

Minutes for October 28, 1964.

To: Members of the Board

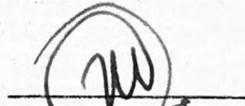
From: Office of the Secretary

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

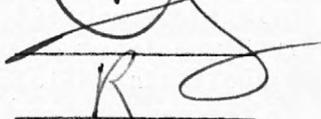
It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

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



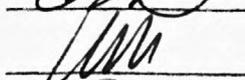
Gov. Robertson



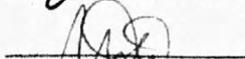
Gov. Balderston



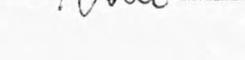
Gov. Shepardson



Gov. Mitchell



Gov. Daane



Minutes of the Board of Governors of the Federal Reserve System on Wednesday, October 28, 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. Young, Adviser to the Board and Director,  
Division of International Finance  
Mr. Molony, Assistant to the Board  
Mr. Fauver, Assistant to the Board  
Mr. Hackley, General Counsel  
Mr. Brill, Director, Division of Research  
and Statistics  
Mr. Farrell, Director, Division of Bank  
Operations  
Mr. O'Connell, Assistant General Counsel  
Mr. Shay, Assistant General Counsel  
Mr. Holland, Associate Director, Division  
of Research and Statistics  
Mr. Sammons, Adviser, Division of International  
Finance  
Mr. Leavitt, Assistant Director, Division of  
Examinations  
Mrs. Semia, Technical Assistant, Office of  
the Secretary  
Mr. Sanders, Attorney, Legal Division  
Mr. Egertson, Supervisory Review Examiner,  
Division of Examinations

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

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	<u>Item No.</u>
Letter to Chemical Bank New York Trust Company, New York, New York, approving the establishment of a branch at Castle Hill and Lafayette Avenues, Borough of the Bronx.	1
Letter to Manufacturers and Traders Trust Company, Buffalo, New York, approving the establishment of a branch near East Main and Clinton Streets, Batavia.	2
Letter to Wachovia Bank and Trust Company, Winston-Salem, North Carolina, approving the establishment of a branch on South Hawthorne Road near U. S. Highway 158 and Silas Creek Parkway.	3
Letter to Old Kent Bank and Trust Company, Grand Rapids, Michigan, approving an extension of time to establish a branch near the intersection of Lake Michigan Drive with Covell and Bridge Streets.	4
Letter to Heritage National Bank, Los Angeles (Westwood), California, granting its request for permission to maintain reduced reserves.	5
Letter to Civic National Bank, Marina del Rey, California, granting its request for permission to continue to maintain reduced reserves.	6
Letter to the Federal Reserve Bank of New York interposing no objection to a leave of absence without pay for Roger Lawrence, Economist, Foreign Research Division, to permit him to serve on the staff of the Bank for International Settlements.	7

During discussion of Item No. 4 Governor Mills cited certain recent approvals of applications by the State Banking Commissioner of Michigan that might be inconsistent with the competitive situation and might indicate an element of favoritism toward Old Kent Bank and Trust Company. Governor Mills believed it desirable that a close

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watch be kept on Old Kent's expansion. Response was made that the staff did in fact keep a close watch on the degree to which Michigan banking was concentrated in Old Kent's organization.

Messrs. Sammons and Egertson then withdrew from the meeting.

Loans secured by Government obligations (Item No. 8). There had been distributed a memorandum dated October 23, 1964, from the Legal Division regarding a notice published in the Federal Register by the Comptroller of the Currency that he was considering revising his regulation on loans by national banks secured by direct obligations of the United States to permit such loans without limitation based on capital and surplus. The final form of the revision was to be made effective early in November 1964, comments being requested by October 30.

The memorandum explained that under the provisions of section 5200 of the Revised Statutes, loans by a national bank to one borrower secured by not less than a like amount of obligations of the United States are subject to a limitation of 25 per cent of the bank's capital and surplus, except to the extent permitted by regulations of the Comptroller, with the approval of the Secretary of the Treasury. Section 11(m) of the Federal Reserve Act makes this limitation applicable to member State banks. The Comptroller's first regulation on this subject, effective August 16, 1957, authorized loans to one borrower up to 100 per cent of the bank's capital and surplus if those loans in excess of 25 per cent of its capital and surplus were secured

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by direct Government obligations maturing in 18 months or less. That regulation was prompted by interpretations by the Comptroller and the Board that transactions in which banks "purchased" Government securities from other banks or from securities dealers under arrangements whereby the securities were to be "repurchased" by the "seller" at the same price plus a fee or interest at a specified rate (repurchase agreements) were loans subject to the limitations of R. S. 5200 rather than securities transactions under the no-limit provisions of R. S. 5136. In April 1958 the Comptroller revised his regulation to remove entirely the limitation based on capital and surplus where the loans are secured by direct Government obligations maturing within 18 months or less. He had proposed also to raise the dividing line with respect to maturity date to two years. In commenting on the proposed revision, the Board stated that it "would interpose no objection to the change in view of the relatively risk-free nature of these transactions but would suggest the retention of the existing 18-months dividing line rather than two years . . . because it knows of no reasons for a move to two years." The effect of the revision now proposed would be that a member bank could make loans to one customer on the security of direct obligations of the United States (as distinguished from guaranteed obligations) without any limitation based upon the bank's capital and surplus, regardless of the maturity of such obligations. The reason for the Comptroller's previous regulatory actions, namely, to alleviate the

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problems of Government security dealers in obtaining adequate funds after repurchase agreements were determined to constitute loans subject to R. S. 5200, no longer existed with respect to national banks, since the Comptroller's Manual of June 1, 1963, contained a ruling that repurchase agreements were not subject to the lending limits of R. S. 5200. Although the Board had not published a ruling specifically with respect to repurchase agreements subsequent to the Comptroller's change of position, it had reaffirmed its position that a transaction in Federal funds involves a loan on the part of the "selling" bank and a borrowing on the part of the "purchasing" bank. Since a transaction in Federal funds may take the form of a repurchase agreement, that ruling by implication reaffirmed the Board's position that such agreements constitute loans.

The Legal Division's memorandum then explored various considerations that the Board might wish to weigh and recommended that the Board neither favor nor oppose the change in the Comptroller's regulation. Several possible courses of action were suggested, the first being to inform the Comptroller that the Board was presently aware of no reason for eliminating the 18-month maturity requirement but would interpose no objection to the change. A draft of letter to the Comptroller in those terms was attached to the memorandum.

At the Board's invitation for staff comments, Mr. Hackley pointed out that the question involved was primarily one of policy;

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there was no question as to the Comptroller's authority to take the proposed action. Mr. Sanders then summarized the principal pertinent considerations and possible courses of action.

Governor Mills commented that he found a somewhat broader principle involved in the proposal than the staff analysis contemplated, but he doubted that the other members of the Board would share his view. In 1957, the limits on borrowing against Government securities were liberalized in order to facilitate the operations of Government securities dealers, but at that time there was some body of opinion that to expand the lending and borrowing authorities of member banks beyond what were regarded as conventional limits would raise a question, and Governor Mills believed that question was properly raised. Now that the Comptroller of the Currency had asked for comments on a proposal to broaden the limits still further, there was an opportunity -- if there was any disposition within the Board to question, as an unconservative policy, this expansion of the ability of banks to dilute their capital protection and even to borrow substantially above their capital limits -- to express that question in a letter to the Comptroller of the Currency and to publicize the letter. In Governor Mills' view, the Board had let pass without comment too many liberalizations with which it in fact found fault. He was concerned about the Board passively observing the waiver of capital and surplus

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limitations on a bank's lending, because he thought the waiver would be one more step toward freedom by banks to operate beyond their normal resources and to expose their capital structure to the disadvantage of their depositors. Recently, when confronted with sales by a bank of its own unsecured notes in the open market, the Board had made a public statement that he viewed as very weak, although he believed that the plan was properly regarded as legally permissible. The earlier philosophy was that a bank should be limited, in the amount it could lend, to a percentage of its capital and surplus, so that it would not have too great a concentration in single loans. Various exceptions had been made to that limit on the excuse that the risks of the excepted type of loans had been appraised and found sufficiently innocuous to permit broader extensions of credit. Governor Mills regarded as even more iniquitous the devices that were coming into use to escape limitations on borrowing.

Governor Robertson expressed the view that it would not be wise to include in any letter the Board might send to the Comptroller regarding the proposed revision of his regulation any comments on the issuance of unsecured notes. The latter question had been raised with the Federal Deposit Insurance Corporation (with a request for comments by November 20, 1964), and it would seem best that any further expressions by the Board on the subject await receipt of the Corporation's views and further Board discussion. As for the Comptroller's

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proposal to liberalize his regulation on loans secured by Government obligations, Governor Robertson did not believe that a good case could be made for maintaining the present restriction. In continuing comments, he suggested certain changes in the draft letter to the Comptroller of the Currency.

Governor Daane noted that the draft letter in effect indicated that Government securities dealers had no problems in obtaining funds. He did not believe that that was true; whether or not the proposed liberalization of the regulation would help dealers was another matter. He questioned whether the Board wanted to take the position that dealers did not need additional help, and he doubted that enough was known as to what the effect of the proposed liberalization would be on the operation of the Government securities market.

Mr. Holland then commented on conversations he had had with the staff of the trading desk at the Federal Reserve Bank of New York regarding the proposed change in the Comptroller's regulation, the tenor of which had indicated that no hardships among Government securities dealers arising from the present restriction were known; if a dealer needed a large amount of money, he would probably use more than one bank anyway. At the same time, the Board's research staff believed that there were problems in regard to too-large loans, and Mr. Holland continued with observations regarding such problems.

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In further discussion Governors Mitchell, Shepardson, and Daane noted that the draft letter had the implication of acquiescing in the existence of disparate standards for national and State member banks, and various changes in the language of the draft were suggested.

The letter was then approved unanimously in the form attached as Item No. 8.

All members of the staff then withdrew except Messrs. Sherman and Fauver and Mrs. Semia.

Director appointments. The following actions were taken with respect to the appointment of Chairmen, Deputy Chairmen, and Class C directors at Federal Reserve Banks and the appointment of directors at Federal Reserve Bank branches, with the understanding that advice of the appointments would be sent to the respective appointees at an appropriate time and that public announcement would be made near the end of the year in accordance with the usual practice:

The following were reappointed as Class C directors of the Federal Reserve Banks indicated, each for a three-year term beginning January 1, 1965:

<u>Name</u>	<u>Bank</u>
Erwin D. Canham	Boston
Willis J. Winn	Philadelphia
Joseph B. Hall	Cleveland
Edwin Hyde	Richmond
Jack Tarver	Atlanta
Dolph Simons	Kansas City
C. J. Thomsen	Dallas
Frederic S. Hirschler	San Francisco

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The following were reappointed as directors of the Federal Reserve Bank branches indicated, each for a three-year term beginning January 1, 1965:

<u>Name</u>	<u>Branch</u>
Barney A. Tucker	Cincinnati
Leonard C. Crewe, Jr.	Baltimore
C. Caldwell Marks	Birmingham
Harry T. Vaughn	Jacksonville
Kenneth R. Giddens	New Orleans
James William Miller	Detroit
Richard T. Smith	Louisville
Edgar H. Hudgins	Houston
Harold D. Herndon	San Antonio

The following were reappointed as directors of the Federal Reserve Bank branches indicated, each for a two-year term beginning January 1, 1965:

<u>Name</u>	<u>Branch</u>
C. G. McClave	Helena
R. A. Burghart	Denver
Otto C. Barby	Oklahoma City
Clifford M. Hardin	Omaha
S. Alfred Halgren	Los Angeles
Robert D. O'Brien	Seattle

The following were designated as Chairmen and Federal Reserve Agents of the Federal Reserve Banks indicated for the year 1965, with compensation fixed at an amount equal to the fees that would be payable to any other director of the same Bank for equivalent time and attendance to official business:

<u>Name</u>	<u>Bank</u>
Erwin D. Canham	Boston
Philip D. Reed	New York
Walter E. Hoadley	Philadelphia
Joseph B. Hall	Cleveland
Edwin Hyde	Richmond
Jack Tarver	Atlanta
Raymond Rebsamen	St. Louis
Atherton Bean	Minneapolis
Homer A. Scott	Kansas City
Robert O. Anderson	Dallas
F. B. Whitman	San Francisco

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The following were appointed as Deputy Chairmen of the Federal Reserve Banks indicated for the year 1965:

<u>Name</u>	<u>Bank</u>
William Webster	Boston
Everett N. Case	New York
David C. Bevan	Philadelphia
Logan T. Johnston	Cleveland
William H. Grier	Richmond
J. M. Cheatham	Atlanta
James H. Hilton	Chicago
Judson Bemis	Minneapolis
Dolph Simons	Kansas City
C. J. Thomsen	Dallas
John D. Fredericks	San Francisco

It was agreed to ascertain through the Chairmen of the respective Federal Reserve Banks whether the following persons would accept appointment, if tendered, as Federal Reserve Bank or branch directors for the terms indicated, with the understanding that if it were found that they would accept, the appointments would be made, with public announcement near the end of 1964:

Elliott V. Bell, Editor and Publisher, Business Week Magazine, New York, New York, as a Class C director of the Federal Reserve Bank of New York for the three-year term beginning January 1, 1965.

Robert Francis Dwyer, Lumberman, Portland, Oregon, as a director of the Portland Branch of the Federal Reserve Bank of San Francisco for the two-year term beginning January 1, 1965.

Peter E. Marble, Rancher, Deeth, Nevada, as a director of the Salt Lake City Branch of the Federal Reserve Bank of San Francisco for the two-year term beginning January 1, 1965.

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Secretary's Note: It having been ascertained that Messrs. Dwyer and Marble would accept, appointment telegrams were sent to them on December 4 and 7, 1964, respectively. It developed that Mr. Bell was not available for appointment.

It was agreed to ascertain through the Deputy Chairman of the Federal Reserve Bank of Chicago whether Franklin J. Lunding, Chairman, Jewel Tea Co., Inc., Chicago, Illinois, would accept appointment, if tendered, as Class C director of the Chicago Bank for the three-year term beginning January 1, 1965, with the understanding that if it were found that he would accept, the appointment would be made. It was further understood that Mr. Lunding would be designated Chairman and Federal Reserve Agent for the year 1965, with compensation fixed at an amount equal to the fees that would be payable to any other director of the Bank for equivalent time and attendance to official business.

Secretary's Note: It having been ascertained that Mr. Lunding would accept the appointment if tendered, a telegram was sent on December 8, 1964, informing him of his appointment as Class C director and designation as Chairman and Federal Reserve Agent.

On the basis of today's discussion, it was understood that the respective members of the Board would assume responsibility for making inquiry as to appointment possibilities at designated Federal Reserve Bank branches, including consultation with the Chairmen of such Banks to the extent deemed appropriate, and that the appointments to be made would then be considered further by the Board.

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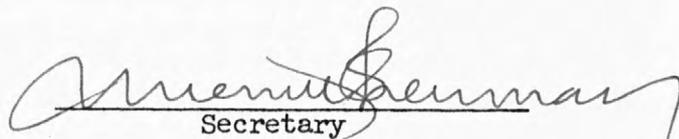
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At this point all of the members of the staff withdrew from the meeting and the Board went into executive session.

Appointment of Mr. Schwartz. Following the meeting, the Secretary was informed by Governor Shepardson that during the executive session the Board appointed Mr. M. H. Schwartz as Director of the Division of Data Processing, effective November 9, 1964, with salary at the rate of \$23,000 per annum.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board a memorandum from the Division of International Finance recommending the appointment of John A. Marlin as Economist in that Division, with basic annual salary at the rate of \$7,220, effective the date of entrance upon duty.

  
Secretary

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 1  
10/28/64



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

October 28, 1964

Board of Directors,  
Chemical Bank New York Trust Company,  
New York, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Chemical Bank New York Trust Company, New York, New York, of a branch at the southeast corner of Castle Hill and Lafayette Avenues, Borough of the Bronx, New York, New York, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,  
Assistant Secretary.

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



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

Item No. 2  
10/28/64

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

October 28, 1964

Board of Directors,  
Manufacturers and Traders  
Trust Company,  
Buffalo, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Manufacturers and Traders Trust Company, Buffalo, New York, of a branch in the vicinity of the intersection of East Main and Clinton Streets, Batavia, Genesee County, New York, 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  
10/28/64

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

October 28, 1964



Board of Directors,  
Wachovia Bank and Trust Company,  
Winston-Salem, North Carolina.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Wachovia Bank and Trust Company, Winston-Salem, North Carolina, of a branch on South Hawthorne Road near the intersection of U.S. Highway 158 and Silas Creek Parkway, Winston-Salem, North Carolina, 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

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Item No. 4  
10/28/64

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

October 28, 1964

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

Gentlemen:

The Board of Governors has approved an extension until May 13, 1965, of the time within which Old Kent Bank and Trust Company may establish a branch on Lake Michigan Drive in the vicinity of the intersection of Lake Michigan Drive with Covell and Bridge Streets, Grand Rapids, Michigan. The establishment of this branch was authorized in a letter dated May 13, 1963.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,  
Assistant Secretary.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 5  
10/28/64



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

October 28, 1964

Board of Directors,  
Heritage National Bank,  
Los Angeles (Westwood), California.

Gentlemen:

With reference to your request submitted through the Federal Reserve Bank of San Francisco, the Board of Governors, acting under the provisions of Section 19 of the Federal Reserve Act, grants permission to the Heritage National Bank to maintain the same reserves against deposits as are required to be maintained by nonreserve city banks, effective as of the date it opens for business.

Your attention is called to the fact that such permission is subject to revocation by the Board of Governors.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 6  
10/28/64



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

October 28, 1964

Board of Directors,  
Civic National Bank,  
Marina del Rey, California.

Gentlemen:

With reference to your request submitted through the Federal Reserve Bank of San Francisco, the Board of Governors, acting under the provisions of Section 19 of the Federal Reserve Act, grants permission to the Civic National Bank to continue to maintain the same reserves against deposits as are required to be maintained by non-reserve city banks, effective as of the date it opened a branch in Los Angeles.

Your attention is called to the fact that such permission is subject to revocation by the Board of Governors.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

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Item No. 7  
10/28/64

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

October 28, 1964

Mr. Thomas M. Timlen, Jr.,  
Secretary,  
Federal Reserve Bank of New York,  
New York, New York 10045.

Dear Mr. Timlen:

This is in reply to your letter of October 16, 1964, regarding a leave of absence of approximately one year without pay to be granted to Mr. Roger Lawrence to permit him to serve as an economist on the staff of the Bank for International Settlements. The Board of Governors interposes no objection to the arrangements outlined in your letter.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.



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

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Item No. 8  
10/28/64

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

October 29, 1964.

The Honorable James J. Saxon,  
Comptroller of the Currency,  
Department of the Treasury,  
Washington, D. C. 20220.

Dear Mr. Saxon:

The Board of Governors has noted from the October 15, 1964 issue of the Federal Register that you contemplate revising your regulation on "Loans made by National Banks secured by Direct Obligations of the United States" effective on or about November 9, 1964.

The Board understands that the effect of your proposed revision would be that a member bank could make loans to one customer on the security of direct obligations of the United States (as distinguished from guaranteed obligations) without any limitation based upon the bank's capital and surplus, regardless of the maturity of such obligations. This proposal represents a significant departure from your present regulation, which permits loans on direct Government obligations without limitation as to capital and surplus only where the pledged obligations have maturities of 18 months or less.

As you will recall, both of your previous regulatory actions in this area, while liberalizing the statutory limitation, were intended to alleviate, through transactions that were considered relatively free of risk, the problems of Government security dealers in obtaining adequate funds. The Board is presently aware of no similar need for this particular liberalization. Even if such a need were clear, the Board believes that a greater element of risk would be involved in the complete removal of loans secured by long-term Government securities from any limitation on the amount of such loans.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.