Minutes for November 24, 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 an entry covering the item in this set of minutes commencing on the page and dealing with the subject referred to below:

Page 12 Approval of a discount rate of 4 per cent for the Federal Reserve Bank of Atlanta.

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.

Chairman 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 Tuesday, November 24, 1964. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman 1/
Mr. Balderston, Vice Chairman
Mr. Mills
Mr. Robertson
Mr. Shepardson

Mr. Sherman, Secretary
Mr. Molony, Assistant to the Board
Mr. Cardon, Legislative Counsel
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank Operations
Mr. Shay, Assistant General Counsel
Mr. Goodman, Assistant Director, Division of Examinations
Mr. Leavitt, Assistant Director, Division of Examinations
Mrs. Semia, Technical Assistant, Office of the Secretary
Mr. White, Technical Assistant, Division of Bank Operations

Investments in ADELA (Items 1-3). There had been distributed a memorandum dated November 17, 1964, from the Division of Examinations regarding the applications of Mellon Bank International, Pittsburgh, Pennsylvania, First Chicago International Finance Corporation, Chicago, Illinois, and Crocker-Citizens International Corporation, San Francisco, California, for permission to purchase shares of ADELA Investment Company, S.A., Luxembourg, in the amount of $500,000 for each applicant. Drafts of letters to the three corporations that would grant the requested permission were attached to the memorandum.

1/ Joined meeting at point indicated in minutes; withdrew and re-entered at points indicated.

The letters were approved unanimously. Copies are attached as Items 1-3.

State of the Union Message. In a memorandum of November 2, 1964, President Johnson had asked Government departments and agencies to submit legislative and other proposals suggested for inclusion in his State of the Union address to Congress. There had been distributed a draft of reply that would suggest that the message include reference to legislation submitted by the Board to the Banking and Currency Committees in 1963 to bring up to date the provisions of the Federal Reserve Act governing extensions of credit by Federal Reserve Banks. The draft would explain the need for the proposed legislation, and would mention specifically that the proposal would eliminate the present penalty rate provided for advances under section 10(b) of the Federal Reserve Act on notes secured to the satisfaction of the Federal Reserve Bank.

Governor Robertson stated that he did not believe that the legislation on discounts and advances that the Board had proposed was important enough to warrant recommending it for inclusion in the President's message. As he saw it, all the bill would really do would be to remove the penalty rate, and reference to the bill in the message would take the limelight away from much more important legislative proposals to come, such as those on reserve requirements and amendments to the Bank Holding Company Act. He would prefer not to recommend any proposals for inclusion in the message rather than to imply that the matter of discounts and advances represented the biggest current issue.

Governor Mills indicated that his approach was somewhat different. The bill on discounts and advances had a better chance of enactment than most of the other legislative proposals that the Board had under consideration. He believed that the possible cost of promoting interest in the bill, in terms of reducing the relative stature of other proposals, was unimportant compared to the desirability of emphasizing that present practices and regulations, by virtue of a restrictive law, were not adapted to current circumstances, and that, if member banks were to finance themselves adequately, they should be able to obtain Federal Reserve credit at the ordinary rate for a much broader range of assets than they could at present.

Governor Robertson demurred that the bill did not in reality broaden the scope of paper that could be used; everything that the Reserve Banks could do under the proposal could be done now, but at a penalty rate. To him, that reduced the bill in importance below the level that would warrant mention in the State of the Union Message.

Governor Mills expressed the view that the penalty rate was not the primary obstacle to banks in seeking Federal Reserve credit.

Recourse to advances under section 10(b) was flagged as an emergency measure. Moreover, the proposed revision of Regulation A, Advances and Discounts by Federal Reserve Banks, which assumed the passage of the proposed legislation, defined the kinds of paper that might be accepted as collateral in such a way that kinds of paper were acceptable that had not been in the past.

Governor Shepardson said that he believed that an important principle was involved. The present form of Regulation A, which he regarded as embodying a very restrictive philosophy, was adopted in the setting of the economic conditions of the 1950's, when bank holdings of Government securities had been large because of conditions arising from the Treasury-Federal Reserve accord in 1951, and when bank loan ratios were in the thirties. Those conditions had drastically changed, and he thought it was time for the Board to consider making a corresponding change in the approach to Regulation A. If the proposed legislation should be recommended for inclusion in the State of the Union Message, he suggested that there be some concurrent action to revise the philosophy expressed in the regulation as it was understood and practiced by most banks and enforced by Federal Reserve examiners. Whether or not there were other legislative proposals that were of greater significance depended on how far the Board went toward a revised philosophy in regard to Federal Reserve credit.

Governor Mills observed that the approval by the Board yesterday of an advance to 4 per cent in Federal Reserve discount rates increased the importance of proposed legislation that would facilitate extension of Federal Reserve credit. If it were decided to mention the proposal in the message, the bill would gain strong momentum. In Governor Mills' view, the change in philosophy advocated by Governor Shepardson was open for consideration.

Mr. Hackley commented on the objectives that had guided studies by System groups preparatory to the drafting of a revision of Regulation A, and added that he was inclined to feel that the proposed legislation was not of sufficient importance to warrant citation in the President's message. If the bill would thereby gain impetus, that would be to the good, but he had some concern that the Congress might scrap the proposal in its present form and instead merely repeal the penalty rate under section 10(b). In that event, although any sound paper could be used as collateral, the provisions regarding eligibility would still be in the law and the Board would continue to be plagued with questions of interpretation.

Governor Balderston commented that the problem was one of strategy. The Board had under consideration legislative problems that were of great importance but were not yet ready for submission, but the proposal regarding Reserve Bank advances might gain in relative importance if crisis times developed in the future.

The Board then requested comments from Mr. Cardon, who expressed the view that, although the proposed legislation on Reserve Bank advances probably was not otherwise sufficiently important to be included in the President's message, since forthcoming proposals of greater magnitude were not yet ready, there seemed nothing to lose in submitting it. He did not believe that doing so would jeopardize the coming proposals. With reference to whether the draft letter laid too much stress on the removal of the penalty rate, it seemed to him that that was in fact all the bill really did. As for strategy, he believed it preferable to state that net effect frankly rather than to give Congress the impression that the bill sought new and unsafeguarded authority for the Federal Reserve. Congress was usually suspicious of proposals for the exercise of new and broad discretion, and it seemed to him that it would be a tactical error to appear to advocate sweeping aside all present provisions of law on collateral and investing the System with new and unlimited discretion in that regard.

Chairman Martin then joined the meeting and, having been informed of the principal views that had been expressed, stated that to him the primary question was whether or not the Board wanted to suggest inclusion of the legislative proposal on advances in the President's message. He was inclined against doing so; it seemed difficult to visualize it as having any real relationship to the President's program. He doubted that the Board had any proposal sufficiently developed at the present time that would be appropriate for inclusion in the message.

Chairman Martin was called from the meeting during the ensuing discussion.

Governor Mills observed that there might be opportunity to have some elements of the Board's forthcoming legislative proposals given attention in the annual report of the Council of Economic Advisers, which would be transmitted to the Congress in January with the Economic Report of the President. There was general agreement that it would be well to keep that possibility in mind.

Governor Shepardson reiterated his view as to the need for early review of the guidelines for discounting practice, even if the Congress did not enact the Board's proposal relating to Federal Reserve advances.

At the conclusion of the discussion it was understood that no written reply would be made to the inquiry in the President's memorandum of November 2, 1964, but that the staff would inform the White House Office by telephone that the Board had no suggestions for material to be included in the President's State of the Union Message.

Messrs. Shay and Goodman then withdrew from the meeting.

Cincinnati building proposal. On October 2, 1964, the Board discussed the request of President Hickman of the Federal Reserve Bank of Cleveland, in a letter dated August 17, 1964, that the Board authorize the Reserve Bank to obtain an option to purchase a new site for the Cincinnati Branch and to permit architects to proceed with preliminary plans for a new Branch building. At the conclusion of the discussion, the Board directed the Division of Bank Operations to make an on-site survey of the circumstances underlying President Hickman's request.

There had now been distributed a memorandum dated November 12, 1964, in which Mr. Farrell reported the findings of the visit to Cincinnati, his conclusions being as follows:

> The present building was in good condition, but the vault and related facilities for handling valuables were inadequate for even the existing workload.
>
> There appeared to be no feasible way of putting more vault space within the present building.
>
> The vault problem might be remedied by new construction alongside the present building if the necessary property could be obtained. No professional studies had been made of that possibility.
>
> The Branch was now located within one block of what was considered the most desirable corner in Cincinnati. While the neighborhood to the west and south of the Branch was not good, it appeared to be no worse than it had been for a number of years and should improve as the Cincinnati redevelopment program progressed.

There was currently an oversupply of office space in Cincinnati and the Branch was having trouble retaining some of its tenants.

The previously estimated sale price of around $2 million for the present Branch building was now considered too high in view of the situation in the rental market.

Depreciation charges had brought the net book value of the property down to $940,000 and were running in the neighborhood of $200,000 a year. Hence, sale of the property at a price considerably under $2 million would still show a book profit.

The property that the Bank wanted to buy in the redevelopment area - Block B - seemed to be the most desirable if the Branch was to move within that area. The offering price of $12 per square foot was quite reasonable.

The proposed plot carried with it a prohibition against use of any portion for a parking lot, a restriction not heretofore encountered in purchases of property by other Federal Reserve offices.

The $10.5 million cost estimated on the basis of tentative plans for the proposed new building was higher than the construction cost of any other Federal Reserve Bank or Branch except the head offices at New York and Chicago. The high cost was attributable mainly to the large amount of expansion space provided in the tentative plans. The basic cost of $36 per square foot was not out of line.

The high ratio of expansion space arose partly from tentative plans to put heating, air-conditioning, and other equipment at the top of the building to permit maximum use of basement areas for vault and security court purposes.

No employee parking facilities were planned for the new building, and the Reserve Bank management felt strongly that none would be needed. There were other indications, however, that parking might be a future problem.

No professional studies had been made to determine whether alternative sites would be available for a new Branch building outside of the redevelopment area - either near the financial district or in an outlying area.

Information in support of these conclusions was set out in the memorandum.

At today's meeting Mr. Farrell summarized and supplemented his report for the information of the Board in preparation for a visit by Chairman Hall of the Federal Reserve Bank of Cleveland on December 2, 1964, for further discussion of the proposal for construction of a new building for the Cincinnati Branch. Members of the Board asked various questions to which Mr. Farrell responded.

Chairman Martin returned to the meeting during the early part of Mr. Farrell's remarks.

Director appointments. It was agreed to request the Chairmen of the appropriate Federal Reserve Banks to ascertain and advise whether the following persons would accept appointments, if tendered, as Federal Reserve Bank or branch directors for the terms indicated, with the understanding that if it were ascertained that they would accept, the appointments would be made:

R. Stanley Laing, President, The National Cash Register Company, Dayton, Ohio, as a director of the Cincinnati Branch of the Federal Reserve Bank of Cleveland for the unexpired portion of the term ending December 31, 1965, to fill the vacancy resulting from the resignation of Howard E. Whitaker effective October 31, 1964. (Mr. Laing's appointment was made effective November 30, 1964.)

Robert Dickey, III, President, Dravo Corporation, Pittsburgh, Pennsylvania, as a director of the Pittsburgh Branch of the Federal Reserve Bank of Cleveland for the three-year term beginning January 1, 1965.

William B. McGuire, President, Duke Power Company, Charlotte, North Carolina, as a director of the Charlotte Branch of the Federal Reserve Bank of Richmond for the three-year term beginning January 1, 1965.

Smith D. Broadbent, Jr., Owner, Broadbent Hybrid Corn Company, Cadiz, Kentucky, as a Class C director of the Federal Reserve Bank of St. Louis for the three-year term beginning January 1, 1965.

Reeves E. Ritchie, President, Arkansas Power & Light Company, Little Rock, Arkansas, as a director of the Little Rock Branch of the Federal Reserve Bank of St. Louis for the three-year term beginning January 1, 1965.

James S. Williams, Plant Manager, American Greetings Corporation, Osceola, Arkansas, as a director of the Memphis Branch of the Federal Reserve Bank of St. Louis for the three-year term beginning January 1, 1965.

Byron W. Reeve, President, Lake Shore, Inc., Iron Mountain, Michigan, as a Class C director of the Federal Reserve Bank of Minneapolis for the three-year term beginning January 1, 1965.

> Secretary's Note: It having been ascertained that these gentlemen would accept, appointment telegrams were sent to Messrs. Laing, Dickey, McGuire, and Reeve on November 27, 1964, to Messrs. Ritchie and Williams on November 30, 1964, and to Mr. Broadbent on December 4, 1964.

Directors Day, 1965. Mr. Fauver stated that inquiries were being received as to whether there would be a special meeting for new Federal Reserve directors in 1965 similar to those the Board had held in other recent years. On the assumption that the

Board wished to plan such a meeting, he asked if the Board would regard March 17-18, 1965, as a suitable time; those dates corresponded generally to the timing of the meeting in the last two years, and did not appear to conflict with the dates of other System meetings.

Chairman Martin suggested that a memorandum be circulated to the members of the Board to determine whether or not those dates would be convenient.

The meeting then adjourned.

Secretary's Notes: A telegram was received today from the Federal Reserve Bank of Atlanta stating that the directors of the Bank had established, subject to review and determination by the Board of Governors, a rate of 4 per cent (rather than 3-1/2 per cent) on discounts for and advances to member banks under sections 13 and 13a of the Federal Reserve Act; a rate of 4-1/2 per cent (rather than 4 per cent) on advances under section 10(b); and a rate of 6 per cent (rather than 5 per cent) on advances to individuals, partnerships, and corporations other than member banks under the last paragraph of section 13. Pursuant to the authorization given at the meeting on November 23, 1964, the Secretary informed the Bank by telegram of the Board's approval of the rates established by its directors, effective November 25, 1964. A press statement was issued at 4:00 p.m. EST, all Reserve Banks and branches were notified by telegram, and arrangements were made for publication of a notice in the Federal Register.

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

Letter to the Federal Reserve Bank of Boston (attached Item No. 4) approving the appointment of Bernard I. Bebel as assistant examiner.

Memoranda recommending the following actions relating to the Board's staff:

Appointment

William W. Wiles as Economist, Division of Research and Statistics, with basic annual salary at the rate of $8,650, effective the date of entrance upon duty.

Acceptance of resignation

Holly H. Wyand, Research Assistant, Division of International Finance, effective at the close of business November 30, 1964.

Secretary

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

Item No. 1
11/24/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 24, 1964.

Mellon Bank International,
c/o Mellon National Bank and Trust Company,
Mellon Square,
Pittsburgh, Pennsylvania.

Gentlemen:

In accordance with the request contained in your letter of November 9, 1964, transmitted through the Federal Reserve Bank of Cleveland, and on the basis of information furnished, the Board of Governors grants consent to your Corporation's purchase and holding of 50 ordinary shares, par value US$10,000 each, of ADELA Investment Company, S.A., Luxembourg, at a cost of approximately US$500,000, provided such stock is acquired within one year from the date of this letter.

The Board also approves the purchase and holding of shares of ADELA Investment Company, S.A. 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
11/24/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 24, 1964.

First Chicago International
Finance Corporation,
38 South Dearborn Street,
Chicago 90, Illinois.

Gentlemen:

In accordance with the request contained in your letter of November 6, 1964, transmitted through the Federal Reserve Bank of Chicago, and on the basis of information furnished, the Board of Governors grants consent to your Corporation's purchase and holding of 50 ordinary shares, par value US$10,000 each, of ADELA Investment Company, S.A., Luxembourg, at a cost of approximately US$500,000, provided such stock is acquired within one year from the date of this letter.

The Board also approves the purchase and holding of shares of ADELA Investment Company, S.A. 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. 3
11/24/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 24, 1964.

Crocker-Citizens International Corporation,
One Montgomery Street,
San Francisco, California 94120.

Gentlemen:

In accordance with the request contained in your letter of November 9, 1964, addressed to Mr. E. H. Galvin, Vice President, Federal Reserve Bank of San Francisco, and on the basis of information furnished, the Board of Governors grants consent to your Corporation's purchase and holding of 50 ordinary shares, par value US$10,000 each, of ADELA Investment Company, S.A., Luxembourg, at a cost of approximately US$500,000, provided such stock is acquired within one year from the date of this letter.

The Board also approves the purchase and holding of shares of ADELA Investment Company, S.A. 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. 4
11/24/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 24, 1964.

Mr. Luther M. Hoyle, Jr., Vice President,
Federal Reserve Bank of Boston,
Boston, Massachusetts. 02106

Dear Mr. Hoyle:

In accordance with the request contained in your letter of November 19, 1964, the Board approves the appointment of Bernard I. Bebel as an assistant examiner for the Federal Reserve Bank of Boston. Please advise the effective date of the appointment.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.