

Minutes for January 27, 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

[Signature]

Gov. Balderston

CRB

Gov. Shepardson

[Signature]

Gov. Mitchell

[Signature]

Gov. Daane

[Signature]

Minutes of the Board of Governors of the Federal Reserve System on Wednesday, January 27, 1965. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Mills
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. 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. Solomon, Director, Division of Examinations
Mr. O'Connell, Assistant General Counsel
Mr. Solomon, Adviser, Division of Research and Statistics
Mr. Dembitz, Associate Adviser, Division of Research and Statistics
Mr. Daniels, Assistant Director, Division of Bank Operations
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Egertson, Supervisory Review Examiner, Division of Examinations

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 Federation Bank and Trust Company, New York, New York, approving the establishment of a branch at 158-11 Jewel Avenue, Borough of Queens.	1

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	<u>Item No.</u>
Letter to Fidelity-Philadelphia Trust Company, Philadelphia, Pennsylvania, approving the establishment of a branch at 10th and Snyder Avenues.	2
Letter to The Hamilton Bank, Hamilton, Missouri, waiving the requirement of six months' notice of withdrawal from membership in the Federal Reserve System.	3
Letter to the Secretary of the Federal Advisory Council suggesting topics for consideration at the forthcoming meeting of the Council.	4
Letter to the Federal Reserve Bank of Dallas approving the payment of salary to Roy E. Maley as Assistant Cashier, Houston Branch, at the rate fixed by the Bank's Board of Directors.	5

Reserve requirements. Pursuant to the understanding at yesterday's Board meeting, there had been distributed a draft of statement on reserve requirements suggested for inclusion in the Board's Annual Report for 1964 as part of the discussion of a legislative program. The draft language would express the belief that the present system of reserve requirements should be revised. It would indicate that the Board favored a system of graduated reserve requirements under which the required reserves of each bank would depend on the size of the bank's demand deposits rather than on its location. Such a system would afford many of the advantages of uniform reserve requirements while preserving the character of the present structure by continuing to place higher marginal requirements on larger banks. It would be within the present authority

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of the Federal Reserve to establish such a graduated structure, but only for member banks, and the interests of equity and efficiency would best be served if nonmember banks also were obliged to observe the same reserve standards.

In discussion Governor Mitchell indicated that the proposed language was agreeable to him, but Governor Mills raised a question as to the desirability of referring in the statement to the system of graduated reserve requirements as having been recommended by the President's Committee on Financial Institutions. He felt it would be better for the statement to indicate the Board's own judgment.

Governor Daane had reservations about flatly endorsing a system of graduated reserve requirements. In his thinking such a system was worthy of further exploration, but only as a step in the direction of uniform reserve requirements. He noted that the Committee for Economic Development had suggested imposing uniform requirements on all commercial banks. However, there was a practical problem in regard to smaller banks. Therefore, although he agreed in principle that a uniform reserve requirement was the best solution, as a practical matter he agreed with the President's Committee that it would be worth while to explore further a system of graduated reserve requirements. Likewise, as a practical matter he recognized the problem in respect to noninsured banks.

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Governor Mitchell indicated that he would favor a graduated reserve requirement system both on practical and economic grounds. He felt review of bank operating records would show that the small bank in a competitive position was less profitable than the large bank in the same position, because of economies of scale that inured to the advantage of the latter. Further, it was a built-in characteristic of U. S. governmental policy to lend some economic subsidy and support to smaller businesses and institutions of various kinds.

Governor Daane replied that he was not denying the merit of providing a differential in favor of the small banks, although he had some reservation as to whether this should be made permanent. However, he felt that the language in the draft before the Board went too far toward indicating a firm position of the Board in favor of a system of graduated reserve requirements. He did not believe that this was necessarily the best way to approach the problem. It might be possible, he suggested, to propose legislation that would accomplish essentially the same purpose yet stay more nearly within the framework of the existing reserve pattern. In his opinion the system of graduated reserve requirements that had been given some consideration by the Board was too complicated; he indicated how he felt that a simpler approach might be devised.

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Chairman Martin then said that to him the main point involved was to soften the language of the statement with a view to avoiding what might appear to be a statement of final Board position, since the Board had not arrived at such a position. He felt that most of Governor Daane's suggestions could be accommodated in a revised draft. It would be all right, he thought, to refer in the statement to the President's Committee on Financial Institutions, of which the Chairman of the Board had been a member, but he did not believe it would be desirable to refer to recommendations by other groups or organizations.

Governor Shepardson said that although he happened to feel that a system of graduated reserve requirements probably offered the most feasible approach to a solution of the reserve requirement problem, he would not object to some softening of the language of the statement along lines Governor Daane had suggested. For the foreseeable future, at least, he did feel that there would be a better chance of getting legislation on a graduated reserve requirement basis than legislation going all the way to uniform reserve requirements. He also felt the statement should indicate that the same reserve requirements theoretically should apply to all banks, although as a practical matter he would be willing to omit noninsured banks.

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Governor Daane again outlined the type of reserve requirement system he thought might be suitable as an intermediate step in the direction of uniform reserve requirements, and there ensued discussion of the extent to which such a plan would differ from a system of graduated reserve requirements such as Governor Mitchell had in mind. The latter indicated that in his opinion the differences were not too significant.

Mr. Hackley observed that last year when the Board considered specifications for proposed legislation on the subject in order to give guidance to the staff in drafting a bill, he believed a majority of the Board concluded that such a bill should be confined to insured banks. If this was still the prevailing view, he suggested that the statement in the Annual Report be tailored accordingly. He also observed that while the Legal Division had concluded that it would be within the present authority of the Board to establish a structure of graduated reserve requirements for member banks, such a move would have to be made subject to restrictions of the present law. The Board would have to make a finding that its action was necessary to prevent an injurious expansion or contraction of credit, and there would have to be two schedules of reserve requirements, one for reserve city and the other for country banks. This would mean that there could still

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be requests from banks in reserve cities to carry reserves applicable to country banks. The present limitation on the extent to which the Board could adjust reserve requirements also would remain in effect. These points, Mr. Hackley felt, should be borne in mind in preparing a statement for the Annual Report.

On the basis of today's discussion it was understood that a revised draft of language for the Board's Annual Report would be distributed for the Board's consideration.

All members of the staff except Messrs. Sherman, Kenyon, Fauver, Hackley, and Solomon (Examinations) then withdrew from the meeting.

San Francisco National Bank. Mr. Solomon noted that yesterday he had indicated to the Board that it was contemplated that the outstanding loan to the insolvent San Francisco National Bank, San Francisco, California, by the Federal Reserve Bank of San Francisco would be taken over by the Federal Deposit Insurance Corporation for liquidation. However, it now appeared from further telephone conversation with Reserve Bank representatives that the Corporation proposed to act as liquidating agent for the Reserve Bank, with no charge to the Reserve Bank. When the Reserve Bank's note became past due the Bank would draw interest at the rate of 6 per cent until principal and interest had been recovered through

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liquidation of the collateral. An alternative would be for the Reserve Bank to set up its own liquidating activity, which would involve some duplication of effort and a new type of operation for the Reserve Bank. Another conceivable alternative, though not a likely prospect, was that the Reserve Bank would receive an offer to take over its loan. Mr. Solomon said that President Swan would be glad to have the benefit of any views the Board might care to express.

In discussion some members of the Board raised the question whether the Reserve Bank should not preferably liquidate its own loan if the Federal Deposit Insurance Corporation was not willing to take over the loan and liquidate it for its own account.

At the conclusion of the discussion Chairman Martin observed that the full facts of the situation were not immediately available to the Board. He suggested the staff inform President Swan that the matter had been brought to the Board's attention and that the Board wanted him to protect the interests of the Federal Reserve in the best possible way. President Swan might also be told that, on the basis of available information, some questions were raised by members of the Board about the procedure apparently contemplated. Some members of the Board wondered whether the Federal Reserve should not liquidate its own loan unless the loan was taken

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over by the Federal Deposit Insurance Corporation. However, the Board's information was not complete, and President Swan would be relied upon to represent the interests of the Federal Reserve to best advantage in light of all the circumstances involved.

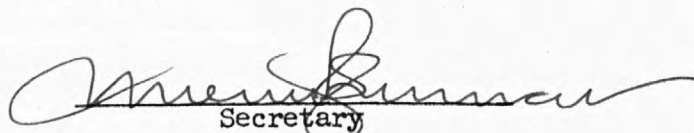
The meeting then adjourned.

Secretary's Notes: A letter was sent today to Morgan Guaranty Trust Company of New York, New York, New York, acknowledging receipt of notice of its intent to establish an additional branch in Belgium, to be located at 82 Avenue de France, Antwerp.

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

Memorandum from the Division of Personnel Administration dated January 25, 1965, recommending the reappointment of Ronald Sterkel as Consultant to the Division of Data Processing for the calendar year ending December 31, 1965, with compensation at the rate of \$50 per day plus necessary transportation expenses and a \$16 per diem in lieu of subsistence allowance while in a travel status.

Memorandum from the Division of Data Processing recommending acceptance of the resignation of Gay E. Ridgeway, Statistical Clerk in that Division, effective January 25, 1965.


Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

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Item No. 1
1/27/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 27, 1965

Board of Directors,
Federation Bank and Trust
Company,
New York, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Federation Bank and Trust Company, New York, New York, of an in-town branch at 158-11 Jewel Avenue, Borough of Queens, provided the branch is established within six-months from the date of this letter.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

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



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

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Item No. 2
1/27/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 27, 1965

Board of Directors,
Fidelity-Philadelphia Trust Company,
Philadelphia, Pennsylvania.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Fidelity-Philadelphia Trust Company, Philadelphia, Pennsylvania, of a branch at the northeast corner of the intersection of 10th and Snyder Avenues, Philadelphia, Pennsylvania, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

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

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

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Item No. 3
1/27/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



January 27, 1965

Board of Directors,
The Hamilton Bank,
Hamilton, Missouri.

Gentlemen:

The Federal Reserve Bank of St. Louis has forwarded to the Board of Governors your letter dated January 11, 1965, 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 St. Louis 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 St. Louis.

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
1/27/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 27, 1965.

Mr. Herbert V. Prochnow, Secretary,
Federal Advisory Council,
c/o The First National Bank of Chicago,
Chicago, Illinois 60690.

Dear Mr. Prochnow:

The Board of Governors suggests the following topics for discussion at the meeting of the Federal Advisory Council on February 15, 1965, and the joint meeting of the Board and the Council on February 16, 1965.

1. Economic conditions and prospects.
 - A. How does the Council appraise the general outlook for U.S. economy over the next several months, particularly in the event of an early steel settlement?
 - B. What importance is attached to an excise tax reduction as a stimulative factor?
 - C. Do Council members have information, based on current demand for bank credit, on further inventory build-up in steel and autos? Are there indications that inventory accumulation is spreading to other industries and products?
 - D. What is the current trend in demand for residential mortgage money?
 - E. What are the prospects for continuing the broad stability in commodity prices that has existed for several years?
2. Banking developments.

Mr. Herbert V. Prochnow

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- A. What is the present situation in the market for negotiable certificates of deposit and short-term unsecured notes? Is volume likely to increase, decline, or remain about stable in the months ahead?
 - B. Are the 1963 and 1964 rates of growth of total time and savings deposits (14.7 and 12.6 per cent) likely to continue in 1965?
 - C. At the end of 1964, the loan-deposit ratio at New York City banks passed 70 per cent; for all banks the ratio was estimated at about 61 per cent. What is likely to happen to loan-deposit ratios in the months ahead? Will this limit bank loan expansion importantly?
 - D. Commercial bank loans to foreigners probably amounted to almost \$2 billion in 1964--an increase of over 25 per cent. Is continuation of this rate of increase in prospect?
3. Does the Council care to express any views with regard to the Board's Regulation F, Securities of Member State Banks, which was issued effective January 1, 1965?
 4. How has the business and financial community reacted to recent U.S. balance of payments developments?
 5. What are the Council's views on monetary and credit policy under current circumstances?

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 5
1/27/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 27, 1965



CONFIDENTIAL (FR)

Mr. Watrous H. Irons, President,
Federal Reserve Bank of Dallas,
Dallas, Texas 75222.

Dear Mr. Irons:

The Board of Governors approves the payment of salary to Mr. Roy E. Maley as an Assistant Cashier, Houston Branch, at the rate of \$10,500 per annum for the period February 1 through December 31, 1965. The rate approved is that fixed by your Board of Directors, as reported in your letter of January 15, 1965.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.