

Minutes for December 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 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

MD

Gov. Mills

Gov. Robertson

R

Gov. Balderston

CCB

Gov. Shepardson

SP

Gov. Mitchell

MM

Gov. Daane

DD

Minutes of the Board of Governors of the Federal Reserve System on Wednesday, December 23, 1964. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Balderston, Vice Chairman
Mr. Robertson
Mr. Mitchell
Mr. Daane

Mr. Sherman, Secretary
Mr. Molony, Assistant to the Board
Mr. Cardon, Legislative Counsel
Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Daniels, Assistant Director, Division of Bank Operations
Mr. Goodman, Assistant Director, Division of Examinations
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Spencer, General Assistant, Office of the Secretary
Mr. Forrestal, Attorney, Legal Division
Mr. Egertson, Supervisory Review Examiner, Division of Examinations
Mr. Poundstone, Review Examiner, Division of Examinations
Mr. Veenstra, Chief, Financial Statistics Section, Division of Data Processing

Discount rates. The establishment without change by the Federal Reserve Bank of Atlanta on December 22, 1964, of the rates on discounts and advances in its existing schedule was approved unanimously, with the understanding that appropriate advice would be sent to that Bank.

Circulated or distributed 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 Warren Bank, Warren, Michigan, approving the establishment of a branch at Heath's Clearview Little Farms Subdivision.	1
Letter to Trust Company of Georgia, Atlanta, Georgia, approving an extension of time to establish a branch in the Life Insurance Company of Georgia building.	2
Letter to Corydon State Bank, Corydon, Iowa, waiving the requirement of six months' notice of withdrawal from membership in the Federal Reserve System.	3
Letter to the Federal Reserve Bank of Cleveland regarding the manner in which a drive-in facility of a branch of a national bank should be reported on Form F. R. 412, Changes in Status of Banks and Branches.	4
Letter to Bank of America, New York, New York, amending in the manner described therein the Board's consents of March 23, 1961, and April 3, 1962, to the acquisition of shares of Financial Corporation for Overseas Countries, Geneva, Switzerland, by Bank of America and Banca d'America e d'Italia.	5
Telegram to the Presidents of all Federal Reserve Banks regarding the reports on certificate of deposit activity requested in the Board's letter of August 13, 1964 (S-1925). (The telegram as approved reflected several changes in wording agreed upon during discussion of a draft letter that had been distributed.)	6

With respect to Item No. 4, Mr. Veenstra pointed out that a question was involved whether to count for statistical purposes a drive-in facility of a branch of a national bank as the establishment of a branch. It had been the practice in the past to ascertain the classification of such facilities from the appropriate supervisory agency. In this connection, the Comptroller of the Currency did not

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regard the facility as a branch. Therefore, the Reserve Bank was being advised not to report it as such on Form F. R. 412, although such a drive-in facility would be considered the establishment of an additional branch by a State member bank and would require the Board's approval.

During a discussion of Item No. 5, Governor Mitchell indicated that he felt the letter as drafted did not adequately set forth the reason for amending the consents granted to Bank of America and Banca d'America e d'Italia to acquire shares of Financial Corporation. In accordance with Governor Mitchell's suggestion, the wording of the letter was changed to that appearing in Item No. 5.

Messrs. Egertson, Poundstone, and Veenstra then withdrew from the meeting.

Letter to ABA regarding Regulation F (Item No. 7). A telegram had been sent by the American Bankers Association to each member of the Board urging the postponement of the issuance in final form of Regulation F, Securities of Member State Banks.

Governor Robertson, referring to receipt of the telegram this morning, reported that Chairman Barr of the Federal Deposit Insurance Corporation had called him yesterday to advise of a meeting that had taken place with representatives of the American Bankers Association, who had asked that Regulation F be published in the Federal Register again for comment rather than in a form to become effective at an early

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date. They had been informed by Chairman Barr that the regulation had been discussed in detail by the Board with the Corporation and that the Corporation was agreeable to going along with whatever decision the Board made with respect to publication. Governor Robertson said that Chairman Barr had remarked in his telephone conversation that he and Director Randall wanted the Board to know of their position on this matter. Subsequent to Mr. Barr's call, the telegram from the ABA had been received.

Governor Robertson indicated that this morning Mr. Charls Walker, Executive Vice President of the American Bankers Association, also had telephoned him about delaying the effective date of Regulation F. He had informed Mr. Walker that it was his personal view that acquiescence to the Association's proposal on the regulation would be disadvantageous both to the Association and to the Federal Reserve System. The proposal for a delay so that further changes and additions could be submitted to the Board looked as though the banking industry was attempting to regulate itself. The suggestions made by the special committee of the American Bankers Association had been reviewed and many of them adopted. He had indicated to Mr. Walker that he should not be surprised at the Board's action on Regulation F, whatever that action might be, although he emphasized that the ABA should not be told in advance how or when the regulation was to be issued.

Governor Robertson went on to note that the ABA telegram stated that the Association had received the proposed regulations

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only after directing a request to him. This statement was not correct, he said, Mr. Partee having furnished several copies to Association representatives.

Governor Robertson then reviewed several changes that had been made while the regulation was being prepared to accommodate suggestions of the Association and other organizations. He then read a draft of letter, which he suggested might be used as a response to the ABA's telegram. The letter would point out that consideration had been given to the suggestions made by the Association's special committee, that it was to be expected that the regulation as published in final form would contain imperfections, that it would need to be altered in order to correct them, and that comments and suggestions were invited.

In the discussion that followed, the general approach suggested by Governor Robertson was agreed upon, as well as several suggestions for language changes in the letter.

Governor Robertson then brought up the matter of the press release that would be issued when the Board published Regulation F, and he read the text of a draft release.

Governor Mitchell remarked that there might be some value in having an introductory paragraph in the press statement referring to the regulation's complexity and the fact that further amendments would probably be needed. He went on to say that Mr. Walker had also talked by telephone with him and that he (Governor Mitchell) had indicated

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that he felt the regulation was as good a one as could be put together at the time, one that had been considered carefully and that was responsive to the public interest. Mr. Walker had mentioned that on the basis of what he had seen, the philosophy of the proposed regulation was satisfactory with the ABA but, of course, much of it was of a technical nature. Governor Mitchell had indicated in reply that he felt the Board would be prepared to consider technical deficiencies. In this connection, he now suggested that this point be made clear in any press release that was issued.

During further discussion of the draft of press release, agreement was expressed with certain suggestions for changes in the content and tone. At the conclusion of this discussion, it was understood that the staff would prepare a draft that would be considered at another meeting, in light of the suggestions made at today's meeting.

The letter to the American Bankers Association, responding to its telegram, was then approved unanimously in the form attached as Item No. 7.

Mr. Brill, Director, Division of Research and Statistics, entered the room at this point.

Surplus of Federal Reserve Banks. At the meeting on December 16, 1964, the Board concluded that the growth in the capital and accumulated surplus of the several Reserve Banks, as well as their net earnings, warranted reducing the surplus of the Banks to the level of paid-in

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capital instead of subscribed capital as had heretofore been the case. This decision on the part of the Board added over a half billion dollars to the amount that would be paid into the Treasury.

Governor Balderston reported at this morning's meeting that the Treasury had requested the payment be made in two equal instalments-- one payment after January 4, 1965, and the other after July 1, 1965. He indicated that by accommodating the Treasury in this manner, its budget for fiscal year 1966 would not show a significant difference in receipts such as would accrue if the System's payment were made in a lump sum during the Treasury's present fiscal year.

Governor Daane stated reasons why he felt that it would be inappropriate for the Federal Reserve to handle the payment in the manner requested by the Treasury, and Governor Mitchell suggested that the payment might be made in monthly instalments, perhaps over a 12-month period, so as to minimize any impact that a large lump-sum payment might have on the money market.

During the discussion that followed, which centered primarily on the manner in which the Board might make the special payment to the Treasury, Mr. Farrell noted that this payment would be shown in the Board's forthcoming Annual Report for 1964. He pointed out that the customary press release regarding Reserve Bank earnings, to be issued on or about January 5, would note that the Board had made a decision to reduce the surplus accounts of the Reserve Banks and increase System

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payments to the Treasury as interest on Federal Reserve notes. He suggested the desirability of including in the press release some indication that the payments were being extended over a 12-month period, if the Board were to decide to follow that procedure.

Governor Balderston observed that for some time the System had been making monthly payments to the Treasury as interest on Federal Reserve notes. In his view, the System could increase those monthly payments by spreading the special payment from the surplus accounts over the next 12 months; this would also accommodate the Treasury's request.

At the conclusion of discussion, it was agreed that the payment to the Treasury from the surplus accounts of the Federal Reserve Banks should be made in 12 monthly instalments, beginning in January 1965. It was understood that the Board's press statement would not indicate in detail the manner in which payment was to be made, but that it would make clear that the transaction was related to calendar year 1964 at the Federal Reserve Banks.

All members of the staff except Mr. Sherman then withdrew from the meeting.

Salary of Philadelphia Reserve Bank officer (Item No. 8).

Governor Balderston reported that a letter dated December 17, 1964, had been received from Chairman Hoadley of the Federal Reserve Bank of Philadelphia urging reconsideration by the Board of its action in

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not approving a salary increase for First Vice President Hilkert, who under the guidelines established in the fall of 1962 would not be eligible for another increase until January 1966.

In a discussion of the reply to be made to Mr. Hoadley, all members of the Board who were present reiterated the earlier decision that, in approving salaries for Reserve Bank Presidents or First Vice Presidents for 1965, no exceptions should be made to the 1962 guidelines. There was agreement with a suggestion that the response should indicate that the Board was planning a review early in 1965 of the 1962 guidelines, and that the Board would give careful consideration at that time to the views expressed earlier this month at the Chairmen's Conference, as well as to the views of the Philadelphia directors as set forth in Mr. Hoadley's letter of December 17.

It was understood that a reply along the lines of the discussion would be prepared for Governor Balderston's signature. A copy of the reply sent to Chairman Hoadley under date of December 28, 1964, is attached as Item No. 8.

The meeting then adjourned.

Secretary's Note: Acting in the absence of Governor Shepardson, Governor Robertson today approved on behalf of the Board the following items:

Letter to the Federal Reserve Bank of Richmond (attached Item No. 9) approving the appointment of Robert B. Upshaw and Robert G. Murphy as examiners.

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

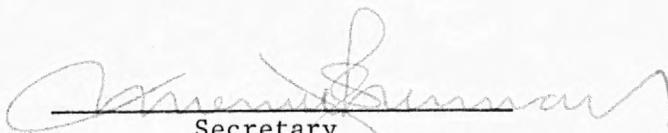
Appointments

Charles Glenn Stevens as Statistical Clerk, Division of Research and Statistics, with basic annual salary at the rate of \$4,140, effective the date of entrance upon duty.

Kenneth Leon Johnson as Draftsman-Trainee, Division of Data Processing, with basic annual salary at the rate of \$4,005, effective the date of entrance upon duty.

Acceptance of resignation

Marjorie G. Duke, Digital Computer Programmer, Division of Data Processing, effective December 8, 1964.


Secretary

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

Item No. 1
12/23/64



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 23, 1964

Board of Directors,
Warren Bank,
Warren, Michigan.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Warren Bank, Warren, Michigan, of a branch at Parcels 10 to 12, Heath's Clearview Little Farms Subdivision, Warren, Michigan, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

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

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 2
12/23/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 23, 1964

Board of Directors,
Trust Company of Georgia,
Atlanta, Georgia.

Gentlemen:

The Board of Governors of the Federal Reserve System has approved an extension until December 31, 1966, of the time within which Trust Company of Georgia may establish a branch in the Life Insurance Company of Georgia building at the corner of North Avenue and West Peachtree Street, Atlanta, Georgia. The establishment of this branch was authorized in a letter dated February 15, 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. 3
12/23/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 23, 1964



Board of Directors,
Corydon State Bank,
Corydon, Iowa.

Gentlemen:

The Federal Reserve Bank of Chicago has forwarded to the Board of Governors your letter dated December 7, 1964, 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.

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

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

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
12/23/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 23, 1964



Mr. Harry W. Huning, Vice President,
Federal Reserve Bank of Cleveland,
Cleveland, Ohio. 44101

Dear Mr. Huning:

This refers to your letter of December 3, 1964, requesting advice as to how a drive-in facility, opened by a Cleveland national bank in the vicinity of an existing branch in a shopping center, should be included in the monthly report on Form F.R. 412. You state that the Comptroller of the Currency does not view this as the establishment of a branch since the facility, located approximately 750 feet from the present office, is considered an extension of the existing branch premises. As you indicated, such a drive-in facility would be considered the establishment of an additional branch by a State member bank and would require the Board's approval as such.

Before branches of national banks or nonmember insured banks are added to the Board's report of Changes in Status of Banks and Branches, the appropriate Federal agency is contacted to determine its classification by that agency, and such classification is followed by the Board regardless of how the Board might view the office if opened by a State member bank. However, the Board still wishes to have notices of changes of this character included in the reports by your Bank although, as indicated, the facility may not be included in the Board's statistics as an additional branch.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 23, 1964.



Mr. Tom B. Coughran,
Executive Vice President,
Bank of America,
41 Broad Street,
New York 15, New York.

Dear Mr. Coughran:

Reference is made to your letters of November 29, 1963 and August 29, 1964, and other information furnished in connection with your request that the Board's consent of March 23, 1961 for Bank of America and Banca d'America e d'Italia to acquire and hold shares of United Overseas Corporation (now known as Societe Financiere pour les Pays d'Outre-Mer, or Financial Corporation for Overseas Countries ("FCOC")) be amended to permit you to continue your "participation in FCOC subject only to the usual basic restrictions and the applicable regulations and practices of Switzerland."

Based upon your representation of the nature of the activities permitted to "Financial Societies" in Swiss banking practice, the understanding that the sole function of FCOC would be to hold the stock of the banks named, and the conditions contained in the fourth paragraph of the Board's letter of March 23, 1961 and in the second paragraph of the Board's letter of April 3, 1962 are hereby rescinded. In lieu thereof, the following condition is prescribed:

"The Board's consent to the purchase and holding of shares of FCOC by Bank of America and Banca d'America e d'Italia is granted subject to the condition that neither FCOC nor any subsidiary bank or other affiliated company shall engage in the business of underwriting, selling, or distributing securities in the United States, or in any other activity in the United States not permissible for a Corporation organized under Section 25(a) of the Federal Reserve Act engaged in banking."

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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TELEGRAM
LEASED WIRE SERVICE

Item No. 6
12/23/64

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

S-1941
December 30, 1964

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Board's letter of August 13, 1964, (S-1925), requested that it be informed of "any known instances of past or prospective maturities of certificates of deposit in excess of an issuing member or nonmember bank's capacity to redeem them out of its own cash resources; resort by a bank to borrowings from its Reserve Bank, the Federal funds market, correspondent banks, or others to meet the pressures attendant upon large certificate of deposit maturities; or substantial sales of certificates of deposit by means that effectively circumvent the present ceiling rates specified under Regulation Q."

That letter requested that reports be submitted at least monthly for the next year. Board now believes reports on a less frequent basis sufficient and asks that they be submitted for March 31 and June 30, 1965, covering information developed during preceding quarters. Should any Reserve Bank obtain information it believes would be of significant interest to Board more often, Board will, of course, appreciate receiving such information promptly.

(Signed) Merritt Sherman

SHERMAN



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 7
12/23/64

OFFICE OF THE VICE CHAIRMAN

December 23, 1964

Dr. Charls E. Walker
Executive Vice President
American Bankers Association
90 Park Avenue
New York, New York 10016

Dear Charls:

The Board of Governors this morning considered the proposal made in the telegram you sent to all members of the Board regarding postponement of issuance of Federal Reserve Regulation F, relating to securities of member State banks.

You may be assured that the Board and its staff are aware of the thought and effort that went into the proposals of the Special Committee of the American Bankers Association. As you know, the matter has been under intensive study for more than four months, and thorough consideration has been given to the suggestions which we have received from the Special Committee of the American Bankers Association and numerous other organizations and institutions. This is a very complex matter, but we feel that - thanks to the assistance we have received - the proposed regulation represents a constructive means of implementing the purpose and intent of the Congress. However, it is entirely probable that the regulation contains imperfections and will need to be altered in order to correct them. The Board invites comments and suggestions with respect to the proposal, and stands ready to rapidly alter the regulation by amendment in the light of reason and experience.

Finally, let me say that the Board deeply appreciates the Association's interest and its very real contribution to our work on this difficult subject.

Sincerely yours,

Canby
C. Canby Balderston,
Vice Chairman

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 8
12/23/64



OFFICE OF THE VICE CHAIRMAN

December 28, 1964.

Mr. Walter E. Hoadley, Chairman,
Federal Reserve Bank of Philadelphia,
Philadelphia, Pennsylvania. 19101

Dear Walter:

Your letter of December 17 was considered by the Board at a meeting last week. As I mentioned to Karl Bopp when he raised with me a question regarding the action on Bob Hilkert's salary, the Board gave careful consideration to requests from almost half of the Reserve Banks for exceptions to the 1962 guidelines in fixing 1965 salaries for Presidents or First Vice Presidents before reaching the conclusion that it would make no exceptions to those guidelines in approving salaries for the coming year. This particular decision has been reaffirmed by the Board, even though the individuals concerned may be held in high regard.

You will be interested to know, however, that the Board is planning a review of the guidelines that were set in 1962, particularly as they apply to First Vice Presidents. This will be done within the next few months, and you may be sure that in its broad consideration of this question the Board will take fully into account the views expressed at the Chairmen's Conference earlier this month, as well as the views of your directors as set forth in your letter of the 17th.

As you are aware and as indicated in the Board's letter to Mr. Bopp on December 9, the Board was entirely willing to approve a 1965 salary for Vice President and Cashier Vergari at the rate recommended by the directors of your Bank. Approval at the present rate resulted entirely from the fact that your proposal for change in the Vergari salary was contingent upon approval of an increase for Mr. Hilkert. Without that reservation on the part of your directors, the alternate salary proposed for Mr. Vergari was--and still would be--entirely acceptable to the Board.

Sincerely yours,

Canby
C. Canby Balderston,
Vice Chairman.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 9
12/23/63



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 23, 1964

CONFIDENTIAL (FR)

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

Dear Mr. Nosker:

In accordance with the requests contained in your letters of December 18, 1964, the Board approves the appointments of Robert B. Upshaw and Robert G. Murphy, at present assistant examiners, as examiners for the Federal Reserve Bank of Richmond, effective December 25, 1964.

It is noted that Mr. Upshaw is indebted to Virginia Trust Company, Richmond, Virginia, a nonmember bank. Accordingly, the Board's approval of the appointment of Mr. Upshaw is given with the understanding that he will not participate in any examination of that bank until his indebtedness has been liquidated.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.