

Minutes for November 23, 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 proposed to place in the record of policy actions required to be kept under the provisions of section 10 of the Federal Reserve Act entries dealing with the subjects referred to below:

Approval of a discount rate of 4 per cent for the Federal Reserve Banks of Boston, New York, Philadelphia, Chicago, and St. Louis; and agreement to approve a rate of 4 per cent for any other Reserve Bank advising of the establishment of such rate.

Amendment to Supplement to Regulation Q, Payment of Interest on Deposits.

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

W

Gov. Mills

Gov. Robertson

R

Gov. Balderston

ccrB

Gov. Shepardson

SPS

Gov. Mitchell

CM

Gov. Daane

DD

Minutes of the Board of Governors of the Federal Reserve System
on Monday, November 23, 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. Daane

Mr. Sherman, Secretary
Mr. Broida, Assistant Secretary
Mr. Young, Adviser to the Board and Director,
Division of International Finance
Mr. Molony, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Brill, Director, Division of Research
and Statistics

Chairman Martin commented that the Board members already had been informed about the announcement at 10 a.m. Eastern Standard Time this morning of an increase from 5 to 7 per cent in the discount rate of the Bank of England. After noting that a statement had been issued on behalf of the U.S. Government saying in part that "The United States supports and understands" this decision, he reviewed the communications between British and American officials and the discussions within the U.S. Government that had preceded the Bank Rate action. In the last few days he had talked a number of times by telephone with Lord Cromer, Governor of the Bank of England, and he had been in frequent communication with Secretary of the Treasury Dillon and Under Secretary Roosa, as well as with President Hayes of the New York Reserve Bank. He also had talked by telephone with Governor Rasminsky of the Bank of Canada.

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He understood that Secretary Dillon had discussed the situation with President Johnson. He also reported a wire that he had seen in draft form in Chicago late last Thursday and which he presumed had been dispatched that night from the Administration to the Prime Minister of Britain. The wire indicated that the U.S. had no objection to the U.K. doing whatever it felt was necessary and that the U.S. did not see any reason on domestic grounds for raising the discount rate in this country at the moment, but such action was not precluded.

The Chairman said that in a telephone conversation with Lord Cromer early on Friday, November 20, he had declined an invitation to comment on possible alternative Bank Rate actions by the British on the grounds that any such comment would be inappropriate. He received further telephone calls from Lord Cromer later on Friday and early on Saturday morning, during which the latter indicated the probability of action on Bank Rate over the weekend and said that if discount rate action by the Federal Reserve was likely, he would consider it desirable from their standpoint for the action to be taken simultaneously with that of the Bank of England. The Chairman had explained that this was hardly feasible under Federal Reserve procedures for establishing discount rates. He also had declined to comment on the likelihood of discount rate changes by the Federal Reserve Banks, noting that he could not predict the views of the Reserve Bank directorates nor of the Board.

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He had indicated, however, that he personally would favor an increase in Federal Reserve discount rates if Bank Rate was raised.

The Chairman went on to say that he also had talked with President Hayes of the New York Reserve Bank, with whom the Secretary of the Treasury and the Under Secretary also had talked. Mr. Hayes had arranged for a special meeting of the directors of the Federal Reserve Bank of New York for 2 p.m. today, and had advised him (Chairman Martin) that he planned to recommend establishment of a 4 per cent discount rate. Mr. Hayes felt it probable that he would be able to report soon afterwards that the directors had acted to increase the rate to 4 per cent. The Chairman suggested that the Board plan on reconvening this afternoon after notification had been received of discount rate actions by the New York Bank or any other Federal Reserve Bank. He then requested Mr. Sherman to comment on the conversations he had held with the Federal Reserve Bank Presidents over the weekend.

Mr. Sherman reported that, at Chairman Martin's request, he made telephone calls on Sunday evening, the 22nd, to the Federal Reserve Bank Presidents other than Mr. Hayes, who was fully informed, to advise them of the anticipated increase in Bank Rate, and he had been successful in reaching all except Mr. Clay. He had talked with Mr. Clay this morning, and also with Governor Mitchell, who was out of the city on vacation. Mr. Ellis had noted that the Boston Reserve Bank was having its regularly scheduled meeting of the Board of Directors at 11 a.m.

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today, and that in view of developments he planned to recommend to his Board that action be taken to raise the discount rate by 1/2 per cent. Thus, it was likely that the Board would receive notice of discount rate action today by at least two Reserve Banks -- Boston and New York.

Chairman Martin then stated that if the Federal Reserve System took action today to increase discount rates, he felt that it should also make some changes in the maximum permissible rates under Regulation Q, Payment of Interest on Deposits. He suggested that the Board consider at this time whether a revision of Regulation Q would be in order if discount rates were raised, and if so what the levels should be. He had discussed this matter with Messrs. Dillon and Roosa and with Mr. Ackley, Chairman of the Council of Economic Advisers, but he had not yet been able to reach Mr. Barr, Chairman of the Federal Deposit Insurance Corporation, who was on the West Coast.

The Chairman noted that since July 17, 1963, the maximum rates permitted under Regulation Q had been 4 per cent on time deposits having a maturity of 90 days or more, and 1 per cent on deposits with maturity of less than 90 days; and the maxima for savings deposits were 4 per cent on funds that had remained on deposit for not less than 12 months and 3-1/2 per cent for other savings deposits. His tentative thinking was that it would be appropriate now to establish a rate of 4-1/2 per cent for longer-term time deposits, and 4 per cent on those of shorter maturity. In this connection he reported a suggestion he had received

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that the maturity below which the lower rate would apply be reduced from 90 days to 45 days or perhaps even to 30 days. With respect to savings deposits, he favored eliminating the "split rate" and establishing a single maximum for all such deposits, perhaps of 4-1/2 per cent, regardless of whether they had been on deposit for a full year or less. It was possible that this might lead to some difficulties for certain smaller banks, and consequently it might pose problems for the FDIC. On the other hand, the split rate -- 3-1/2 per cent for deposits held for less than 12 months, and 4 per cent for those held for a year or longer -- complicated the accounting of banks, so that there might be some net advantage to banks in its elimination.

Mr. Hackley said that the separate maxima now in effect for time deposits with maturities of less than 90 days and of 90 days or more were consistent with the position that the Board had taken since 1935 that section 19 of the Federal Reserve Act required establishment of more than one maximum rate on time deposits. However, it was not essential that the distinction be made on the basis of maturity. Nor was it essential, if made on this basis, that the division be at 90 days; a division at some other maturity, such as 45 days, also would be consistent with the statute.

In the discussion that followed it developed that all Board members agreed that some upward adjustment in maximum rates established under Regulation Q would be desirable if discount rates were to be raised. They also were unanimously of the views that (1) different

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maxima should be established for time deposits with maturities of less than 90 days and 90 days or more; (2) if discount rates were raised from 3-1/2 to 4 per cent, a maximum rate of 4-1/2 per cent should be established for time deposits with maturities of 90 days or more; and (3) the split rate now in effect for savings deposits should be eliminated and a single maximum rate established for all savings deposits.

The views of Board members differed, however, with respect to the appropriate maxima for time deposits having maturities of less than 90 days and for savings deposits. With respect to the maximum rate for shorter-term time deposits, Governor Robertson favored 3 or 3-1/2 per cent, whereas Chairman Martin and Governors Balderston, Mills, Shepardson, and Daane favored 4 per cent. With respect to the maximum rate on savings deposits, Governors Balderston, Mills, and Daane favored 4 per cent, and Governors Robertson and Shepardson favored 4-1/2 per cent. Chairman Martin also expressed a preference for a 4-1/2 per cent maximum rate on savings deposits.

In the course of discussion, Governor Mills observed that he was disappointed that it had become necessary to raise Federal Reserve discount rates and interest rate maxima under Regulation Q. He thought the latter action was unfortunate but necessary, because even before a rise in discount rates was contemplated there had been considerable concern that a failure to amend Regulation Q would lead to serious losses of funds by some banks. He hoped the revision of Regulation Q and the

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associated increase in Federal Reserve discount rates would not damage the economy. At the same time, these actions might have an advantage for the commercial banking system; banks might be made more aware of the risks involved in heavy sales of negotiable time certificates of deposits and retrench somewhat in this area. Hopefully, banks could do so without upsetting the credit structure.

In Governor Mills' opinion, an increase to 4-1/2 per cent in the ceiling rate for time deposits with maturities of 90 days or more would be adequate to prevent a loss of funds to the United Kingdom. Market rates in London would be considerably higher, and while those rates might prevent some outflows from Britain, he doubted that the disparity between British and American interest rates would be great enough to attract funds from the United States in view of the uncertainties about sterling that were likely to persist.

It was his impression, Governor Mills continued, that banks were under considerable competitive pressure to increase time deposit rates down to the shortest possible maturity. He favored establishing the maximum rate for time deposits of less than 90 days maturity at 4 per cent. In his judgment such a ceiling would enable banks to accommodate their customers with shorter-term certificates of deposit if they so desired.

With respect to the maximum rate for savings deposits, Governor Mills expressed the view that elimination of the split rate was past

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due. He favored a single maximum for all savings deposits at the 4 per cent rate now specified for savings deposits held for a year or more. In his opinion any higher ceiling rate would have undesirable ramifications affecting savings and loan associations and mutual savings banks. Historically, the rates offered by these other types of institutions had been somewhat higher than those offered on savings deposits by commercial banks. This differential with respect to mutual savings banks had been restored only recently, when mutuals in some areas had raised their rates to 4-1/4 per cent. Savings and loan associations had responded to the competitive situation by raising rates, with the result that funds were piling up in these associations and they were endeavoring to find outlets for them. The Federal Home Loan Bank Board was attempting to prevent such rate increases. If commercial banks were permitted to offer more than 4 per cent, the historical differential would be destroyed again and a new competitive race might be set off to attract deposits, without any certainty that banks could offset them with sound assets. In Governor Mills' judgment, this would contribute to bad investment practices.

Governor Robertson said that if an increase in discount rates was approved it would be necessary to revise Regulation Q. He favored a 4-1/2 per cent ceiling on time deposits with maturities of 90 days or more. He also favored increasing the ceiling rate for shorter-term time deposits from the present 1 per cent level in order to enable banks

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to obtain deposits in the short maturity area if they so desired. However, he felt that it was important not to set the maximum rate for these short-term deposits too high, because of the need to maintain an incentive for banks to keep the maturity of their outstanding certificates of deposit reasonably long. A situation in which time deposits turned over every 30 days would constitute a drastic change without benefit to anyone, he thought, and bunching of time deposits in the short maturity area would expose banks to a real danger of rapid run-offs. It was partly to avoid this kind of problem that a lower rate initially had been set on time deposits of shorter maturity. In his judgment, a ceiling rate of 3-1/2 per cent on short maturity time deposits, which would represent an increase of 250 per cent over the present ceiling, would serve all necessary purposes, and perhaps even a 3 per cent ceiling would do so. It was not necessary for banks to offer rates on time deposits that were identical with those on other market instruments, such as commercial paper, in order to compete effectively; this was evident from the fact that negotiable certificates of deposit were competitive today with other instruments of comparable maturity despite the fact that they carried lower interest rates. Raising the maximum to 3-1/2 per cent might also create problems, but they would be less severe than those that would result from a 4 per cent maximum.

With respect to savings deposits, Governor Robertson noted that the Board already had unanimously expressed the view that the

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split rate now in effect should be eliminated. He favored establishing the same maximum rate for all savings deposits as for time deposits with maturities of 90 days or more, 4-1/2 per cent. He could see little justification for differentiating between rates on time deposits of funds of corporations and savings of individuals, particularly when so many individuals saved on a systematic basis and kept their funds on deposit for a year or longer. He believed it unrealistic to argue that individual savers seeking higher returns would shift from savings to time deposits; this was impracticable except for a few individuals with large accounts. It was true that some smaller banks might encounter difficulties if they undertook to pay 4-1/2 per cent on savings deposits, but such banks probably would have difficulty even with the 4 per cent rate now permitted. In any case, the rates specified in Regulation Q were ceilings not floors, and no bank was obligated to offer a higher rate than it felt was justified -- as a matter of fact, many banks were not now offering the 4 per cent rate permitted by Regulation Q.

Governor Robertson went on to say that he saw no chance for not increasing the discount rate of the Reserve Banks. The British had done what they had to do, but he could see no economic advantage in raising the rate in this country. It was possible to argue that an increase would defer a loss of funds from the U.S., but he did not think that likely and could see no justification for an increase except that this was an opportune time to do so as a means of bringing about tighter

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money conditions. One could argue that an increase in the discount rate was justified as an insurance premium against loss of confidence in the dollar, but he did not agree with that reasoning and would not pay the premium. If the country should later suffer such a loss, an increase in discount rate might be justified, but he would wait to see whether there was such a development. However, he believed that an increase in the discount rate would be approved today, and consequently he felt that a change in Regulation Q ceilings had to be decided upon.

Governor Shepardson said that he had felt for some time that somewhat less monetary ease was desirable from the standpoint of the domestic economy, but he had not anticipated a move at this time as significant as raising discount rates. Under the circumstances that had developed, however, he believed an increase in discount rates was desirable if only on grounds of maintaining international confidence in the dollar. With respect to Regulation Q, he agreed that a 4-1/2 per cent maximum was appropriate on time deposits of 90 days or more. His inclination was toward a 4 per cent ceiling on shorter-term time deposits, although he did not have a strong preference between 3-1/2 and 4 per cent. He thought it was clearly desirable to eliminate the split rate on savings deposits, and he favored setting the ceiling on such deposits at 4-1/2 per cent rather than 4 per cent for two reasons: first, it was undesirable, in his judgment, to establish different maxima for savings deposits and time deposits; and second, he believed the objectives

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of the program would be accomplished better by making the larger adjustment in the ceiling rate.

Governor Daane said that he considered an increase in discount rates distasteful on domestic grounds, but he thought it was required on international grounds and an increase to 4 per cent seemed appropriate. The need was not simply to limit capital outflows by affecting interest rate differentials but to maintain confidence. A failure to raise discount rates might well be looked upon by foreigners as indicating that the United States had abandoned the use of monetary instruments.

On Regulation Q, Governor Daane favored the pattern of interest rate maxima that Governor Mills advocated: 4-1/2 per cent on time deposits of 90 days or longer, 4 per cent on time deposits of less than 90 days, and 4 per cent on all savings deposits, with the split rate eliminated. A 4 per cent rate on short-term time deposits, unlike the present 1 per cent rate, would in his opinion be realistic and would put banks back in business in this area. But a rate higher than 4 per cent on short-term time deposits might lead to difficulties for some banks. As to the rate on savings deposits, it was true that the Regulation specified a ceiling rather than a floor; but he was concerned that an increase in the ceiling to 4-1/2 per cent might have the effect of forcing some banks to pay this rate when they would prefer not to do so. Also, a ceiling above 4 per cent on savings deposits might complicate the financing problems of the Treasury. If banks offered 4-1/2 per

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cent on savings deposits, the Treasury might find it necessary to raise the rates on Government securities in order to attract investors.

Governor Balderston indicated that he, too, would vote to approve increases in discount rates when that question came before the Board. Like Governor Daane, he also favored the pattern of rate ceilings under Regulation Q that Governor Mills advocated. Eliminating the split rate and permitting payment of 4 per cent on all savings deposits would give some recognition to holders of these deposits without disturbing the recent relations among the rates paid on savings by commercial banks, mutual savings banks, and savings and loan associations. He would not expect complaints from commercial banks about a 4 per cent maximum on savings deposits except perhaps from some in New York, where mutual savings banks were now offering 4-1/4 per cent. But New York commercial banks, for the most part, were not as dependent on savings deposits as were banks elsewhere in the country. A lower rate on savings deposits than on time deposits of 90 days or more also was justified on the ground that in practice savings deposits were withdrawable on demand even though subject to 30 days notice.

With respect to short maturity time deposits, Governor Balderston felt that if the ceiling was set at 3-1/2 per cent it probably would become out-dated quickly; market rates on such instruments as commercial paper had already begun to rise and undoubtedly would move up further following the anticipated action on discount rates. As indicated earlier,

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he favored a maximum of 4 per cent on short-term time deposits and one of 4-1/2 per cent on time deposits of 90 days or more maturity, in light of both the current rate levels in the Euro-dollar market and the disturbing growth of unsecured notes offered by commercial banks to meet the competition of commercial paper. Such unsecured notes were not subject to Federal Reserve regulation at present; and while there was a limit to the volume that could be issued by national banks and by State banks in some States, volume was unlimited in many large States such as Illinois, and rates were unlimited in all cases. The risk to banks of a run-off was as serious in connection with unsecured notes as with certificates of deposit. The development of these notes also had the regrettable effect of increasing the flow of funds to the large cities.

Governor Robertson noted that the Board already had raised the question with the FDIC of the desirability of considering some kind of regulation of unsecured notes of commercial banks. He personally was inclined toward treating such notes as deposits, since they differed in no significant respect from negotiable certificates of deposit. However, he thought this question should be dealt with separately on its merits when a reply from the FDIC had been received. In any case, only a few banks had issued such notes to date.

Governor Mills indicated that he disagreed with Governor Robertson with respect to treating unsecured notes as deposits. He

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felt that banks would get a salutary lesson from this whole development and would pull in their horns some on the issuance of negotiable notes by realizing the risks. In his opinion, the Board should not torture the law by delineating such notes as deposits; if the Board disapproved their issuance, it should declare that to be a bad banking practice.

Mr. Hackley observed that responses had been received from most of the Reserve Banks to the Board's inquiry regarding the treatment of unsecured notes and that they were almost unanimous in feeling that they should not be treated as deposits for reasons that they found persuasive.

Governor Daane said he shared the concern expressed by others on unsecured notes. He suspected that the practice was not limited to the few banks about which reports had been received.

Chairman Martin was called from the room at this point and there followed a further discussion of the use of negotiable unsecured notes by banks for the purpose of obtaining funds, as well as a reference to the availability of credit and whether any change in credit policy or in instructions to the Manager of the System Open Market Account would need to be considered by the Federal Open Market Committee if discount rates were increased. Upon returning to the room, the Chairman when informed of this discussion said that he had just received a call from the Manager of the System Open Market Account, who had reported very little selling of longer-term securities since announcement

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of the British Bank Rate increase. Investors were coming in, and at the moment the technical position of the market seemed good. The Manager felt that he had sufficient latitude under his present instructions from the Federal Open Market Committee to deal with probable market developments over the next few days, including increasing the supply of reserves somewhat if necessary to maintain stability.

The Chairman then said that he felt the Board should try to resolve the question of what it would do with Regulation Q maximum rates if the discount rates were increased. From the standpoint of logic, he felt that moving the maximum on savings deposits to the same level as that suggested for longer-term time deposits -- 4-1/2 per cent -- would be sound. On the other hand, in terms of being conservative there was a good deal to be said for keeping the 4 per cent maximum for savings. Rates of 4 and 4-1/2 per cent, respectively, on short-term and longer-term time deposits also would be a conservative step, in his judgment. If one wanted to open this whole subject for debate -- as he thought the Board should do at some point -- a case could be made against the Board's undertaking to protect banks from their own actions in setting overly-high time deposit rates. Governor Robertson had argued in the past for establishing Regulation Q ceilings at levels considerably higher than the rates banks actually would pay. However, while such an action might have support in logic, he believed that it would be undesirable because it would amount to abandoning Regulation Q in the absence of a change in legislation.

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The Chairman was called from the room again at this point, and upon his return he said that he had just talked with Chairman Barr of the Federal Deposit Insurance Corporation. Mr. Barr had expressed himself as favoring the 4-1/2 per cent maximum rate for savings deposits, with 4 and 4-1/2 per cent, respectively, for short- and longer-term time deposits and no split rate on savings. In response to a question from Governor Balderston, the Chairman said that Mr. Barr had stated that he definitely preferred the 4-1/2 per cent maximum for savings deposits, but he did not know what rates Director Randall of the Federal Deposit Insurance Corporation would prefer.

As for himself, Chairman Martin said that, although he did not have strong convictions on the point, he felt it might be better to go the whole way on the savings deposits maximum at this time, fixing it at 4-1/2 per cent. He recognized that the action would stir up a good deal of comment among banks, but that would occur whenever an increase was adopted -- as had been the case in earlier increases. In his judgment, a 4 per cent ceiling might have the character of temporizing under circumstances which were close to a crisis. He was not impressed with the argument that the ceiling rates would act effectively as floors. This was a perennial argument, having been advanced at earlier times when much lower maxima were specified under the regulation.

Governor Daane said that action by the Board today to set a 4 per cent maximum on savings deposits would not be irrevocable and that an increase could be made later if that seemed desirable.

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Chairman Martin responded that this might be true but that, as a practical matter, this was the time for the decision if the Board was going to the 4-1/2 per cent rate for savings. There were not many good opportunities for making such an increase, and his judgment was that in the longer run the 4-1/2 per cent rate -- the same as that available on time deposits -- would work out better.

The Chairman again was called from the meeting at 11:42 a.m., and Governor Balderston suggested that the Board take up the other matters that were before it, as listed on the agenda for today's meeting.

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

	<u>Item No.</u>
Letter to First National City Overseas Investment Corporation, New York, New York, granting permission to purchase shares of The Hong Kong Finance Company, Ltd., a proposed new company.	1
Letter to The Capital Bank, Cleveland, Ohio, granting its request for permission to maintain reduced reserves.	2
Letter to First State Bank, Bangs, Texas, waiving the requirement of six months' notice of withdrawal from membership in the Federal Reserve System.	3
Letter to counsel for State Street Bank and Trust Company, Boston Massachusetts, granting the bank's request for permission to organize a corporation under section 25(a) of the Federal Reserve Act, to be known as State Street Bank Boston International, with home office in New York City, and transmitting a preliminary permit.	4

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Cincinnati Branch building. There had been distributed a memorandum dated November 12, 1964, from Mr. Farrell regarding a possible new building for the Cincinnati Branch of the Federal Reserve Bank of Cleveland. Governor Balderston observed that Mr. Hall, Chairman of the Cleveland Reserve Bank, had expressed a willingness to discuss this matter with the Board on the afternoon of December 2, 1964, the day preceding a scheduled Conference of Federal Reserve Bank Chairmen. After discussion, the Secretary was requested to inform Mr. Hall that the Board would be glad to meet with him for the purpose indicated during the afternoon of December 2.

* * * * *

When the Chairman returned to the meeting at 11:51, he stated that he had just had a telephone conversation with Under Secretary of the Treasury Roosa, with whom Chairman Barr of the FDIC had talked shortly before, regarding the maximum rate on savings deposits. Mr. Barr had informed Mr. Roosa that he favored 4-1/2 per cent for savings deposits, while Mr. Roosa was somewhat disposed to think that a 4 per cent rate would be preferable, although he had not given the question much thought from the standpoint of the Treasury's financing problems.

Chairman Martin noted that the Board was evenly divided on the question of the maximum for savings deposits and that on this basis the vote would result in no change from the existing level because of a lack of a majority on the question. (Governors Balderston, Mills,

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and Daane favored the existing 4 per cent maximum, while Chairman Martin and Governors Robertson and Shepardson favored a 4-1/2 per cent maximum.) The Chairman repeated that while he felt it probably would be better to move at this time to the 4-1/2 per cent maximum, his conviction was not strong, and under the circumstances he would go along with a maximum rate of 4 per cent for all savings deposits whether held for more or less than a year. There was unanimous agreement that on time deposits having a maturity of 90 days or more, the maximum rate would be 4-1/2 per cent, and on time deposits maturing in less than 90 days, the maximum rate would be 4 per cent. On the latter class of deposit, Governor Robertson had indicated he would dissent, preferring a maximum of 3 or 3-1/2 per cent.

After the members of the Board indicated agreement with the Chairman's summary of the tentative decisions of the Board, he asked that the Legal Division prepare the necessary draft of amendments to the Supplement to Regulation Q for the consideration of the Board when it reconvened this afternoon, and that Messrs. Molony and Hackley prepare a draft of press statement that might be issued covering both the anticipated actions on discount rates and on maximum rates payable under Regulation Q. He also asked Mr. Hackley to clear the proposed amendments to the Supplement to Regulation Q with Director Randall of the FDIC, as Chairman Barr had requested.

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Chairman Martin went on to say that he had been considering whether to hold a press conference shortly after 4 p.m. in connection with the actions expected to be taken this afternoon, and the other members of the Board indicated that they felt such a procedure would be desirable.

After a brief discussion of the content of the press statement, the meeting recessed at 12:10 p.m. It reconvened in the Board Room at 2:30 p.m. with the same attendance as at the beginning of the morning session.

There were distributed drafts of a statement for the press and of the proposed amendment to the Supplement to Regulation Q that had been prepared since the close of the morning session. Several suggestions for revision in the press statement were made during the ensuing discussion, in the course of which Mr. Hackley mentioned that the FDIC had raised a question as to the treatment to be accorded postal savings deposits. In the past, postal savings deposits had been given the benefit of the highest maximum permitted under Regulation Q, the same as that applicable to savings deposits of individuals. Now, since time deposits would bear a higher maximum at 4-1/2 per cent than savings deposits at 4 per cent, the FDIC had suggested that postal savings also should be permitted that rate.

Governor Daane stated that there had been considerable effort on the part of the Government for some years to terminate the postal

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savings system, and Governor Mills noted that commercial banks also had urged the discontinuance of that system. Some doubt was expressed as to the propriety of the Board adopting a different procedure with respect to postal savings than that followed in the past, especially since they could be considered as time deposits.

Chairman Martin asked for clarification of the proposal for Regulation Q, and Mr. Hackley said that his suggestion would be to delete from the supplement any specific reference to postal savings. The draft distributed earlier during this session had provided that such deposits would be treated as time deposits, in line with the views expressed by FDIC. However, by eliminating specific reference to postal savings from the supplement, they would be able to receive 4 per cent if the maturity date was less than 90 days, or 4-1/2 per cent if the maturity date was 90 days or more.

No member of the Board indicated objection to deleting the specific reference to postal savings in the amended supplement to Regulation Q.

Chairman Martin then noted that telegrams had been received from the Boston, Chicago, and St. Louis Reserve Banks advising of action by their directors to fix the discount rates under sections 13 and 13a of the Federal Reserve Act at 4 per cent, with appropriate subsidiary rates on advances of other types. He also reported that President Hayes had advised him by telephone that the New York Bank's

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directors had met at 2 p.m. and had approved a rate of 4 per cent for section 13 and 13a advances, and telegraphic advice of their proposed rate schedule was now being transmitted to the Board. He proposed that the Board now act on the discount rates submitted by those Banks, with the understanding that the Secretary was authorized to enter in the minutes similar action on discount rates submitted by any other Reserve Banks within the same pattern. (Before the meeting adjourned telegrams were received from the New York and Philadelphia Reserve Banks advising that the directors of those Banks had established a 4 per cent discount rate under sections 13 and 13a, with appropriate subsidiary rates on advances of other types.)

Governor Robertson stated that he would vote against approving an increase in the discount rates from 3-1/2 to 4 per cent for the reasons he had indicated during the morning session of this meeting, while all other members of the Board present -- Chairman Martin and Governors Balderston, Mills, Shepardson, and Daane -- stated that they would vote to approve the rates as submitted.

Chairman Martin said that he wished the record to show that he disagreed with Governor Robertson's reasoning. In his judgment, it was well worth paying whatever premium was involved in increasing the discount rates from 3-1/2 to 4 per cent as a step toward maintaining the international strength of the dollar. Furthermore, he felt that it would be irresponsible on the part of the Federal Reserve System to

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await further developments before acting, since it was not possible to know what reactions might develop in the exchange markets, and it was a responsibility of the System at all times to act in the defense of the dollar.

Chairman Martin was called from the room at this point and during his absence there was further discussion of the draft statement for the press. Upon the Chairman's return, Governor Shepardson noted that the Board's action in approving the increase in discount rates was in accord with the views that had been expressed by Chairman Martin. For himself, he felt the action was fully justified, and he wished to be recorded as concurring in Chairman Martin's statement.

Governor Daane stated that he too wished to be so recorded.

Governor Robertson then said that, as indicated this morning, he opposed the increase in the discount rate on the grounds that he saw no economic justifications for raising the rate in this country. The effect upon the domestic economy could be potentially bad, he felt, and in his opinion the action would not stem an outflow of funds. It would tend to offset in part the results of the justifiable action taken by the British to put their house in order. The Federal Reserve should not act in any way that could have a negative effect on the British. The only basis that he could see for taking the action at this time was that it was easier to attempt a tightening of monetary policy under these circumstances than to achieve it otherwise. There

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was also a possible justification for the move taken by the Board on the basis of attempting to avoid any lessening of confidence in the dollar, but he did not think that danger was worth the premium which must be paid in the way of higher interest rates in this country. While opposing the increase in the discount rates, he was fully satisfied as to the need, now that that action had been taken, to raise the ceilings under Regulation Q. However, for the reasons he had stated earlier, he would not approve authorizing higher rates on time deposits of corporations than were available to individual savings deposits of the general public. Furthermore, he thought it unwise to make a 300 per cent increase in the rate that could be paid on time deposits of less than 90 days maturity. The elimination of the split rate on savings deposits of less than a year and those of over a year was wholly justified.

Governor Shepardson noted that Governor Robertson had referred to negating the action taken by the British in raising Bank Rate in order to dampen some of the economic activities in the United Kingdom and to discourage losses of funds by Britain. He did not accept the suggestion that the Board's action was in any way a negation of the British action. His (Governor Shepardson's) thought was that it supplemented and helped that action, and it was a further safeguard against a flow of funds out of the U.S.

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Governor Daane said that the action on the discount rate supplemented and helped the action of the British, which was directed toward outflows of funds not to the U.S. but to other countries.

The rates established by the Federal Reserve Banks of Boston, New York, Philadelphia, Chicago, and St. Louis were then approved, effective November 24, 1964, Governor Robertson dissenting. The rates approved pursuant to this action were as follows:

On discounts for and advances to member banks under sections 13 and 13a: for the Federal Reserve Banks of Boston, New York, Philadelphia, Chicago, and St. Louis -- 4 per cent;

On advances to member banks under section 10(b): for each of these Banks -- 4-1/2 per cent;

On advances to individuals, partnerships, and corporations other than member banks under the last paragraph of section 13: for Boston -- 5-1/2 per cent; for New York, Philadelphia, Chicago, and St. Louis -- 5 per cent.

It was understood that a telegram advising of this action would be sent to all Federal Reserve Banks and branches, that a notice would be published in the Federal Register, and that a press statement covering this action would be released today at about 4 p.m. EST, at which time Chairman Martin would meet with the press for the purpose of discussing the actions taken.

Chairman Martin then noted that, the increase in discount rates having been approved, it was appropriate to record the action of the Board on maximum rates under Regulation Q as tentatively agreed upon earlier during the meeting.

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Thereupon, the Supplement to Regulation Q was amended, effective November 24, 1964, to provide (1) a maximum permissible rate of 4-1/2 per cent on time deposits having a maturity of 90 days or more, by unanimous vote; (2) a maximum permissible rate of 4 per cent on time deposits having a maturity of less than 90 days, Governor Robertson dissenting; and (3) a maximum permissible rate of 4 per cent on savings deposits, Governors Robertson and Shepardson dissenting. A copy of the amended Supplement is attached as Item No. 5.

It was understood that an announcement of this action would be released to the press today concurrently with the announcement of the increases in discount rates of certain Reserve Banks; that appropriate notification would be sent by telegram to the Federal Reserve Banks and branches; and that a notice would be published in the Federal Register.

Secretary's Note: The Federal Deposit Insurance Corporation, which regulates the maximum rates of interest payable on time and savings deposits by insured banks that are not members of the Federal Reserve System, took similar action, also effective November 24, 1964, increasing maximum rates on time deposits and on that portion of any savings deposit that has remained on deposit for less than 12 months.

A copy of the press release covering the Board's actions today on discount rates and on maximum rates of interest under Regulation Q is attached as Item No. 6.

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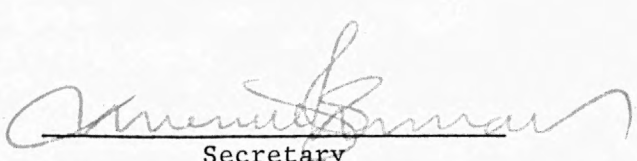
There followed a brief discussion of the press conference that Chairman Martin would hold shortly after 4 p.m. today and of the manner in which questions regarding the Board's actions of today should be answered. (A copy of the text of the press conference has been placed in the Board's files.)

Thereupon, the meeting adjourned at 3:30 p.m.

Secretary's Note: Governor Shepardson today approved on behalf of the Board memoranda recommending the following actions relating to the Board's staff:

Salary increases, effective November 23, 1964

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
	<u>Research and Statistics</u>		
Murray Altmann, Senior Economist (change in title from Economist)		\$15,150	\$16,460
Normand R. V. Bernard, Economist		12,380	13,335
Orville K. Thompson, Economist		14,175	15,150


Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 1
11/23/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 23, 1964.



First National City Overseas Investment Corporation,
399 Park Avenue,
New York, 22, New York.

Gentlemen:

In accordance with the request contained in your letter of October 27, 1964, transmitted through the Federal Reserve Bank of New York, and on the basis of information furnished, the Board of Governors grants consent for your Corporation to purchase and hold up to 2,000 shares, par value HK\$1,000 each, of the capital stock of The Hong Kong Finance Company, Ltd., a proposed new company being organized in Hong Kong, at a cost of approximately US\$350,000, provided such stock is acquired within one year from the date of this letter.

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

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. 2

11/23/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 23, 1964.

Board of Directors,
The Capital Bank,
1005 Huron Road,
Cleveland 15, Ohio.

Gentlemen:

With reference to your request submitted through the Federal Reserve Bank of Cleveland, the Board of Governors, acting under the provisions of Section 19 of the Federal Reserve Act, grants permission to The Capital Bank to maintain the same reserves against deposits as are required to be maintained by nonreserve city banks, effective as of the date the bank is admitted to membership under a national bank charter as The Capital National Bank.

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. 3
11/23/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 23, 1964.

Board of Directors,
First State Bank,
Bangs, Texas.

Gentlemen:

The Federal Reserve Bank of Dallas has forwarded to the Board of Governors a letter dated October 23, 1964, signed by President Jeral V. Miller, together with the accompanying resolution, signifying your intention to withdraw from membership in the Federal Reserve System and requesting waiver of the six months' notice of such withdrawal.

The Board of Governors waives the requirement of six months' notice of withdrawal. 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 that notice of intention to withdraw from membership was given. Upon surrender to the Federal Reserve Bank of Dallas of the Federal Reserve stock issued to your institution, such stock will be cancelled and appropriate refund will be made thereon.

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

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. 4
11/23/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



November 23, 1964.

Mr. Jerome E. Andrews, Jr.,
Choate, Hall & Stewart,
30 State Street,
Boston, Massachusetts. 02109

Dear Mr. Andrews:

The Board of Governors has approved the Articles of Association and the Organization Certificate, dated November 5, 1964, of State Street Bank Boston International, New York, New York, and there is enclosed a preliminary permit authorizing that Corporation to exercise such of the powers conferred by Section 25(a) of the Federal Reserve Act as are incidental and preliminary to its organization.

Except as provided in Section 211.3(a) of Regulation K, the Corporation may not exercise any of the other powers conferred by Section 25(a) until it has received a final permit from the Board authorizing it generally to commence business. Before the Board will issue its final permit to commence business, the president, treasurer, or secretary, together with at least three of the directors, must certify (1) that each director is a citizen of the United States; (2) that a majority of the shares of capital stock is held and owned by citizens of the United States, by corporations the controlling interest in which is owned by citizens of the United States, chartered under the laws of the United States or of a State of the United States, or by firms or companies the controlling interest in which is owned by citizens of the United States; and (3) that of the authorized capital stock specified in the Articles of Association at least 25 per cent has been paid in in cash and that each shareholder has individually paid in in cash at least 25 per cent of his stock subscription. Thereafter the treasurer or secretary shall certify to the payment of the remaining installments as and when each is paid in, in accordance with law.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

Enclosure

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

November 23, 1964

Preliminary Permit

IT IS HEREBY CERTIFIED that the Board of Governors of the Federal Reserve System, pursuant to authority vested in it by Section 25(a) of the Federal Reserve Act, as amended, has this day approved the Articles of Association and Organization Certificate, dated November 5, 1964, of STATE STREET BANK BOSTON INTERNATIONAL duly filed with said Board of Governors, and that STATE STREET BANK BOSTON INTERNATIONAL is authorized to exercise such of the powers conferred upon it by said Section 25(a) as are incidental and preliminary to its organization pending the issuance by the Board of Governors of the Federal Reserve System of a final permit generally to commence business in accordance with the provisions of said Section 25(a) and the rules and regulations of the Board of Governors of the Federal Reserve System issued pursuant thereto.

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM

(SEAL)

By (Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

SUPPLEMENT TO REGULATION Q**SECTION 217.6****Maximum Rates of Interest Payable on Time and Savings
Deposits by Member Banks****ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM****Effective November 24, 1964**

Pursuant to the provisions of section 19 of the Federal Reserve Act and § 217.3, the Board of Governors of the Federal Reserve System hereby prescribes the following maximum rates¹ of interest payable by member banks of the Federal Reserve System on time and savings deposits:

(a) Maximum rate of $4\frac{1}{2}$ per cent.—No member bank shall pay interest accruing at a rate in excess of $4\frac{1}{2}$ per cent per annum, compounded quarterly,² regardless of the basis upon which such interest may be computed, on any time deposit having a maturity date 90 days or more after the date of deposit or payable upon written notice of 90 days or more.

(b) Maximum rate of 4 per cent.—No member bank shall pay interest accruing at a rate in excess of 4 per cent per annum, compounded quarterly,² regardless of the basis upon which such interest may be computed:

- (1) On any savings deposit, or
- (2) On any time deposit having a maturity date less than 90 days after the date of deposit or payable upon written notice of less than 90 days.

¹ The maximum rates of interest payable by member banks of the Federal Reserve System on time and savings deposits as prescribed herein are not applicable to any deposit which is payable only at an office of a member bank located outside of the States of the United States and the District of Columbia.

² This limitation is not to be interpreted as preventing the compounding of interest at other than quarterly intervals, provided that the aggregate amount of such interest so compounded does not exceed the aggregate amount of interest at the rate above prescribed when compounded quarterly.

For immediate release.

November 23, 1964.

The Federal Reserve System took action today on two fronts to maintain the international strength of the dollar.

The Board of Governors in Washington approved actions by the directors of the Federal Reserve Banks of Boston, New York, Philadelphia, Chicago, and St. Louis increasing the discount rates of those banks from 3-1/2 per cent to 4 per cent, effective tomorrow (Tuesday, November 24, 1964). The change was the first since July, 1963, when Federal Reserve discount rates were increased from 3 to 3-1/2 per cent.

The Board of Governors also increased the maximum rates that member banks are permitted to pay on savings deposits and time deposits--including certificates of deposit--to the following levels:

1. On savings deposits, 4 per cent, regardless of the time the funds have been on deposit. The maximum rates previously permissible were 3-1/2 per cent on savings deposits in the bank for less than one year and 4 per cent on those on deposit for one year or more.

2. On time deposits and certificates of deposit, 4 per cent for maturities of less than 90 days and 4-1/2 per cent for all longer maturities. The maximum rates previously permissible were 1 per cent for maturities of less than 90 days, and 4 per cent for longer maturities.

The actions were taken following a rise in official and market rates in London, where an increase in the bank rate from 5 to 7 per cent was announced by the Bank of England today. They also follow recent advances in rates on the European continent.

The Federal Reserve actions were aimed at countering possible capital outflows that might be prompted by any widening spread between interest rates in this country and the higher rates abroad and also at ensuring that the flow of savings through commercial banks remain ample for the financing of domestic investment.

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