway, Joshua Tree.	5
Letter to County Bank of Santa Cruz, Santa Cruz, California, approving the establishment of a branch in the vicinity of Capitola Road and 41st Avenue, Santa Cruz County, and noting the bank's plans for increasing its capital funds.	6
Letter to The Sumitomo Bank of California, San Francisco, California, approving an extension of time to establish a branch in Oakland.	7
Letter to The Sumitomo Bank of California, San Francisco, California, approving the relocation of a branch from 1400 Fourth Street to the vicinity of Broadway and Fourteenth Street, Sacramento.	8

10/16/64

-4-

	<u>Item No.</u>
Letter to Peoples Trust City Bank, Reading, Pennsylvania, waiving the requirement of six months' notice of withdrawal from membership in the Federal Reserve System.	9
Letter to the Federal Deposit Insurance Corporation regarding the application of Peoples Trust City Bank, Reading, Pennsylvania, for continuation of deposit insurance after withdrawal from membership in the Federal Reserve System.	10
Letter to the Federal Deposit Insurance Corporation regarding the application of The Mont Alto State Bank, Mont Alto, Pennsylvania, for continuation of deposit insurance after withdrawal from membership in the Federal Reserve System.	11

Sorting of unfit Federal Reserve notes. Pursuant to the understanding at the Board meeting on September 2, 1964, there had been submitted for discussion at the meeting of the Conference of Reserve Bank Presidents on September 28, 1964, a report from the Division of Bank Operations on a study of the problems involved in avoiding the necessity to sort unfit \$1 Federal Reserve notes by Bank of issue.

In this connection, there now had been distributed a memorandum from the Division of Bank Operations dated October 14, 1964, stating that the Presidents' Conference had recommended that (1) no change be made in the proposed legislation that the Treasury was holding concerning redemption and local destruction of Federal Reserve notes; (2) representatives of the Office of the Comptroller of the Currency not be stationed at the Reserve Banks to assume responsibilities for verification and

10/16/64

-5-

destruction of unfit Federal Reserve notes; and (3) redemption credit for \$1 Federal Reserve notes be prorated on the basis of the previous year's issues. The Conference also had expressed the view that the Board should give consideration to engaging Stanford Research Institute to study the possibility of developing a simplified electronic scanning machine to count notes by Bank of issue.

At the Board's request, Mr. Farrell reviewed the recommendations that had been made by the Presidents' Conference. He suggested that the Board might wish to advise the Chairman of the Presidents' Conference that it agreed with the recommendations of the Conference and to indicate that negotiations should be entered into with Stanford Research Institute for a study of the possibility of developing a simplified electronic currency scanning machine able to count notes by Bank of issue.

In the discussion that followed, Mr. Farrell observed that originally it had been believed that a satisfactory formula could be devised to allocate credit for redemption of Federal Reserve notes among the Reserve Banks in lieu of depending upon a sort by Bank of issue. Attempts to develop a formula had not turned out satisfactorily, however, and when the matter was discussed with the Board's Division of Data Processing, that Division had suggested that, as an alternative, a sampling procedure might offer a solution to the problem. Results of testing showed that there was some deviation of samplings from actual count. However, the Division of Data Processing had indicated that the sampling results were

10/16/64

-6-

within the expected range from the true figures of all Federal Reserve Districts and had recommended a sampling procedure in lieu of sorting by Bank of issue. The Division of Bank Operations had not concurred in this recommendation because the sampling had not yielded results reasonably close to an actual count.

In response to a question regarding the desirability of a single issue of Federal Reserve notes as a solution to the problem of allocating redemption credit, Mr. Farrell noted that a single issue would still require some kind of allocation procedure so long as the Reserve Banks operated as separate corporate entities. Such a procedure, however, might be more broadly based than any that had heretofore been contemplated. For example, Federal Reserve note liabilities might be allocated on the basis of total assets. He recalled that when the question of a single note issue was presented to the Reserve Banks in 1960, some appeared to be in favor, while others expressed reservations on the grounds that this would be a step away from the concept of a decentralized Federal Reserve System.

As discussion proceeded, Mr. Davis commented that he would strongly urge that further consideration be given to the use of a sampling technique for allocating redemption credit among the Reserve Banks as a means of avoiding the substantial costs that would be necessary to sort unfit notes by Bank of issue. He felt this alternative needed to be explored further before any action was taken to underwrite costs related to the development of an electronic scanning machine.

10/16/64

-7-

Governor Mills commented that, if the recommendations of the Presidents' Conference and the Division of Bank Operations were adopted, this would be a move in the direction of improving present practices for allocating redemption credit, which was necessitated by the accumulation of \$1 Federal Reserve notes. As he saw it, however, at the heart of the matter was the question whether the Board wished to defer to the "pride of ownership" on the part of the Reserve Banks insofar as this proprietorship related to currency denominated in the name of the Bank and the cost incident thereto.

Governor Robertson expressed the view that this morning's discussion pointed up the complexity of the matter of allocating redemption credit. On the basis of the information at hand he was not prepared to make a decision as to the best procedure to be followed in a matter of this importance. He would find it helpful if a committee were to be appointed to explore the subject in detail, with a view to having the committee make a specific recommendation to the Board.

At the instance of Chairman Martin, discussion then turned to the kind of letter that might be sent to the Chairman of the Presidents' Conference.

Governor Mitchell expressed the opinion that a sampling technique was likely to provide a satisfactory solution to the problem of allocating redemption credit. Statistical sampling was a widely used technique and one that should be explored further by the Federal Reserve for possible

10/16/64

-8-

use in this particular problem. While he had no objection to sending a letter that would express general agreement with certain of the Presidents' recommendations, he felt that the letter should not indicate concurrence by the Board with the suggestion that negotiations be entered into at this time with Stanford Research Institute for the development of a scanning machine.

Governor Daane remarked that he also felt the Board should not imply that it accepted all of the Presidents' recommendations pending further exploration of the sampling technique.

Governor Shepardson indicated that he agreed with Governor Daane. The accumulation of unfit \$1 Federal Reserve notes provided an opportunity to make a further study of sampling as it might be applied to allocation of redemption credit among the Reserve Banks. Before making a commitment for the development of a scanning device, which would mean a rather large outlay of money, he favored an intensive study of the feasibility of the application of a sampling procedure to the problem under discussion.

After further discussion, it developed to be the consensus that there should be further study of the possible use of a sampling procedure as a means of allocating redemption credit for unfit notes before any action was taken to enter into negotiations for the development of a scanning machine to count notes by Bank of issue. Accordingly, the staff was requested to prepare for the Board's consideration a draft of letter to the Chairman of the Presidents' Conference based on the discussion at today's meeting.

10/16/64

-9-

Messrs. Daniels and Leavitt then withdrew from the meeting.

Experimental sample for reserve reporting by country banks

(Item No. 12). There had been distributed, under date of October 15, 1964, a memorandum from Mr. Noyes recommending the establishment of an experimental sample of 300 country member banks to furnish early weekly reports of vault cash and deposits subject to reserve requirements, with a view to reducing errors in staff estimates of free reserves. Attached to the memorandum was a draft of letter to the Federal Reserve Banks explaining the purposes of the program and describing the procedures to be followed. The letter also suggested that the member banks recruited to report in the sample be informed the arrangement was experimental, to be tried until mid-1965 and continued, revised, or abandoned thereafter depending upon the value of the results.

At the request of the Board, Mr. Noyes commented on the proposal in supplementation of the information presented in his memorandum. Establishment of the experimental sample of country member banks was part of a broader effort to improve the current data available to the Manager of the System Open Market Account for use in making decisions on operations. While this program would not offer a complete or final solution to the problem of errors in reserve estimates and differences between preliminary and final figures, tests indicated that it was likely to result in marked improvement over the present situation.

10/16/64

-10-

In response to a question raised by Governor Mills, Mr. Noyes stated that the object of the program was not to facilitate policy actions of any particular type, but rather improve the Account Manager's ability to carry out the intent of the Federal Open Market Committee, whatever that might be at a given time, by improving the quality of the current information available to him. For example, if the Committee indicated that it would prefer not to have free reserves fall below a certain level, the Manager would be better able to comply with such an instruction if the range of error in his current estimates of reserve factors was reduced. A related goal was to reduce the average size of subsequent revisions in the preliminary data published.

After further discussion, unanimous approval was given to the recommendation in Mr. Noyes' memorandum of October 15 relating to the establishment of an experimental reporting sample of 300 country member banks. A copy of the letter sent to the Federal Reserve Banks in connection with this action is attached as Item No. 12.

The meeting then adjourned.

Secretary's Notes: A letter was sent today to The Chase Manhattan Bank, New York, New York, acknowledging receipt of notice of its intent to establish an additional branch in Nassau, Bahamas, to be located at the northwest corner of Russell Road and Thompson Boulevard, Nassau.

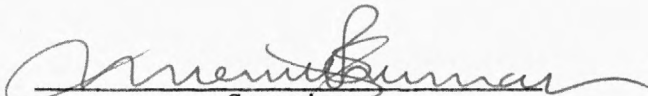
Governor Shepardson today approved on behalf of the Board the following items:

10/16/64

-11-

Letter to the Federal Reserve Bank of New York (attached Item No. 13) approving the reappointment of Lyman Brown, III, as assistant examiner.

Memorandum from the Office of the Controller recommending the appointment of Robert S. McClellan as Analyst in that Office, with basic annual salary at the rate of \$7,955, effective October 19, 1964.


Secretary

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

Item No. 1
10/16/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 16, 1964



Board of Directors,
Fidelity-Philadelphia Trust Company,
Philadelphia, Pennsylvania.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Fidelity-Philadelphia Trust Company, Philadelphia, Pennsylvania, of a branch in the Delcroft Shopping Center, Delmar Drive, Folcroft, Delaware County, Pennsylvania, 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 25. D. C.

Item No. 2
10/16/64



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 16, 1964

Board of Directors,
The First Pennsylvania Banking and
Trust Company,
Philadelphia, Pennsylvania.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by The First Pennsylvania Banking and Trust Company, Philadelphia, Pennsylvania, of a branch at 555 City Line Avenue, Lower Merion Township, Montgomery County, Pennsylvania, 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. 3
10/16/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 16, 1964

Board of Directors,
Birmingham-Bloomfield Bank,
Birmingham, Michigan.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Birmingham-Bloomfield Bank, Birmingham, Michigan, of a branch at 1040 East Maple Road, Birmingham, Michigan, provided the branch is established within one year from the date of this letter.

Your bank's capital position is somewhat less than satisfactory, and the further investment in bank premises incident to the establishment of this branch will place an additional burden on the bank's capital structure. The Board understands that the directorate is now giving careful consideration to the strengthening of the bank's capital structure and urges that plans in this regard be formulated as quickly as possible. The Board notes that Vice President Ross of the Federal Reserve Bank of Chicago emphasized in his letter to you of September 23, 1964, the advisability of the sale of common stock to improve the bank's capital position. The Board strongly concurs in Vice President Ross' comments in this regard.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

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

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

Item No. 4
10/16/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 16, 1964



Board of Directors,
Old Kent Bank and Trust Company,
Grand Rapids, Michigan.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Old Kent Bank and Trust Company, Grand Rapids, Michigan, of a branch in the vicinity of the intersection of East Beltline, S.E., and 28th Street, S.E., Grand Rapids, Michigan, 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 25, D. C.

Item No. 5
10/16/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



October 16, 1964

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

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by United California Bank, Los Angeles, California, of a branch at 61607 Twentynine Palms Highway, Joshua Tree, San Bernardino County, California, provided the branch is established within six months 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. 6
10/16/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 16, 1964

Board of Directors,
County Bank of Santa Cruz,
Santa Cruz, California.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by County Bank of Santa Cruz, Santa Cruz, California, of a branch in the vicinity of the intersection of Capitola Road and 41st Avenue, Santa Cruz County, California, provided the branch is established within one year from the date of this letter. In approving this application the Board has taken particular note of your plans to increase capital by over \$1,900,000 this year.

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

3584

Item No. 7
10/16/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 16, 1964

Board of Directors,
The Sumitomo Bank of California,
San Francisco, California.

Gentlemen:

The Board of Governors has approved an extension until July 19, 1965, of the time within which The Sumitomo Bank of California may establish a branch in the vicinity of 20th and Franklin Streets, Oakland, California. The establishment of this branch was authorized in a letter dated April 19, 1963.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.



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

3585

Item No. 8
10/16/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 16, 1964



Board of Directors,
The Sumitomo Bank of California,
San Francisco, California.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the relocation of a branch by The Sumitomo Bank of California from 1400 Fourth Street, Sacramento, California, to the vicinity of the intersection of Broadway and Fourteenth Street, Sacramento, provided the branch in the latter location is established within one year from the date of this letter and operations at the bank's existing office located at 1400 Fourth Street are discontinued simultaneously with the opening of the office in the vicinity of the intersection of Broadway and Fourteenth Street.

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 for relocation of 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. 9
10/16/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 16, 1964

Board of Directors,
Peoples Trust City Bank,
Reading, Pennsylvania.

Gentlemen:

The Federal Reserve Bank of Philadelphia has forwarded to the Board of Governors your letter dated September 23, 1964, together with the accompanying resolution requesting permission to withdraw from membership in the Federal Reserve System by December 1, 1964.

In accordance with your request, the Board of Governors waives the requirement of six months' notice of withdrawal. Upon surrender to the Federal Reserve Bank of Philadelphia of the Federal Reserve Bank stock issued to your institution, such stock will be cancelled and appropriate refund will be made thereon. Under the provisions of Section 208.10(c) of the Board's Regulation H, your institution may accomplish termination of its membership at any time within eight months from the date the notice of intention to withdraw from membership was given.

It is requested that the certificate of membership be returned to the Federal Reserve Bank of Philadelphia.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.



3587

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

Item No. 10
10/16/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 16, 1964

The Honorable Joseph W. Barr, Chairman,
Federal Deposit Insurance Corporation,
Washington, D. C. 20429

Dear Mr. Barr:

Reference is made to your letter of September 30, 1964, concerning the application of the Peoples Trust City Bank, Reading, Pennsylvania, for continuance of deposit insurance after withdrawal from membership in the Federal Reserve System.

No corrective programs which the Board of Governors believes should be incorporated as conditions to the continuance of deposit insurance have been urged upon or agreed to by the bank.

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. 11
10/16/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 16, 1964

The Honorable Joseph W. Barr, Chairman,
Federal Deposit Insurance Corporation,
Washington, D. C. 20429

Dear Mr. Barr:

Reference is made to your letter of September 30, 1964 concerning the application of The Mont Alto State Bank, Mont Alto, Pennsylvania, for continuance of deposit insurance after withdrawal from membership in the Federal Reserve System.

No corrective programs which the Board of Governors believes should be incorporated as conditions to the continuance of deposit insurance have been urged upon or agreed to by the bank.

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. 12
10/16/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 16, 1964.

Dear Sir:

The Board is concerned that all feasible means be explored for reducing the large differences that frequently occur in the several estimates of the weekly free reserve figures--as expected by the Manager of the System Open Market Account at the conclusion of his operations on Wednesday, as first published the following day, and as finally revised a week or two later.

The major sources of such differences have been the deviations from projections of required reserves and vault cash at country member banks. A special System subcommittee, and the staffs at the New York Bank and the Board, have been intensively investigating various means of reducing such deviations.

The most promising technique yet devised is the collection of early weekly reports of vault cash and deposits subject to reserve requirements from a sample of country banks. This technique calls for a stratified sample of 300 country member banks to report to their Reserve Bank offices each Monday, by telephone, telegraph, or other high-speed means, the cumulative totals of their vault cash and deposits subject to reserve requirements as of the opening of business on that day and the four preceding calendar days. Such data would be wired by each Reserve Bank office to the Board each Monday night or early Tuesday morning. There the sample reports would be blown up to represent the universe of country member banks and projected to a full reserve week average on the basis of an allowance for regular intra-weekly and intra-monthly patterns. With high-speed processing, it is believed possible to have the resulting estimate available for use by the 11 a.m. conference call each Tuesday. This would place an up-to-date estimate of average country bank required reserves and vault cash in the Manager's hands in time for him to adjust his operations on the final two days of the statement week.

Statistical tests of probable sample results have been sufficiently promising that the Board wishes to proceed with such

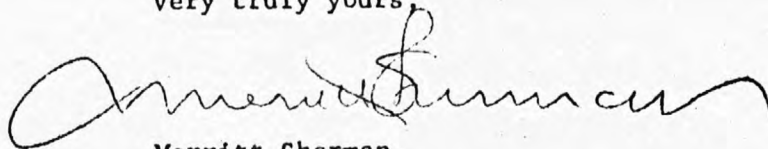
sample reporting, on a trial basis, beginning promptly and extending until June 30, 1965. Accordingly, it is requested that each Reserve Bank and Branch arrange for experimental reporting of the type and timing outlined above by each of the selected sample banks located in its territory. Names of the banks to be included in the sample will be forwarded shortly. Respondent substitutions in difficult instances can be arranged by contacting the Board staff. Costs of weekly telephone and telegraphic transmission of the requisite data by the respondent banks may appropriately be absorbed by the Reserve Banks.

The data received from the sample banks should be edited by the Reserve Bank or Branch and wired to reach the Board's Division of Data Processing on Monday night or early Tuesday morning. After receipt of the regular weekly reports on vault cash and deposits mailed in by all country members, each Reserve Bank office will also need to forward to the Board the totals from such mail reports for the sample banks and the universe of country member banks stratified by size class, in order to provide suitable benchmarks for estimating purposes. Appropriate limits for such size classes of banks will be specified by the Board staff. In recognition of the numerous details of implementation to be arranged, and the need for speedy action, a one-day planning meeting of the System personnel involved will be held in Room 1202 of the Board's offices, beginning at 9:30 a.m. on Monday, October 26. Reserve Banks and Branches are requested to send to the meeting representatives who will be responsible for the collection, editing, and transmission of the sample data. Communications regarding arrangements for this meeting, and any questions that might arise during the interim concerning the proposed procedures, should be directed to Mr. Theodore Veenstra of the Division of Data Processing.

It is suggested that the member banks recruited to report in the sample be informed that the arrangement is an experimental one, to be tried until mid-1965 and continued, revised, or dropped thereafter depending upon the value of the results. During this interval intensive staff testing of the sample evidence is planned. Reporting procedures and the number and distribution of respondent banks may be altered experimentally, with a view to improving the results. Testing and refinement of the sample will be much assisted by the back data on individual bank vault cash and deposits that will be forwarded by each Reserve Bank office in the coming weeks in accordance with the Board's letter of October 8, 1964.

It is hoped that these and other staff efforts currently underway can contribute significantly to improving the promptness and accuracy with which member bank reserve statistics are made available to assist in the execution of monetary policy.

Very truly yours,



Merritt Sherman,
Secretary.

TO THE PRESIDENTS OF ALL
FEDERAL RESERVE BANKS.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 13
10/16/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 16, 1964

CONFIDENTIAL (FR)

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 Mr. Quackenbush's letter of October 14, 1964, the Board approves the reappointment of Lyman Brown III as an assistant examiner for the Federal Reserve Bank of New York, effective October 29, 1964.

It is noted that Mr. Brown is indebted to Bank of Avoca, Avoca, New York, a State member bank. Accordingly, the Board's approval of the reappointment of Mr. Brown 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.

