

Minutes for January 14, 1965.

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

(M)

Gov. Mills

[Signature]

Gov. Robertson

R. J.

Gov. Balderston

[Signature]

Gov. Shepardson

[Signature]

Gov. Mitchell

[Signature]

Gov. Daane

[Signature]

Minutes of the Board of Governors of the Federal Reserve System on Thursday, January 14, 1965. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Young, Adviser to the Board and Director,
 Division of International Finance
 Mr. Noyes, Adviser to the Board
 Mr. Molony, Assistant to the Board
 Mr. Cardon, Legislative Counsel
 Mr. Fauver, Assistant to the Board
 Mr. Hackley, General Counsel
 Mr. Brill, Director, Division of Research
 and Statistics
 Mr. Farrell, Director, Division of Bank
 Operations
 Mr. Hexter, Assistant General Counsel
 Mr. O'Connell, Assistant General Counsel
 Mr. Shay, Assistant General Counsel
 Mr. Partee, Adviser, Division of Research
 and Statistics
 Mr. Sammons, Adviser, Division of International
 Finance
 Mr. Goodman, Assistant Director, Division of
 Examinations
 Mr. Leavitt, Assistant Director, Division of
 Examinations
 Mr. Young, Senior Attorney, Legal Division
 Mr. Sanders, Attorney, Legal Division
 Mr. Poundstone, Review Examiner, Division
 of Examinations

Branch application (Item No. 1). Unanimous approval was given to a letter to Bank of America National Trust and Savings Association, San Francisco, California, granting its application for permission to establish a branch in Antwerp, Belgium. A copy is attached as Item No. 1.

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Legislative program. On November 18, 1964, the Board gave initial consideration to certain legislative proposals that might be submitted to the Congress as parts of a package, the discussion being based on the items covered in a memorandum from the Legal Division dated October 30, 1964.

The discussion at today's meeting related to five of the thirteen proposals mentioned in the October 30 memorandum, with a view to deciding whether reference should be made to such matters in the Board's Annual Report for 1964 as well as to whether draft bills should be transmitted to the Banking and Currency Committees of the Congress. Each of the five proposals was covered by an explanatory note along with a draft bill and a draft of letter that might be sent to the Chairmen of the respective Committees.

The first item to be taken up was a proposal for legislation that would authorize member banks, with the prior approval and subject to regulations of the Board, to acquire and hold directly controlling stock interests in foreign banks.

Reasons cited in favor of making such a proposal were that the Board had recommended a legislative amendment to the Bureau of the Budget in a report made in May 1963; in April 1964 the Board had objected to a proposed ruling of the Comptroller of the Currency that national banks have authority under present law to acquire and hold directly stock interests in foreign banks; the Comptroller had nevertheless issued

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such a ruling; the Board in June 1964 had objected in a report to the Budget Bureau to a Treasury draft bill that would have permitted member banks to acquire and hold stock interests in foreign banks with the approval of the Comptroller in the case of national banks and the Board in the case of State member banks, the objection being on the ground of division of administrative authority; and in the same report the Board had indicated that it would favor a substitute bill such as it had recommended in May 1963.

Reasons given during the discussion against recommending the introduction of such a bill were based to a large extent on the question whether the timing would be appropriate. It was noted that direct investments by American corporations abroad accounted for an outflow of funds that was contributing in some measure to the deficit in the U. S. balance of payments, and also that elements of the European community were currently expressing concern about the extent of U. S. investments in that area. In addition, one member of the Board (Governor Robertson) observed that to his knowledge national banks had not thus far taken advantage of the opportunity to acquire interests in foreign banks under the Comptroller's ruling. No acute problem therefore appeared to be present; and in any event investments in foreign banks could be made indirectly through Edge Act subsidiaries. Governor Robertson further suggested that if a bill were introduced at the Board's suggestion one possible outcome was amendment of the

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bill in the course of hearings so as to provide for the fragmentation of authority to which the Board had objected when the Treasury draft bill was proposed. It was also noted that there had been no recent indication as to whether the Treasury intended to resubmit proposed legislation on this subject.

It was the consensus that the arguments against submitting a proposed bill at this time were persuasive and that they also weighed against reference to the subject in the Board's Annual Report. Accordingly, it was understood that nothing would be done on this matter pending further developments.

The next subject to be considered was a proposal to amend paragraph seventh of section 5136 of the U. S. Revised Statutes to define the phrase "general obligations of any State or of any political subdivision thereof" in order to clarify the authority of national and State member banks to invest in such obligations and to avoid conflicting interpretations on this subject by the Comptroller of the Currency and the Board.

Discussion emphasized the inequitable situation that now existed in view of administrative actions by the Comptroller appearing to expand the category of securities eligible for underwriting by national banks beyond that authorized by statute, with the result that such banks were able to underwrite various kinds of obligations, including revenue bonds, while State member banks did not have the

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same privilege. The proposed bill would define "general obligations" in accordance with the meaning that had been applied consistently by the Board, and by the Comptrollers of the Currency until recently. The definition would include only those obligations supported by an unconditional promise to pay, directly or indirectly, an aggregate amount which (together with any other funds available for the purpose) would suffice to discharge, when due, all interest on and principal of such obligations, which promise (1) was made by a governmental entity that possessed general powers of taxation, including property taxation, and (2) pledged or otherwise committed the full faith and credit of the promisor. The definition would exclude obligations not so supported that were to be repaid only from specified sources such as the income from designated facilities or the proceeds of designated taxes.

It was pointed out that three alternatives appeared to be involved: (1) support of proposed legislation of the type suggested; (2) acquiescence in legislation such as H.R. 5845, a bill considered by the House Banking and Currency Committee in 1963 that would have granted member banks certain underwriting privileges with respect to revenue bonds; or (3) continuation of the present inequitable situation, the difficulties of which were described.

There was general agreement that some action should be taken to cure the existing situation; however, there was a division of opinion as to what type of action would be preferable. Governor Mitchell felt,

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for reasons he had stated on previous occasions, that the Board should support legislation granting member banks underwriting privileges with respect to revenue bonds; other members of the Board indicated that they would prefer to sponsor an approach along the lines suggested in the Legal Division's memorandum.

At the conclusion of the discussion it was agreed that no proposed bill should be submitted by the Board at this time. It was suggested, however, that there be included in the Board's Annual Report a statement on the existing situation, with an indication of support for a course of action along the lines suggested in the Legal Division's memorandum but with a further indication that in any event the need for equality of treatment for national and State member banks was acute. It was understood that this procedure would be followed, although Governor Mitchell would prefer to support legislation of the type that he had mentioned.

The next matter to be considered was the possibility of liberalizing the provisions of section 22(g) of the Federal Reserve Act regarding loans by member banks to their executive officers. The provisions presently prohibit a member bank from making loans to any of its executive officers, except in an amount not exceeding \$2,500 and then only with the prior approval of a majority of the bank's board of directors. In addition, an executive officer is required to make a written report to his bank with respect to any loan obtained by him

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from any other bank. Under the draft bill submitted for the Board's consideration, an executive officer would be permitted to borrow from his own bank up to \$5,000 or, in the case of a home mortgage loan, up to \$25,000; reports as to borrowings from other banks would be required only where such borrowings exceeded in the aggregate the amount an executive officer could borrow from his own bank; and the requirement for prior approval by the board of directors with respect to exempted borrowings by an executive officer from his own bank would be eliminated. To preclude favoritism, the draft bill would include a requirement that any loan to a bank's executive officer be made on terms not more favorable than those extended to other borrowers.

The Legal Division's memorandum noted that the Board might wish to consider, as an alternative, proposing legislation that would authorize loans to executive officers up to such amounts as the Board by regulation might prescribe. An additional possibility would be a statutory limit combined with regulatory authority to prescribe a higher limit if thought warranted under changed economic conditions.

The Legal Division's presentation also suggested that the Board might wish to propose that provisions similar to those contained in the draft bill be made applicable to nonmember insured banks and to savings and loan associations under the supervision of the Home Loan Bank Board. In discussion at this meeting, however, it was the consensus that although an extension of limitations on loans to executive officers to nonmember

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insured banks and savings and loan associations would be consistent and desirable, such action should not be suggested to the Congress by the Board, whose submission should relate only to loans to executive officers of member banks.

During discussion of the matter of loans to executive officers of member banks, question was raised whether the limit of \$5,000 on loans other than home mortgage loans might not reasonably be increased to a figure such as \$10,000 and whether the limit on home mortgage loans might not reasonably be raised to a figure such as \$40,000. A view was expressed with respect to home mortgage loans, however, that a limit of \$25,000 would satisfy the majority of existing problems of banks, which it was thought related primarily to the financing of home purchases by junior officers. It was suggested that a proposal for legislation containing a considerably higher limit might militate against the chance of enactment of legislation, and it was noted that in any event bank officers would not be precluded from borrowing at other banks, subject to their making reports of indebtedness to their boards of directors.

On the question whether proposed legislation should contain a statutory limit on loans to executive officers, the point was made that the absence of such a limit in the statute would have the advantage of flexibility, in that it would permit the Board to raise the limit in the light of changed economic conditions without the necessity of going

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back for remedial legislation whenever an increase in the limit seemed appropriate. On the other hand, if there was a provision for regulatory authority in the law, it was felt that pressures might arise periodically for increases in the limit and also that the chance of passage of legislation might be diminished. A suggestion then was made that the statutory limit on home mortgage loans to executive officers might be tied to the limit on FHA Title II mortgages, currently \$30,000.

At the conclusion of the discussion, it was agreed that the Board should recommend liberalization of the provisions of the law with respect to loans to executive officers of member banks along the lines set forth in the proposed draft bill, except that the statutory limit on home mortgage loans by banks to their executive officers would be \$30,000 rather than \$25,000.

The next topic to be considered related to loans to bank examiners. The Legal Division's memorandum pointed out that the U. S. Criminal Code prohibits any member bank or nonmember insured bank from making any loan to any examiner or assistant examiner who "examines or has authority to examine" such bank. It was suggested that the law might justifiably be liberalized to permit an examiner to obtain a home mortgage loan from a bank that the examiner was "authorized" to examine, at least up to some specified amount.

The proposed draft bill would permit insured banks to make home mortgage loans to examiners up to \$25,000, without any regulatory authority in the supervisory agencies to permit such loans in higher

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amounts. It was agreed during discussion that the figure of \$25,000 should be raised to \$30,000 consistent with the agreement reached in the preceding discussion regarding home mortgage loans to executive officers of member banks. With this change there was agreement with the proposed draft bill. In this connection, however, Governor Robertson suggested making known to the Congress that if such legislation should be enacted, it would continue to be the practice of the Federal Reserve not to permit any examiner or assistant examiner to participate in the examination of a bank to which he was indebted, and there was agreement with this suggestion.

Question was raised about the possibility of submitting together the two pieces of proposed legislation with respect to loans to executive officers and loans to bank examiners, but it was the conclusion that the proposals should be submitted separately.

The last of the series of questions to be considered was the possibility of submitting proposed legislation that would authorize delegation by the Board of functions other than those relating to rulemaking (regulations), monetary and credit policies, and supervision of the Federal Reserve Banks, but with a provision which would require the Board to review any delegated action on the vote of one member of the Board.

The Legal Division's memorandum brought out that the existence of such authority would not mean that the Board would be compelled

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to delegate any of its functions. However, it would enable the Board, in the light of experience, to determine when and to what extent the delegation of less important functions would be desirable. Attached was a secondary memorandum regarding the authority of various Federal agencies to delegate their functions. It was believed that in the case of the Board a short amendment to the law would be preferable to the longer provisions now in effect with respect to other Government agencies. The proposed draft bill therefore would simply amend section 11 of the Federal Reserve Act to state that the Board was empowered to delegate, by published order or rule and subject to the Administrative Procedure Act, any of its functions, other than rulemaking functions and functions pertaining principally to monetary and credit policies or supervision of the Federal Reserve Banks, to one or more hearing examiners, members or employees of the Board, or Federal Reserve Banks. The assignment of responsibility for the performance of any function that the Board determined to delegate would be the function of the Chairman. The Board would, upon the vote of one member, review action taken at a delegated level within such time and in such manner as the Board by rule prescribed.

In discussion of the matter, question was raised as to why the proposed bill should single out specifically that the Board could not delegate functions pertaining to its supervision of the Federal Reserve Banks. It was noted that there were minor functions in this area that

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might be susceptible of delegation and that in any event the Board could not delegate its ultimate responsibility.

As the discussion proceeded, Governor Mills observed that he agreed that the Board could not delegate ultimate responsibility. The proposed bill seemed harmless enough on the surface. In operation, however, he felt it could produce problems because the parties to whom authority was delegated would by reaching a line of decisions establish a policy with which over a period of time the Board would lack familiarity, not being fully conversant with the decisions that were made. He did not feel that the Board had been seriously overburdened in handling the matters coming before it for decision.

Governor Robertson said he did not believe that too much would be accomplished by having a provision for delegation of authority written into the law. Nevertheless, he believed that the Board could work under it, since the Board would retain the right to decide what, if any, functions to delegate.

Governor Mitchell commented that in his view the power of delegation of authority to undertake certain functions could be of great help to the Board. This was true whenever an organization got as large as the Federal Reserve System. He felt that too many matters of a relatively inconsequential nature were coming before the Board for

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decision, and on many matters, such as those involving locations of branches, the Board did not have the first-hand knowledge that was available to the Reserve Banks. If the proposed bill were enacted, the Board could still limit the delegation of authority as much as it wanted. The Board might decide to delegate little if anything, but it should have the opportunity to proceed in such manner as to make the best use of its time.

Referring to the draft of letter that would transmit the proposed bill, Governor Mitchell suggested that it not be phrased to infer that a great deal of work resulting from enactment of legislation such as the Bank Holding Company Act of 1956 and the Bank Merger Act of 1960 would be susceptible of delegation. Instead, the emphasis should be on the fact that enactment of such legislation had served to make the Board's workload in the area of bank supervision more onerous, which suggested delegation of authority to make certain minor decisions in that area.

Governor Daane indicated that his views were along the lines of those stated by Governor Mitchell.

At the conclusion of the discussion of this subject, it was understood that the Board, Governor Mills dissenting, favored recommending legislation along the lines of the draft bill that had been presented for the Board's consideration, with the exception that the bill submitted should not specifically exclude the authority to delegate any

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functions relating to supervision of the Federal Reserve Banks. It was also understood that the proposed letter transmitting such a bill to the Chairmen of Banking and Currency Committees would be redrafted in line with the suggestions by Governor Mitchell.

The meeting then adjourned.

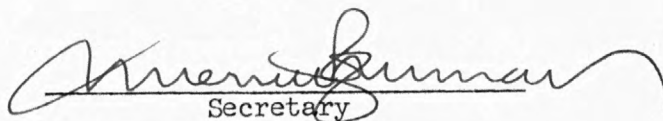
Secretary's Note: Governor Shepardson today approved on behalf of the Board the following items:

Letter to the Federal Reserve Bank of Chicago (attached Item No. 2) approving the designation of eight employees as special assistant examiners.

Letter to the Federal Reserve Bank of San Francisco (attached Item No. 3) approving the designation of 18 employees as special assistant examiners.

Memorandum from the Division of Personnel Administration dated January 13, 1965, recommending that the salary rate for Substitute Nurses be increased from \$22 per day to \$24 per day, effective January 15, 1965.

Memorandum from the Division of Research and Statistics recommending the appointment of Peggy L. Turney as Statistical Clerk in that Division, with basic annual salary at the rate of \$4,630, effective the date of entrance upon duty.


Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 1
1/14/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 14, 1965

Bank of America National Trust
and Savings Association,
300 Montgomery Street,
San Francisco, California.

Gentlemen:

The Board of Governors of the Federal Reserve System grants its permission to Bank of America National Trust and Savings Association, San Francisco, California, pursuant to the provisions of Section 25 of the Federal Reserve Act, to establish a branch in the City of Antwerp, Belgium, and to operate and maintain such branch subject to the provisions of such Section and of Regulation M.

Unless the branch is actually established and opened for business on or before February 1, 1966, all rights granted hereby shall be deemed to have been abandoned and the authority hereby granted will automatically terminate on that date.

Please inform the Board of Governors, through the Federal Reserve Bank of San Francisco, when the branch is opened for business, furnishing information as to the exact location of the branch. The Board should also be promptly informed of any future change in location of the branch within the City of Antwerp.

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
1/14/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 14, 1965.

Mr. Leland M. Ross, Vice President,
Federal Reserve Bank of Chicago,
Chicago, Illinois. 60690

Dear Mr. Ross:

In accordance with the request contained in your letter of January 8, 1965, the Board approves the designation of the following employees as special assistant examiners for the Federal Reserve Bank of Chicago for the purpose of participating in examinations of State member banks:

Richard J. Czajkowski
Richard K. Elkins
Alfred C. Fabian
Ronald Goike

Neil A. Gustafson
Romeo D. Marcuz
Joseph J. Miller
Francis E. Prezuhy

Appropriate notations have been made on our records of the names to be deleted from the list of special assistant examiners.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 3
1/14/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 14, 1965.



Mr. E. H. Galvin, Vice President,
Federal Reserve Bank of San Francisco,
San Francisco, California. 94120

Dear Mr. Galvin:

In accordance with the request contained in Mr. Cavan's letter of January 6, 1965, the Board approves the designation of the following employees as special assistant examiners for the Federal Reserve Bank of San Francisco for the purpose of participating in examinations of State member banks:

D. S. Booth
L. C. Jensen
C. F. Lind
W. J. Peden, III
W. P. Schneider

J. D. Dinniene
C. E. Price
R. R. Richards
G. C. Fosnick
H. M. Stevens

W. F. Woods, Jr.

Inasmuch as the Board previously approved the designation of R. G. Torgeson as a special assistant examiner for the Federal Reserve Bank of San Francisco, no additional approval is necessary in connection with the transfer of Mr. Torgeson from the Los Angeles Branch to the Portland Branch of your Bank.

The Board also approves the designation of the following employees as special assistant examiners for your Bank for the purpose of participating in examinations of State member banks except the bank listed opposite their names:

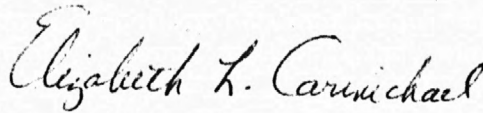
Mr. E. H. Galvin

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E. S. Bishop	-Wells Fargo Bank, San Francisco, California
E. M. Lund	-Wells Fargo Bank, San Francisco, California
C. Woessner, Jr.	-Wells Fargo Bank, San Francisco, California
H. R. Brown	-Union Bank, Los Angeles, California
J. L. Lein	-Union Bank, Los Angeles, California
G. W. Duke	-United California Bank, Los Angeles, California
L. P. Smith	-Wells Fargo Bank, San Francisco, California

All authorizations heretofore given your Bank to designate these individuals as special assistant examiners are hereby canceled, and appropriate notations have been made of the names to be deleted from the list of special assistant examiners.

Very truly yours,



Elizabeth L. Carmichael,
Assistant Secretary.