Minutes for March 3, 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 proposed to place in the record of policy actions required to be kept under the provisions of section 10 of the Federal Reserve Act an entry covering the item in this set of minutes commencing on the page and dealing with the subject referred to below:

Page 1 Issuance of guidelines for use by commercial banks and guidelines for use by nonbank financial institutions in connection with voluntary effort to restrain foreign loans and investments as part of President's balance of payments program.

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. Robertson R

Gov. Balderston CCB

Gov. Shepardson CNS

Gov. Mitchell GM

Gov. Daane

Minutes of the Board of Governors of the Federal Reserve System on Wednesday, March 3, 1965. The Board met in the Board Room at 11:00 a.m.

PRESENT: Mr. Martin, Chairman 1/
Mr. Robertson
Mr. Shepardson
Mr. Mitchell
Mr. Daane

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Solomon, Director, Division of Examinations
Mr. Daniels, Assistant Director, Division of Bank Operations
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Spencer, General Assistant, Office of the Secretary
Mr. Young, Senior Attorney, Legal Division
Messrs. Egertson and McClintock, Supervisory Review Examiners, Division of Examinations

Voluntary restraint on foreign lending and investment. Governor Robertson reported on progress being made in the formulation of guidelines for use by commercial banks and guidelines for use by nonbank financial institutions in connection with the voluntary restraint effort on foreign lending and investment, an element of the President's program designed to improve the balance of payments position of the United States.

In the course of his comments on the commercial bank guidelines, Governor Robertson referred to the discussions that he and members of the Board's staff had held this week with six commercial bank specialists in foreign operations and to the more serious of the problems that

1/ Attended afternoon session only.

had been encountered, including the problem of loan priorities and the problem of banks that by February 10, 1965, the date of the President's balance of payments message to the Congress,had already gone beyond 105 per cent of their foreign credits outstanding as of the end of 1964. Allied to this was the problem of unused commitments.

Governor Robertson said he hoped it would be possible to issue the guidelines for commercial banks by the end of this week. He indicated that a draft set of guidelines would be distributed to the members of the Board for review early this afternoon.

With respect to the guidelines for nonbank financial institutions, Governor Robertson said that these were proposed to be issued in less detailed form than the commercial bank guidelines because the area involved was one in which the problems that might arise were more nebulous. The Treasury, which had been consulted in connection with these guidelines, was urging that they be issued promptly to provide initial guidance for the institutions concerned. Accordingly, the thought was to issue the guidelines this afternoon in a form that would be recognized as tentative. Then it was planned to collect statistics from the affected institutions, the analysis of which should be helpful in determining whether the guidelines should be modified.

Governor Robertson also said that it was planned to send a letter over Chairman Martin's signature transmitting the guidelines to approximately 750 principal nonbank financial institutions. He then read a draft of press statement proposed to be issued this afternoon, to which would be attached the Chairman's letter and the guidelines.

Certain changes in the proposed press release were suggested. It was then understood that copies of a revised draft of press release, the Chairman's letter, and the guidelines for nonbank financial institutions would be distributed to the members of the Board following this meeting, with the further understanding that the Chairman's letters would be sent later this afternoon and the press statement would be issued.

Discount rates. The establishment without change by the Federal Reserve Bank of Boston on March 1, 1965, 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 items. The following items, copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:

	Item No.
Letter to United California Bank, Los Angeles, California, approving the establishment of a branch in Glendora.	1
Letter to United California Bank, Los Angeles, California, approving the establishment of a branch in Oxnard.	2

	Item No.
Letter to United California Bank, Los Angeles, California, approving the establishment of a branch in Redlands.	3
Letter to Wells Fargo Bank, San Francisco, California, approving the establishment of a branch in Tahoe City.	4
Letter to Wells Fargo Bank, San Francisco, California, approving the establishment of a branch in Contra Costa County, in the vicinity of Moraga.	5
Letter to The Central Trust Company, Cincinnati, Ohio, approving an extension of time to establish a branch in Forest Park.	6
Letter to Bank of Downey, Downey, California, approving an extension of time to accomplish membership in the Federal Reserve System.	7
Letter to Dauphin Deposit Trust Company, Harrisburg, Pennsylvania, waiving the requirement of six months' notice of withdrawal from membership in the Federal Reserve System.	8
Letter to the Federal Deposit Insurance Corporation regarding the application of The Hamilton Bank, Hamilton, Missouri, for continuation of deposit insurance after withdrawal from membership in the Federal Reserve System.	9
Letter to the Federal Reserve Bank of San Francisco authorizing it to waive the assessment of certain penalties incurred by County National Bank, Orange, California, because of deficiencies in its required reserves.	10
Letter to the Chairman of the Senate Committee on Government Operations reporting on S. 1052, a bill to establish an Office of Consumers.	11

<u>Report on competitive factors</u>. There had been distributed a draft of report to the Federal Deposit Insurance Corporation on the competitive factors involved in the proposed purchase of assets and

assumption of liabilities of the Graniteville and North Augusta offices of The Citizens and Southern National Bank of South Carolina, Charleston, South Carolina, by The Farmers & Merchants Bank, Aiken, South Carolina.

Following a brief discussion of the competitive situation in the Graniteville and North Augusta communities, the report was approved unanimously for transmittal to the Corporation. The conclusion read as follows:

> While the proposed purchase of assets and assumption of liabilities of the Graniteville Office and the North Augusta Office of The Citizens and Southern National Bank of South Carolina, Charleston, by The Farmers & Merchants Bank, Aiken, would eliminate some competition, the overall effect of the transaction on competition would not be significantly adverse.

Messrs. Young and McClintock then withdrew from the meeting.

Request for national bank examination reports. A distributed memorandum dated February 25, 1965, from the Division of Examinations recommended denial of an informal request by two Federal Reserve Bank examiners assigned to the Permanent Subcommittee on Investigations of the Senate Committee on Government Operations for access to examination reports of four national banks. It was understood that the examiners wished to study the reports to determine if the banks had made loans to criminal elements. There seemed to be no reason why the Board should make the reports available at this time; the Subcommittee had not requested the reports and might not do so. The examiners apparently had approached the Federal Reserve for copies of the reports because the Comptroller of the Currency reportedly was refusing to cooperate with the Subcommittee.

Mr. Solomon summarized the information presented in the February 25 memorandum, following which Governor Robertson indicated that it was his feeling that if a duly authorized committee of Congress requested examination reports of banks examined by the Federal Reserve, the Board should comply. Therefore, if examination reports of State member banks were here involved, he would favor making them available to the Subcommittee staff. However, the reports in question were those of national banks supervised primarily by the Comptroller of the Currency. Accordingly, he was of the opinion that the examiners should not be given access to them. If the reports were desired by the Subcommittee, it could request the Comptroller to furnish them.

Discussion then touched upon current practices of the respective Federal bank supervisory agencies in lending examination reports to the other agencies.

In response to a question raised during this discussion, Mr. Solomon described the contents of his distributed memorandum dated March 1, 1965. That memorandum reported for the information of the Board on a request made of the Federal Deposit Insurance Corporation by the Comptroller of the Currency for a group of examination reports of banks that included certain State member banks. The Corporation had inquired whether there would be any objection to the Comptroller's Office being furnished with the reports. Under existing arrangements, they would be made available directly by the Board to the Comptroller upon request. Accordingly, Mr. Solomon had advised the Corporation that he saw no objection to the reports being furnished.

Reference also was made to the understanding that national bank examination reports were now being prepared in three sections, one of which was not included in the report copies purchased by the Federal Reserve Banks or made available to the Board's staff on a loan basis. It was understood that the Presidents' Conference had the matter under consideration and that the Board might wish to consider the matter further upon being advised of the results of the Conference's deliberations.

At the conclusion of further discussion, it was understood that Mr. Solomon would explain to the Federal Reserve Bank examiners assigned to the Senate Subcommittee that the Board was unwilling to grant access to the requested national bank examination reports because it was of the view that such a request should appropriately be made to the Comptroller of the Currency.

The meeting then recessed and reconvened in the Board Room at 4:30 p.m.

PRESENT: Mr. Martin, Chairman
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. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Brill, Director, Division of Research and Statistics
Mr. Solomon, Director, Division of Examinations
Mr. Shay, Assistant General Counsel
Mr. Partee, Adviser, Division of Research and Statistics
Mr. Reynolds, Associate Adviser, Division of International Finance
Mr. Goodman, Assistant Director, Division of Examinations
Mr. Furth, Consultant

Mr. Holmes, Vice President, Federal Reserve Bank of New York

Voluntary restraint on foreign lending and investment (nonbank financial institutions)(Items 12-14). Governor Robertson referred to the understanding during this morning's session that there would be distributed to the members of the Board a draft of press release on the guidelines for the program of voluntary restraint on foreign lending and investment as it was applicable to nonbank financial institutions, along with copies of the guidelines and the letter from Chairman Martin transmitting the guidelines to approximately 750 nonbank financial institutions. He noted that this had been done and that the press statement had thereafter been released at about 4:00 p.m. The texts of the press statement, Chairman Martin's letter, and the guidelines were being transmitted by wire to the Federal Reserve Banks with the request that the guidelines be reproduced and distributed to banks in the respective Reserve districts for their information.

The issuance of the guidelines for nonbank financial institutions, pursuant to the understanding at this morning's session, was ratified by unanimous vote.

Attached as Items 12, 13, and 14, respectively, are copies of the press release, the Chairman's letter, and the guidelines for nonbank financial institutions.

Governor Daane said that he had just returned from a meeting at the Treasury during which it came to his attention that representatives of the Canadian Government had expressed to the Treasury their apprehension concerning the terms of the proposed guidelines for nonbank financial institutions and their possible impact from the Canadian standpoint. He understood that the Treasury had expressed some sympathy with the Canadian position.

Mr. Partee said that he had reviewed the proposed guidelines with a Treasury representative late this morning, that one portion of the language of the guidelines had been softened somewhat, and that the Treasury representative had expressed approval of the guidelines.

Governor Robertson noted that the preparation and issuance of the guidelines had been expedited at the insistence of the Treasury, which was anxious to have guidance available for nonbank financial institutions. He then suggested to Governor Daane that the latter might say to the Treasury that the guidelines for nonbank financial institutions were issued on a "tentative" basis because they dealt with an area of lending and investment where the Federal Reserve had less familiarity with the problems involved than it did with problems in the commercial banking area. Consequently, the guidelines had been formulated and issued on a tentative basis until such time as bench-mark figures could be accumulated. At that time it might be that the Board would want to revise the guidelines. If the Board found that the guidelines were creating an unwarranted problem in any respect, the Board would be in a position to revise the guidelines so as to alleviate that problem. Also, if necessary, consideration could be given to the issuance of supplemental statements.

Governor Daane indicated that he would talk to the Treasury along the lines suggested by Governor Robertson, and he withdrew from the room for that purpose. After making a telephone call to the Treasury, he returned to the meeting.

Voluntary restraint on foreign lending and investment (commercial banks)(Items 15-17). Governor Robertson noted that since the end of this morning's session there had been distributed to the members of the Board a set of draft guidelines for restraint on foreign lending and investment to be applicable to the nation's commercial banks. A proposed prefatory note to the guidelines also had been distributed. He commented that in the drafting of the guidelines he and members of the Board's staff had had the benefit of consultation this week with six specialists in commercial bank foreign operations. However, the role of these individuals was advisory only; they were not asked to approve or disapprove the guidelines or to assume any responsibility in connection with their formulation.

Turning to the draft guidelines, Governor Robertson commented first on the prefatory note and indicated certain ways in which he would propose that it be modified. He then reviewed the 14 proposed guidelines in sequence and responded to various questions raised by the members of the Board.

With respect to the guidelines on loan priorities, Governor Robertson made particular reference to the language therein with respect to loans to less developed countries. He said he had asked Mr. Furth to prepare a rationale for the position taken in this regard and that Mr. Furth had furnished a memorandum. Governor Robertson read Mr. Furth's memorandum, and other members of the Board expressed their concurrence with the position taken in it. In this connection, Mr. Young reported having received word that the State Department intended to have a representative call upon Chairman Martin for the purpose of asking that credits to less developed countries be removed from the scope of the voluntary restraint effort. However, the members of the Board indicated that they felt the position taken in Mr. Furth's memorandum and in the draft guidelines was appropriate.

Mr. Young also reported that the State Department was preparing a cable to all U. S. embassies on the capital outflow restraint program. This cable would provide a description of the total program, including the parts of the program being administered by the Federal Reserve and by the Department of Commerce. It was proposed to include a paragraph stating that there appeared to be a serious problem of insuring, within the program targets for financial institutions, adequate provision for the needs of less developed countries; that it was the intent to insure that the legitimate needs of the less developed countries would not be adversely affected but that the means of so insuring had not yet been worked out; that the State Department was discussing the matter with the Federal Reserve and other interested agencies; and that until the matter was worked out, U. S. missions abroad should be careful to avoid any statement indicating that there would be any interference with credits to the less developed countries.

It was agreed that the State Department should be advised that the problem was being taken care of in the guidelines by indicating that with respect to nonexport credits banks should give priority to sound loans to less developed countries. It was suggested that the staff furnish the State Department a paragraph that might be substituted for the paragraph proposed to be included in the cable.

Governor Robertson stated that the draft guidelines were being furnished for comment to the six bankers with whom he and the staff had consulted this week. He also proposed that the draft guidelines be wired to the Federal Reserve Bank Presidents for any comments or suggestions, and that copies be sent also to the following for the same purpose: Mr. Francis E. Bator of the White House staff, the Secretaries of State, Treasury, and Commerce and the Attorney General (and to other appropriate persons in the respective agencies), the Chairman of the Export-Import Bank, the Comptroller of the Currency, and the Chairman of the Federal Deposit Insurance Corporation.

Subject to such modifications as might be agreed to by Governor Robertson in the light of comments received, the Board then authorized the issuance of the guidelines for commercial banks on Friday afternoon for release in the press on Monday morning, March 8. It was understood that an appropriate prefatory note to the guidelines would be included, and that an appropriate press statement would be issued. The text of the guidelines would be wired to the Federal Reserve Banks Friday afternoon, with the request that the guidelines be reproduced by the Reserve Banks and distributed to member and nonmember banks in their districts to reach such banks not earlier than Monday morning.

Attached as Items 15, 16, and 17, respectively, are copies of the press statement issued on Friday afternoon for release in Monday morning papers, the prefatory note to the guidelines as issued, and the 14 guidelines as issued.

The meeting then adjourned.

Secretary's Notes: On March 2, 1965, Governor Shepardson approved on behalf of the Board the following items:

Letter to the Federal Reserve Bank of Boston (attached Item No. 18) approving the designation of David A. Robbins as special assistant examiner.

Letters to Mrs. Renee Mikus and Mr. Joseph August Mikus of Washington, D. C., confirming arrangements for them to give instruction in Conversational French to members of the Board's staff as an activity of the Board's Employee Training and Development Program, with payment at the rate of $10 for each session conducted. (It developed that Mr. Mikus would not be available. Accordingly, on March 9, 1965, Governor Shepardson approved a letter to Mr. Jean Jacques Lesceux of Washington, D. C., containing the same terms.)

Memorandum from the Division of Research and Statistics dated February 26, 1965, recommending the establishment of an additional economist position in the Banking Section of that Division.

Governor Shepardson today approved on behalf of the Board memoranda recommending the following actions relating to the Board's staff:

Appointment

Edward H. Rastatter as Economist, Division of Data Processing, with basic annual salary at the rate of $10,250, effective the date of entrance upon duty.

Transfer

Joyce J. Wood, from the position of Stenographer in the Division of Personnel Administration to the position of Stenographer in the Division of Research and Statistics, with no change in basic annual salary at the rate of $4,480, effective March 14, 1965.

Secretary

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

Item No. 1
3/3/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 3, 1965

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

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by United California Bank, Los Angeles, California, of a branch office in the vicinity of the southwest corner of the intersection of Alosta Avenue and Grand Avenue, Glendora, Los Angeles County, California, 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
3/3/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 3, 1965

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

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by United California Bank, Los Angeles, California, at the southwest corner of the intersection of Third Street and B Street, Oxnard, Ventura County, California, 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. 3
3/3/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 3, 1965

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

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by United California Bank, Los Angeles, California, of a branch at the northwest corner of the intersection of West State Street and Orange Street, Redlands, San Bernardino County, California, 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

Item No. 4
3/3/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 3, 1965

Board of Directors,
Wells Fargo Bank,
San Francisco, California.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Wells Fargo Bank, San Francisco, California, of a branch in the vicinity of the intersection of California State Highways 89 and 28 in Tahoe City, an unincorporated area of Placer County, California, 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

Item No. 5
3/3/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 3, 1965

Board of Directors,
Wells Fargo Bank,
San Francisco, California.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Wells Fargo Bank, San Francisco, California, of a branch in the vicinity of the intersection of Moraga Road, Moraga Way and St. Mary's Road, an unincorporated area in Contra Costa County, California, 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

Item No. 6
3/3/65

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

March 3, 1965

Board of Directors,
The Central Trust Company,
Cincinnati, Ohio.

Gentlemen:

The Board of Governors has approved an extension until September 1, 1965, of the time within which The Central Trust Company may establish a branch at the southeast corner of Northland and Waycross Roads, Village of Forest Park, Ohio. The establishment of this branch was authorized in a letter dated August 29, 1962.

The Board wishes to reiterate that establishment of this branch should be effected as soon as possible.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

Item No. 7
3/3/65

March 3, 1965

Board of Directors,
Bank of Downey,
Downey, California.

Gentlemen:

The Board of Governors of the Federal Reserve System extends to March 22, 1965, the time within which admission to membership in the Federal Reserve System may be accomplished by Bank of Downey, Downey, California.

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. 8
3/3/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 3, 1965

Board of Directors,
Dauphin Deposit Trust Company,
Harrisburg, Pennsylvania.

Gentlemen:

The Federal Reserve Bank of Philadelphia has forwarded to the Board of Governors your letter dated February 15, 1965, together with the accompanying resolution dated February 15, 1965, 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 that notice of intention to withdraw from membership was given. Upon surrender to the Federal Reserve Bank of Philadelphia of the Federal Reserve stock issued to your institution, such stock will be cancelled and appropriate refund will be made thereon.

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

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. 9
3/3/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 3, 1965

The Honorable Joseph W. Barr, Chairman,
Federal Deposit Insurance Corporation,
Washington, D. C. 20429

Dear Mr. Barr:

Reference is made to your letter of February 15, 1965, concerning the application of The Hamilton Bank, Hamilton, Missouri, for continuance of deposit insurance after withdrawal from membership in the Federal Reserve System.

There have been no corrective programs urged upon the bank, or agreed to by it, which have not been fully consummated, and there are no such programs that the Board would advise be incorporated as conditions of admitting the bank to membership in the Corporation as a nonmember of the Federal Reserve System.

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. 10
3/3/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 3, 1965

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

Dear Mr. Hemmings:

This refers to your letter of February 15, 1965, and to the wire from Mr. Martens of February 19, 1965, regarding the penalties totaling $957.76 incurred by County National Bank, Orange, California, on deficiencies in its required reserves during 14 of the reserve computation periods between February 17, when it opened for business, and November 11, 1964.

It is noted that (1) these deficiencies were discovered in the semiannual comparison of Call Reports with Reserve Condition Reports; (2) during the entire period, the bank had been including its reserve account balance in Due from Other Banks and had been excluding Certified and Officers' Checks, etc., from Other Demand Deposits on its reserve reports; and (3) $86.49 of the total corrected penalties has been paid through previous assessments, and penalties of $29.53 for the period ended April 29, 1964, and $8.44 for the period ended May 27, 1964, can be waived by your Bank under the Board's instructions (S-1123, F.R.L.S. #6120).

In the circumstances, the Board authorizes your Bank to waive the assessment of the remaining penalties of $833.30 for the reserve computation periods from February 17 to November 11, 1964.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 11
3/3/65

OFFICE OF THE CHAIRMAN

March 3, 1965

The Honorable John L. McClellan, Chairman,
Committee on Government Operations,
United States Senate,
Washington, D. C. 20510

Dear Mr. Chairman:

This is in response to your letter of February 15, 1965, requesting the views of the Board on the bill, S. 1052, "To establish an Office of Consumers in order to secure within the Federal Government effective representation of the economic interests of consumers; to act as a central clearinghouse in Government for consumer complaints; to disseminate information to consumers; and for other purposes."

While the Board is sympathetic with efforts to protect the economic interests of consumers, it questions whether the proposed new independent Office of Consumers would be desirable or effective for this purpose. Existing public agencies should be guided in their decisions by due consideration of consumers as well as other interests, all included under the general welfare. To the extent that any serious problems may exist in the consumer field, the Board believes that it would be preferable to consider legislation addressed directly to these specific problems rather than to the creation of a new Government agency whose statutory responsibilities might be difficult to define.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Item No. 12
3/3/65

For immediate release. March 3, 1965.

The President's program to improve the nation's balance of payments position, in part through voluntary efforts to restrain foreign lending and investment activities, was implemented with respect to nonbank financial institutions today by the Board of Governors of the Federal Reserve System. In a letter to the chief executive officers of approximately 750 nonbank financial organizations Chairman Wm. McC. Martin, Jr., set forth tentative guidelines proposed by the Board for the foreign lending activities of these institutions during 1965, to be effective immediately.

Nonbank financial organizations covered by the program include life insurance companies, fire and casualty insurance companies, mutual savings banks, investment companies and mutual funds, sales, business and consumer finance companies, corporate noninsured pension funds, state and local retirement funds, charitable trusts and foundations, college endowment funds, as well as the trust departments of commercial banks.

Recipients of the letter were also advised that within a few days they would receive a statistical questionnaire from the

Federal Reserve Bank of their District designed to gather benchmark information on the extent of their foreign lending and investment activities.

As in the program for commercial banks, the System's activities with regard to nonbank financial institutions are being coordinated by Governor J. L. Robertson. Contacts with individual organizations will be made through the individual Federal Reserve Banks.

Copies of Chairman Martin's letter and of the tentative guidelines on foreign lending and investing by nonbank financial institutions are attached. Guidelines for commercial bank foreign lending under the President's program are expected to be available within the next few days.

Attachments.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 13
3/3/65

OFFICE OF THE CHAIRMAN

March 3, 1965.

As you know, the President has launched a program designed to improve our international balance of payments position. An important element of the program is the President's request that banks, other financial institutions and business corporations exercise all practicable restraint in their foreign lending and investment activities. The Department of Commerce has the responsibility for administering this voluntary program, so far as business corporations are concerned. And the Federal Reserve System, in cooperation with the Treasury, has been asked to carry the program to the financial institutions of the country. Governor J. L. Robertson is coordinating the System's activities in this matter here at the Board.

The purpose of my letter is to acquaint you with the tentative guidelines on foreign lending that we are proposing for 1965. These are detailed in the attached circular. In addition, within a few days you will receive a statistical questionnaire from the Federal Reserve Bank in your District designed to supply some bench-mark information on the extent of your foreign lending and investment activities, if any. This information will help us judge the appropriateness of our guideline objectives.

If you have questions concerning the actions that can be taken to effectuate the program, we urge you to contact the Federal Reserve Bank. Its officers will be glad to counsel with you. Your support in achieving the President's goal--one which is essential to the continued strength of the dollar at home and abroad--will be deeply appreciated.

Sincerely yours,

Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Item No. 14
3/3/65

Tentative Guidelines on Foreign Lending and Investing
Non-Bank Financial Institutions
(Pursuant to the President's balance of payments program)

1. Deposits and money-market instruments. Holdings of liquid funds abroad should be limited to the 1964 year-end total, and the longer-term objective is to reduce such investments in a gradual and orderly manner to the December 31, 1963 level. Included in this category of liquid investments are dollar-denominated deposits held in foreign banks and foreign branches of U.S. banks; short-term securities of foreign governments and their instrumentalities; foreign commercial paper, finance company credits and bankers' acceptances; and all other negotiable instruments maturing in 1 year or less. Foreign bank deposits denominated in local currencies may be maintained to the extent needed to support ordinary business operations in that country.

2. Foreign credits with original maturities of 5 years or less. Holdings of investments other than those listed above, and written to have final maturities in 5 years or less, should not be increased by more than 5 per cent during calendar 1965. Included in this category are securities, mortgage and other loans, and credits of all other types. The 5 per cent growth ceiling is to be measured against the total of all such holdings at the end of 1964, without regard to type of instrument or country of origin. Priority should be given to credits that directly finance U.S. exports, however, and special care should be taken to avoid the extension of credit to borrowers who would have been accommodated by commercial banks in the absence of the voluntary restraint program.

3. Foreign credits with original maturities over 5 years. In the area of long-term financing, there would seem to be no present need for a guideline under the voluntary restraint program. Developments in the long-term credit area will be followed closely, however, so that we may be alert to excessive foreign financing demands if they should materialize. The issues of industrialized countries are subject to the Interest Equalization Tax, and have been very small in volume since that tax became effective. Borrowing by the less developed countries has been relatively light also, and in any event should not be substantially restricted in view of our national policy encouraging productive investment in these countries. In the case of Canada and Japan, separate agreements will serve to limit aggregate financing in United States capital markets.

4. Direct investment in foreign branches and subsidiaries. Some types of financial institutions may conduct operations abroad through foreign offices, branches and subsidiaries. In such cases, institutions are urged to limit their additional investment in these operations to the fullest extent practicable during 1965. Particular care should be taken to restrict any increase in net loans and advances outstanding to foreign branches and subsidiaries; ordinarily, expansion in such credit during 1965 should be held within 5 per cent.

In the case of insurance carriers doing business abroad, these guidelines are not applicable to holdings of foreign investments in amounts up to 110 per cent of foreign policy reserves.

Board of Governors,
Federal Reserve System.
March 3, 1965.

Item No. 15
3/3/65

Advance release for Monday morning papers
March 8, 1965

March 5, 1965

The Board of Governors of the Federal Reserve System today issued a set of 14 guidelines for commercial banks to follow in complying with the President's program to improve the nation's balance of payments position, in part through voluntary efforts to restrain foreign lending and investment. It was recognized that, in restraining the growth of loans to foreigners, banks will be foregoing some of the gains that would otherwise have accrued to them. Nevertheless, the Board stated, if a voluntary program is to be effective, the national interest must come first in decisions on future specific loan transactions.

The guidelines for foreign lending operations specify that absolute priority should be given to all bona fide export credits. With respect to nonexport credits, banks are expected to give the highest priority to loans to less developed countries and to avoid restrictive policies that would place an undue burden on Canada, Japan and the United Kingdom. To meet these priorities the guidelines contemplate that nonexport credits to other advanced countries will be cut back to the extent needed to achieve the goal of the President's program.

The objective of the program is that outstanding bank credit to nonresidents of the United States not rise above the amount outstanding at the end of 1964 by more than 5 per cent. Banks which find themselves in excess of the target are expected to reduce their foreign loans as quickly as possible, and, in the most extreme case, to bring their lending back to the target level within the next twelve months.

The guidelines cover the method of calculating the base for an individual bank against which the rise of 5 per cent in outstanding loans can be measured. They also clarify how those banks already in excess of the target as a result of year-to-date operations will be expected to bring their operations within the policy objectives. The guidelines spell out, among other topics, the relationship of trust departments to the program, the handling of financial transactions for customers, the position of Edge Act Corporations, the operations of foreign branches of U. S. banks and of U. S. branches of foreign banks.

In considering problem areas involved in the development of the guidelines, the Board had the benefit of technical advice from the following specialists in commercial bank foreign operations:

Mr. Roger Anderson, Continental Illinois National Bank, Chicago, Illinois; Mr. Harry P. Barrand, Jr., Manufacturers Hanover Trust Company, New York, New York; Mr. Alfred W. Barth, The Chase Manhattan Bank, New York, New York; Mr. W. A. Hurst, Bank of America National Trust and Savings Association, San Francisco, California;

Mr. John M. Meyer, Jr., Morgan Guaranty Trust Company of New York, New York; and Mr. J. J. Wieckowski, Girard Trust Bank, Philadelphia, Pennsylvania.

The Board pointed out that the role of these individuals was advisory only. They were not asked to approve or disapprove the guidelines nor to assume any responsibility in connection with their formulation.

The Board indicated that the guidelines, effective immediately, will be reviewed from time to time in the light of experience gained from operation of the program. The interpretations are designed to help individual banks make the decisions regarding their own operations that are required to ensure an effective program.

Copies of the new guidelines are being made available through the Federal Reserve Banks to all commercial banks in the country. Banks having questions concerning their application are urged to consult with the Federal Reserve Bank of their District.

Item No. 16
3/3/65

March 5, 1965.

PREFACE TO GUIDELINES

The following guidelines have been designed by the Board of Governors of the Federal Reserve System for use in implementing President Johnson's program for the voluntary curtailment of foreign credit by banks. They will be in effect until modified or supplemented. However, they may be changed from time to time in the light of new circumstances and in the light of the experience gained as the program goes forward. The guidelines should be helpful to individual banks as they play their own particular part in the achievement of the President's over-all balance of payments program, and each bank should feel free at any time to discuss its problems with the Federal Reserve Bank of its district.

It is clear that banks, in undertaking a voluntary role in the program, are being called upon to make sacrifices. In restraining the growth of their loans to foreigners they will be foregoing some of the gains that would otherwise have accrued to them. But, if a voluntary program is to be effective, decisions on future specific loan transactions must be made primarily with an eye to the national interest rather than profits. The achievement of the President's goal will be in the long-term interest not only of the nation, but also of the individual institutions which are now being called upon to forego immediate advantage or gain.

(1) Establishing a target base for an individual bank

The objective of the program is that outstanding bank credit to nonresidents of the United States not rise above the amount outstanding at the end of 1964 by more than 5 per cent, subject to the conditions set forth in guideline No. (3).

The following steps are involved in calculating the base, and the amount of credit outstanding on any particular date, for an individual bank:

1. Take outstanding claims of U.S. banking offices on foreigners as of December 31, 1964, as required to be reported on Treasury Department foreign exchange forms B-2 and B-3. Contingent accounts, such as unused balances of letters of credit and commitments to lend, are excluded from the base. (For further information reference is made to the instructions printed on forms B-2 and B-3.)
2. Subtract from this amount any claims for account of customers included on the forms, as well as any participations in individual loans arranged by the Export-Import Bank or made with Export-Import Bank guarantees.
3. Add any claims not reportable on forms B-2 and B-3, such as long-term foreign securities and permanent capital invested in foreign branches and subsidiaries.

4. Compensating balances, or any other claim on the lending bank of the debtor or of any other person by arrangement or understanding with the debtor, should not be deducted from loans or other claims on foreigners for purposes of determining the base.

5. It is expected that a simplified form for making the above calculation, and for making monthly reports on foreign credits, will be furnished to the banks within a short time.

Banks which are exempted from reporting on the Treasury forms because their foreign credits are below the minimum reporting requirement are nevertheless included in the program.

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(2) Participations in Export-Import Bank loans and loans guaranteed by the Export-Import Bank

Participations in individual export loans arranged by the Export-Import Bank, loans with Export-Import Bank guarantees or insurance, and holdings of "Export-Import Portfolio Fund" participations are excluded from the 5 per cent target.

The role of the Export-Import Bank within the framework of the President's program will be coordinated by the National Advisory Council for International Monetary and Financial Problems.

3/5/65

(3) Banks in excess of 5 per cent target

It is clearly recognized that some banks may currently be above the 5 per cent target because of loans made prior to February 11, 1965, or may subsequently be brought above the target as a result of (a) binding commitments entered into before February 11, or (b) the extension of *bona fide* export credits, or (c) the extension of credits at the specific request of an agency of the U.S. Government. A bank in such circumstances would not be considered to be acting in a manner inconsistent with the program; however, it should reduce its claims on foreigners to 105 per cent of the base as quickly as possible. Even in the most extreme case, this reduction should be accomplished within the next twelve months.

Such a bank will be invited periodically to discuss with the Federal Reserve Bank of its district the steps it has taken and proposes to take to bring about the reduction of its claims on foreigners consistent with these guidelines.

Banks with *bona fide* commitments are clearly not being asked to refuse to honor such commitments, even if honoring them involves a temporary excess of lending above the target. However, banks would be expected to seize every opportunity to withdraw or reduce commitments, including credit lines, that are not of a firm nature, and to ensure that drawings under credit lines are kept to normal levels and usage. At time of renewal, all credit lines should be reviewed in light of their consistency with the voluntary foreign credit restraint program. Proposed extensions or renewals of existing *bona fide* commitments should be reviewed in the same manner.

(4) Loan priorities 3/5/65

Within the 5 per cent guideline, absolute priority should be given to bona fide export credits. Credits that substitute for cash sales or for sales customarily financed out of nonbank or foreign funds are not entitled to priority.

With respect to nonexport credits, banks should give the highest priority to loans to less developed countries and should avoid restrictive policies that would place an undue burden on countries such as Canada and Japan, which are heavily dependent on U.S. financing, and on the United Kingdom, which is suffering from balance-of-payments difficulties.

Given the probability of some expansion of the end-of-1964 volume of loans for financing exports and the priorities established for the less developed countries, as well as the need to avoid restrictive practices with regard to Canada, Japan, and Britain, it is expected that nonexport credit to the other advanced countries will be cut back to the extent needed to achieve the goal of the President's program.

Without attempting to specify all types of loans that will need to be restricted, it is obvious that credits to developed countries, that can be cut back with benefit to our balance of payments and with the least adverse side-effects include: credits to finance third-country trade; credits to finance local-currency expenditures outside the United States; credits to finance fixed or working capital needs; and all other nonexport credits to developed countries that do not suffer from balance-of-payments difficulties.

(5) Bank sales of foreign assets to U.S. residents

3/5/65

In general, banks should not expand their lending abroad by selling to U.S. residents (including U.S. banks) claims on foreigners existing as of the base date and replacing such assets with other loans to foreigners. Sales to U.S. residents of foreign securities owned on the base date, which would be free of the Interest Equalization Tax, or of loan participations, could assist an individual bank to stay within the 5 per cent target, but would clearly not benefit the U.S. payments position. Therefore, in the event of any such sales the bank's base should be reduced by an amount equivalent thereto.

3/5/65

(6) Banks with no foreign loans outstanding on December 31, 1964

In general, banks with no previous foreign lending experience would be expected not to make foreign loans during 1965. However, bona fide export loans to foreigners may be made in reasonable amounts, provided this financing does not represent a shift from previous U.S. or foreign sources of financing. Banks making foreign loans for the first time should take precautions to ensure that their activities do not become a means through which credit is extended to foreign borrowers who have been denied credit by established lenders cooperating in the voluntary program.

3/5/65

(7) Banks whose previous foreign business has consisted almost entirely of export financing

The few banks falling in this category would ordinarily be expected to keep within the 5 per cent ceiling. Since they would have no maturing non-export loans to provide funds for additional export credits and would therefore need to rely upon nonrenewal of maturing export loans, reasonable amounts in excess of the target from time to time would not be considered in conflict with the program. But every effort should be made by such banks to keep their lending within the ceiling. They should take care to ensure that export loans do not represent a shift from previous U.S. or foreign sources of financing.

3/5/65

(8) Trust departments

Managing officers of trust departments should be made familiar with the voluntary restraint effort. They should bear the purpose of that program in mind in making any acquisitions of foreign obligations for trust accounts. For example, they should not exercise their authority under any trust account to acquire foreign obligations which, in the absence of the restraint program, would have been acquired by the bank for its own account. Pension funds, including those administered by banks, will be furnished separate guidelines, as part of the program to restrain foreign credits of non-bank financial institutions.

3/5/65

(9) Financial transactions for customers

While banks must, of course, follow instructions given to them by their customers, it is expected that, in buying foreign investments for customers, they will be guided by the principles inherent in the President's balance of payments program. They should not encourage customers to place liquid funds outside the United States. Banks should not place with customers foreign obligations which, in the absence of the restraint program, they would have acquired or held for their own account.

3/5/65

(10) Foreign branches

It is assumed, of course, that U.S. banks having branches, as well as subsidiaries and affiliates, in foreign countries will not utilize them to avoid the foreign credit restraint program for U.S. banks.

Foreign branches have independent sources of funds in the countries in which they are located and from third countries, in many cases through the attraction of Euro-dollar deposits. The balance of payments program is not designed to hamper the lending activities of the foreign branches insofar as the funds utilized are derived from foreign sources and do not add to the dollar outflow. Concern arises only in those cases where the resources are derived (directly or indirectly) from the United States.

Total claims of the head office on overseas branches, including permanent capital invested in, as well as balances due from, branches, represent bank credit to nonresidents for purposes of the program.

3/5/65

(11) Problems of Edge Act Corporations

Edge Act and Agreement Corporations are included in the voluntary credit restraint effort. The foreign loans and investments of such a corporation may be combined with those of the parent bank for the purposes of the program, or separate targets may be set for the parent bank and the subsidiary.

An Edge Act Corporation that has not yet undertaken any significant volume of loans and investments may take as a base, alone and not in combination with its parent, its paid-in capital and surplus, up to $2.5 million, even though an equivalent amount of foreign loans and investments had not yet been made as of December 31, 1964.

3/5/65

(12) U.S. branches and agencies of foreign banks

Branches and agencies of foreign banks located in the United States are requested to comply with the principles of the program of credit restraint applicable to domestic banks.

3/5/65

(13) Substitution of export credit for credit for other purposes

Banks should be on the alert to avoid granting credit to domestic customers if the result would be to aid the latter in making foreign loans or investments inconsistent with the program. Even export credit to foreigners, if it supplants credit previously obtained from foreign sources and thus frees the foreign funds for other uses, may be detrimental to the U.S. payments position.

This is obviously a difficult area and one in which there is considerable room for possibly damaging substitution of domestic for foreign financing, and for substitution of export credits to foreigners for other credits to foreigners. In general, success will depend on the ability of banks to identify loans that are inconsistent with the program and on the application of the Department of Commerce program with respect to foreign credit and investment by non-financial firms.

3/5/65

(14) Management of a bank's liquid funds

Banks that have placed their own funds abroad for short-term investment purposes, including U.S. dollar deposits outside the United States or the acquisition of non-U.S. money market paper, should refrain from increasing such deposits and investments and should, in a reasonable and orderly manner, seek to reduce them. Since such funds are ordinarily placed outside the United States solely to provide a slightly higher rate of return, they are strong candidates for reduction under the program.

This guideline applies equally to deposits and investments payable in foreign currencies and to those payable in U.S. dollars.

This guideline does not call for a reduction in necessary working balances held with foreign correspondents, although such balances are also considered claims on nonresidents for the purposes of the program.

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

Item No. 18
3/3/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 3, 1965

Mr. Lee J. Aubrey,
Assistant Vice President,
Federal Reserve Bank of Boston,
Boston, Massachusetts 02106.

Dear Mr. Aubrey:

In accordance with the request contained in your letter of February 25, 1965, the Board approves the designation of David A. Robbins as a special assistant examiner for the Federal Reserve Bank of Boston for the purpose of participating in examinations of State Street Bank and Trust Company, Boston, Massachusetts; Depositors Trust Company, Augusta, Maine; The Merrill Trust Company, Bangor, Maine; Rhode Island Hospital Trust Company, Providence, Rhode Island and The Connecticut Bank and Trust Company, Hartford, Connecticut.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.