

Minutes for January 28, 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

RM

Gov. Mills

[Signature]

Gov. Robertson

CCB

Gov. Balderston

[Signature]

Gov. Shepardson

[Signature]

Gov. Mitchell

[Signature]

Gov. Daane

Minutes of the Board of Governors of the Federal Reserve System on Thursday, January 28, 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. 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. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Johnson, Director, Division of Personnel Administration
Mr. Kelleher, Director, Division of Administrative Services
Mr. Kakalec, Controller
Mr. Shay, Assistant General Counsel
Mr. Koch, Associate Director, Division of Research and Statistics
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. Goodman, Assistant Director, Division of Examinations
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Spencer, General Assistant, Office of the Secretary
Miss Hart, Senior Attorney, Legal Division
Mr. Young, Senior Attorney, Legal Division
Mr. Forrestal, Attorney, Legal Division
Mr. Egertson, Supervisory Review Examiner, Division of Examinations
Mr. Poundstone, Review Examiner, Division of Examinations

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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 The Annapolis Banking and Trust Company, Annapolis, Maryland, approving an extension of time to establish a branch at Ritchie Highway and McKinsey Road, Anne Arundel County.	1
Letter to United California Bank, Los Angeles, California, approving an extension of time to establish a branch near the area bounded by Harrison, Third, Brannan, and Fifth Streets, San Francisco.	2
Letter to Burns State Bank, Burns, Kansas, waiving the requirement of six months' notice of withdrawal from membership in the Federal Reserve System.	3
Letter to the Federal Reserve Bank of New York approving the appointment of Sydney L. Henning as Federal Reserve Agent's Representative at the Buffalo Branch.	4
Letter to the Bureau of the Budget stating that the Board had no proposals for State legislation to suggest for consideration by the Committee of State Officials on Suggested State Legislation of the Council of State Governments.	5
Letter to the Bureau of the Budget reporting on a proposed bill to amend the Commodity Exchange Act.	6

Mr. Johnson then withdrew from the meeting.

Reserve requirements. Pursuant to the understanding at the Board meeting on January 27, 1965, there had been distributed a revised draft of proposed language on reserve requirements for inclusion in a section of the Board's 1964 Annual Report commenting on a legislative program.

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During discussion, it was agreed that the reference to a system of graduated reserve requirements should include wording to the effect that access by nonmember banks to the discount facilities of the Federal Reserve Banks also would be contemplated. This would be in accord with the recommendation made by the President's Committee on Financial Institutions in 1963. It was also agreed that the phrase "(or perhaps all insured banks)" included in the statement that "The interests of equity and efficiency would best be served, however, if all commercial banks (or perhaps all insured banks) were obligated to observe the same reserve standards" should not be deleted. It had been included to recognize indirectly the indication during the deliberations of the President's Committee that the Federal Deposit Insurance Corporation would support a proposal to require nonmember insured banks to observe the same reserve standards as member banks.

Subject to the change that had been agreed upon, the revised draft of language was approved for inclusion in the 1964 Annual Report.

Messrs. Molony, Cardon, Koch, Solomon (Research), Dembitz, and Daniels then withdrew from the meeting.

Application of Commercial Bank and Savings Company (Items 7 and 8). Pursuant to the decision at the meeting on January 21, 1965, there had been distributed drafts of an order and statement reflecting the Board's approval of the application of The Commercial Bank and Savings Company, Fostoria, Ohio, to merge with The New Riegel State Bank, New Riegel, Ohio.

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The issuance of the order and statement was authorized. Copies of the documents issued pursuant to this authorization are attached as Items 7 and 8.

Miss Hart and Mr. Egertson then withdrew from the meeting.

Amendment to agreement with architectural firm (Item No. 9).

There had been circulated a memorandum from Governor Shepardson dated January 15, 1965, recommending that the Board authorize an amendment to the agreement with the architectural firm of Harbeson Hough Livingston & Larson of December 7, 1962, that would provide for payment by the Board of a fee of 9-3/4 per cent for work involving alterations and additions to the Board's existing building. A copy of the proposed amendment was attached to the memorandum.

At the presentation of the preliminary plans and estimates for the proposed annex building at a meeting on September 23, 1964, the architectural firm was requested by the Board to hold in abeyance further work on the preliminary plans for the new building. The firm was asked instead to study the feasibility of alterations to the existing Board building to permit the retention of certain facilities that would otherwise have to be accommodated in the proposed annex. After study by the firm it was apparent that such alterations would be extensive; the firm therefore requested an amendment to the existing agreement so as to cover services for the alterations and additions to the present building. The firm proposed a fee of 9-3/4 per cent

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of the construction costs, whereas the basic fee was 5-3/4 per cent. The higher figure was reported to be the standard fee of the American Institute of Architects for monumental-type buildings when alterations to an existing building comprised the principal part of the work. The memorandum stated that the Division of Administrative Services had checked with the American Institute of Architects and the Board's Consulting Architect; they considered the fee to be reasonable.

Following recommendation by Governor Shepardson, the Board approved the proposed amendment to the agreement of December 7, 1962. A copy of a letter to Harbeson Hough Livingston & Larson transmitting copies of the amendment for execution by that firm is attached as Item No. 9.

Messrs. Noyes, Kelleher, Kakalec, and Young then withdrew from the meeting.

Proposed amendment to Regulation M (Item No. 10). There had been distributed a memorandum from the Legal and Examinations Divisions dated January 22, 1965, discussing a request from First National City Bank, New York, New York, that Regulation M, Foreign Branches of National Banks, be amended to permit overseas branches to pay preferential rates of interest on deposits of their officers and employees if the branches were located in countries where such a procedure would be consistent with local law and practice.

The memorandum recommended that the Federal Reserve Banks be given an opportunity to comment on the advisability or appropriateness

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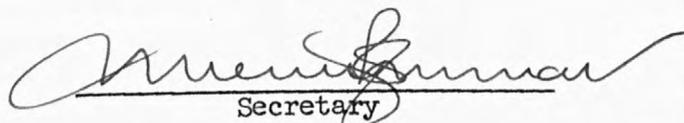
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of such an amendment. It was also recommended that similar letters be sent to national and State member banks having foreign branches, and that the comments of the Comptroller of the Currency and the Federal Deposit Insurance Corporation be invited.

After a discussion of the nature of the proposed amendment and the reasons supporting its adoption, it was agreed that letters should be sent to all Federal Reserve Banks, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation. A copy of the letter transmitted to the Reserve Banks is attached as Item No. 10. It was understood that following receipt of comments the Board would decide on what further procedure should be followed.

The meeting then adjourned.

Secretary's Note: A letter was sent today over Chairman Martin's signature to the Bank for International Settlements advising that the Federal Reserve System would be represented by Mr. Noyes, Adviser to the Board, and Mr. Holmes, Vice President of the Federal Reserve Bank of New York, at a meeting of central bank economists to be held in Basle on March 8-10, 1965, to review generally the current and prospective economic situation.


Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 1
1/28/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 28, 1965.



Board of Directors,
The Annapolis Banking and Trust
Company,
Annapolis, Maryland.

Gentlemen:

The Board of Governors of the Federal Reserve System extends to May 3, 1965, the time within which The Annapolis Banking and Trust Company, Annapolis, Maryland, may establish a branch at the western corner of Ritchie Highway and McKinsey Road, Anne Arundel County, Maryland.

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. 2
1/28/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 28, 1965.



Board of Directors,
United California Bank,
Los Angeles, California.

Gentlemen:

The Board of Governors has approved an extension until February 2, 1966, of the time within which United California Bank may establish a branch in the vicinity of the area bounded by Harrison, Third, Brannan and Fifth Streets, San Francisco, California. The establishment of this branch was authorized in a letter dated August 2, 1963.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 3
1/28/65

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



January 28, 1965.

Board of Directors,
Burns State Bank,
Burns, Kansas.

Gentlemen:

The Federal Reserve Bank of Kansas City has forwarded to the Board of Governors President Vestring's letter dated January 4, 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.

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

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

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
1/28/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 28, 1965.

Mr. Philip D. Reed,
Federal Reserve Agent,
Federal Reserve Bank of New York,
New York, New York. 10045.

Dear Mr. Reed:

In accordance with the request contained in Mr. Ringen's letter of January 19, 1965, the Board of Governors approves the appointment of Mr. Sydney L. Henning as a Federal Reserve Agent's Representative at the Buffalo Branch.

This approval is given with the understanding that Mr. Henning will be solely responsible to the Federal Reserve Agent and the Board of Governors for the proper performance of his duties, except that, during the absence or disability of the Federal Reserve Agent or a vacancy in that office, his responsibility will be to the Assistant Federal Reserve Agent and the Board of Governors.

When not engaged in the performance of his duties as Federal Reserve Agent's Representative, Mr. Henning may, with the approval of the Federal Reserve Agent and the Vice President in charge of the Buffalo Branch, perform such work for the Branch as will not be inconsistent with the duties as Federal Reserve Agent's Representative.

It will be appreciated if Mr. Henning is fully informed of the importance of his responsibilities as a member of the staff of the Federal Reserve Agent and the need for maintenance of independence from the operations of the Bank in the discharge of these responsibilities.

Please have Mr. Henning execute the usual Oath of Office which should be forwarded to the Board of Governors along with notification of the effective date of his appointment.

Very truly yours,
(signed) Merritt Sherman

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 5
1/28/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



January 28, 1965.

Mr. William D. Carey,
Executive Assistant Director,
Bureau of the Budget,
Washington, D. C. 20503

Dear Mr. Carey:

This refers to your letter of January 5, 1965,
inquiring whether the Board has any proposals for State legislation
which it would desire to present through the Bureau of the Budget
for consideration by the Committee of State Officials on Suggested
State Legislation of the Council of State Governments.

There do not appear to be any proposals for State
legislation which the Board would wish to suggest at this time.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 6
1/28/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 28, 1965.

Mr. Phillip S. Hughes,
Assistant Director for
Legislative Reference,
Bureau of the Budget,
Washington, D. C. 20503

Dear Mr. Hughes:

This is in response to your request of January 11, 1965, for the views of the Board on a draft bill proposed by the Department of Agriculture to amend the Commodity Exchange Act so as to provide the Secretary with authority to set margin requirements for trading in commodities whenever there is reason "to believe there is danger of manipulation, sudden or unreasonable fluctuations or unwarranted changes in the price of any commodity, excessive speculation", or the like, and generally to improve and tighten the Secretary's authority to supervise and regulate the conduct of the exchanges and the persons using their facilities.

Incidents which occurred a little over a year ago in the vegetable oils market have emphasized a need for legislation in this area. While repetition of similar events might be prevented in the rules of exchanges themselves, it seems clear that the powers available for regulating commodity trading should include at least discretionary authority to describe minimum margin requirements.

The draft bill is similar to that on which the Board reported to the Bureau by letter dated January 20, 1964. It is noted that a number of technical language changes have been made and that certain suggestions contained in the Board's 1964 report have been adopted. The Board endorses the objectives of the proposed legislation and recommends its favorable consideration.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Item No. 7
1/28/65

UNITED STATES OF AMERICA
BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C.

In the Matter of the Application of
THE COMMERCIAL BANK AND SAVINGS COMPANY
for approval of merger with
The New Riegel State Bank

ORDER APPROVING MERGER OF BANKS

There has come before the Board of Governors, pursuant to the Bank Merger Act of 1960 (12 U.S.C. 1828(c)), an application by The Commercial Bank and Savings Company, Fostoria, Ohio, a State member bank of the Federal Reserve System, for the Board's prior approval of the merger of that bank and The New Riegel State Bank, New Riegel, Ohio, under the charter and title of The Commercial Bank and Savings Company. As an incident to the merger, the sole office of The New Riegel State Bank would become a branch of the resulting bank. Notice of the proposed merger, in form approved by the Board, has been published pursuant to said Act.

Upon consideration of all relevant material in the light of the factors set forth in said Act, including reports furnished by the Comptroller of the Currency, the Federal Deposit Insurance Corporation,

and the Department of Justice on the competitive factors involved in the proposed merger,

IT IS HEREBY ORDERED, for the reasons set forth in the Board's Statement of this date, that said application be and hereby is approved, provided that said merger shall not be consummated

- (a) within seven calendar days after the date of this Order or
- (b) later than three months after said date.

Dated at Washington, D. C., this 28th day of January ,1965.

By order of the Board of Governors.

Voting for this action: Chairman Martin, and
Governors Mills, Robertson, Shepardson, Mitchell, and Daane.

Absent and not voting: Governor Balderston.

(Signed) Merritt Sherman
Merritt Sherman,
Secretary.

(SEAL)

Item No. 8
1/28/65BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEMAPPLICATION BY THE COMMERCIAL BANK AND SAVINGS COMPANY
FOR APPROVAL OF MERGER WITH
THE NEW RIEGEL STATE BANKSTATEMENT

The Commercial Bank and Savings Company, Fostoria, Ohio ("Commercial"), with total deposits of \$11 million, has applied, pursuant to the Bank Merger Act of 1960 (12 U.S.C. 1828(c)), for the Board's prior approval of the merger of that bank and The New Riegel State Bank, New Riegel, Ohio ("State"), which has total deposits of \$2 million.^{1/} The banks would merge under the charter and title of Commercial, which is a member of the Federal Reserve System. As an incident to the merger, the single office of State would become a branch of the resulting bank, increasing the number of its offices from three to four.

Under the law, the Board is required to consider, as to each of the banks involved, (1) its financial history and condition, (2) the adequacy of its capital structure, (3) its future earnings prospects, (4) the general character of its management, (5) whether its corporate powers are consistent with the purposes of 12 U.S.C., Ch. 16 (the Federal Deposit Insurance Act), (6) the convenience and needs of the community

^{1/} Deposit figures are as of June 30, 1964.

to be served, and (7) the effect of the transaction on competition (including any tendency toward monopoly). The Board may not approve the proposed merger unless after considering all of these factors, it finds the transaction to be in the public interest.

Banking factors. - The financial history and condition of both banks are satisfactory. The capital structure of State is adequate and that of Commercial is fairly satisfactory. Earnings of State have declined sharply in the last two or three years due to interest expense arising from a high proportion of time to total deposits, and to a difficulty in placing loans and thereby developing an adequate return on earnings assets. There is no immediate prospect for change in either of these factors, and earnings prospects of State would not be regarded as favorable, were it to continue its separate existence. Earnings prospects of Commercial are good, as would be those of the resulting bank.

Management of both banks is competent. The executive officer of State is beginning to look forward to retirement. However, he has several more years to serve, and the matter of management succession lends no support to the proposal. Management of the resulting bank would be competent.

Neither the corporate powers of the two existing banks, nor those of the resulting bank, are, or would be, inconsistent with the purposes of 12 U.S.C., Ch. 16.

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Convenience and needs of the communities. - The head offices of Commercial and State are located in Seneca County, in a rich, agricultural section of north central Ohio about 40 miles south of Toledo and some 80 miles north of Columbus. Fostoria, where Commercial has its head office, is a city with a 16,000 population and has diversified industry producing, among other things, spark plugs, carbon products, machine tools, and wire. New Riegel, ten miles away, is a farming community of 400 persons. There is a second city in Seneca County, Tiffin, with a population of 21,000, which is somewhat closer to New Riegel, and customers from New Riegel have reasonably easy access in either center to banks offering an adequate range of services. However, it seems clear that the needs and convenience of the smaller community would be benefited if a branch of a larger bank were located there. Because of State's low lending limit, the bank has had to decline many real estate mortgage loan applications. It makes no F.H.A. or G.I. loans. Only within the past two years has the bank been accepting a limited volume of consumer installment loans. Loans at State are about a third of deposits, and a substantial portion of these loans were purchased from Commercial.

Competition. - Fostoria, where Commercial has its head office, is located on the boundaries of three counties. Under Ohio law, Commercial may branch in any of the three, as may the largest bank in the county, Commercial's chief rival, Tri-County National Bank, with total deposits of \$25 million as against the \$13 million which would be held by the

resulting bank. Tri-County National has two branches in Tiffin, the other city in Seneca County. Three other banks headquartered in Tiffin have total deposits of \$20 million, \$13 million, and \$10 million, respectively. A small independent bank with headquarters in Carey, a town about ten miles southwest of New Riegel, in Wyandot County, has total deposits of \$4 million and is expected to lose some, but not substantial, business as a result of the merger.

Commercial is, accordingly, the fourth largest of six commercial banks in Seneca County, and would be the third largest of five, with 16 per cent of the deposits of individuals, partnerships, and corporations in the county after consummation of the merger. The first and second in rank would remain substantially larger.

State and Commercial each derive some business from the area served by the other, and they have some common customers. However, competition between the two banks has been relatively mild, due to a working relationship of over 30 years' standing. Commercial has advised and assisted the smaller bank, lending it personnel to fill gaps caused by vacations and emergencies, referring deposit accounts to it when requested by borrowers who did not wish to keep more than the insured maximum at Commercial itself, and selling real estate mortgages to State.

Summary and conclusion. - While effectuation of the merger of Commercial and State would end some existing competition between two banks, this competition has not been active or aggressive. The smaller

bank is unable, due to its low lending limit, to meet normal needs of its agricultural community. Because of the high proportion of time to demand deposits and its inability to build up its loan and investment portfolio satisfactorily, State has experienced a severe drop in earnings. No change that can reasonably be expected to occur during the next few years, other than a merger along the lines proposed, would appear likely to reverse this situation. As a result of the merger, New Riegel would benefit by having conveniently available the local office of a bank able to meet community needs.

Accordingly, the Board finds that the proposed merger would be in the public interest.

January 28, 1965.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

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Item No. 9
1/28/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 29, 1965.



Mr. William H. Livingston,
Harbeson Hough Livingston & Larson,
Architects Building,
Philadelphia, Pennsylvania. 19103

Dear Mr. Livingston:

This is to advise, in response to your letter of December 3, 1964, that the Board has approved an Amendment to our Agreement of December 7, 1962, which would provide that your basic fee for services involving alterations and additions to the Board's present building be increased to 9-3/4 per cent.

There are enclosed four copies of a draft Amendment in substantially the same form as that submitted with your letter. If this is satisfactory to your firm, you can have three copies executed and returned and they will be executed on behalf of the Board and one executed copy will be returned to you for your records.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosures

Item No. 10
1/28/65BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 29, 1965.

Dear Sir:

The Board has been requested recently to amend Regulation M, Foreign Branches of National Banks, to permit overseas branches of member banks to pay preferential rates of interest on deposits of their officers and employees if the branches are located in countries where it is consistent with local law and practice to do so.

Section 22(e) of the Federal Reserve Act prohibits a member bank from paying a greater rate of interest on deposits of a director, officer, attorney, or employee than that paid to other depositors on similar deposits with the bank. However, paragraph 9 of section 25 of the Federal Reserve Act provides that regulations issued by the Board, in addition to regulating powers which a foreign branch may exercise under other provisions of law, may authorize a foreign branch to exercise such further powers as may be usual in connection with the transaction of the business of banking in the places where such foreign branch transacts its business.

It has been brought to the Board's attention that the inability of an overseas branch to pay higher than usual rates of interest to members of its staff, in conformity with local law and custom, tends to place the branch in an undesirable competitive position with respect to the hiring and development of a top-grade staff. A recent survey submitted by the member bank requesting the amendment indicates that, in a majority of the countries in which it maintains branches, local regulations permit banks to pay preferential rates to staff members and local banks in each of the countries are following such a policy. In the remaining countries included in the survey, the payment of preferential rates is not permitted or it is not the local practice to do so.

On the basis of the foregoing, the Board is considering an amendment to Regulation M pursuant to the aforementioned authority under paragraph 9 of section 25 of the Federal Reserve Act. The amendment might be accomplished by adding the following new paragraph (g) to section 213.4 of the Regulation:

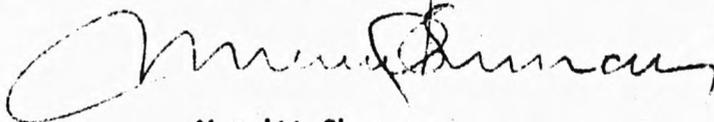
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"(g) Pay to any officer or employee of the branch a greater rate of interest on deposits than that paid to other depositors on similar deposits with the branch."

It will be appreciated if you would furnish the Board such comments as you may have on or before February 15, 1965.

The Board is also inviting at this time the comments of the Comptroller of the Currency and the Federal Deposit Insurance Corporation.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Merritt Sherman".

Merritt Sherman,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.