

Minutes for March 9, 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	<u>W</u>
Gov. Robertson	<u>R.</u>
Gov. Balderston	<u>CCB</u>
Gov. Shepardson	<u>SSS</u>
Gov. Mitchell	<u>MM</u>
Gov. Daane	<u>DD</u>

Minutes of the Board of Governors of the Federal Reserve System on Tuesday, March 9, 1965. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Molony, Assistant to the Board  
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. O'Connell, Assistant General Counsel  
Mr. Kiley, Assistant Director, Division of Bank Operations  
Mr. Leavitt, Assistant Director, Division of Examinations  
Mr. Smith, Assistant Director, Division of Examinations  
Mr. Spencer, General Assistant, Office of the Secretary  
Mr. Young, Senior Attorney, Legal Division  
Mr. Forrestal, Attorney, Legal Division  
Messrs. Egertson and McClintock, Supervisory Review Examiners, Division of Examinations

Report on competitive factors (Englewood-Leonia, New Jersey).

There had been distributed a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of The Leonia Bank & Trust Company, Leonia, New Jersey, into Citizens National Bank of Englewood, Englewood, New Jersey.

3/9/65

-2-

Following a discussion in which agreement was expressed with a suggested change in the conclusion, the report was approved unanimously for transmittal to the Comptroller with the conclusion reading as follows:

The proposed merger of Citizens National Bank of Englewood and Leonia Bank & Trust Company would eliminate the present and potential competition between them. While the proposal would result in an increase in the concentration of banking resources in the relative area, there would remain, readily accessible to residents of Bergen County, a wide variety of alternative sources for banking services, and the overall effect of the proposed transaction on competition would not be significantly adverse.

Report on competitive factors (Lumberton-Rockingham, North Carolina). A report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of The Farmers Bank and Trust Co., Rockingham, N. C., Rockingham, North Carolina, into Southern National Bank of North Carolina, Lumberton, North Carolina, was approved unanimously for transmittal to the Comptroller. The conclusion read as follows:

The proposed merger of The Farmers Bank and Trust Co., Rockingham, N. C., into Southern National Bank of North Carolina, Lumberton, would eliminate existing and potential competition between them and enhance the competitive position of the largest bank operating in Richmond County. The overall effect of the proposed transaction on competition appears to be adverse.

Messrs. Egertson and McClintock then withdrew from the meeting.

3/9/65

-3-

Report on S. 1227 (Item No. 1). There had been distributed a memorandum dated March 4, 1965, from the Legal Division with regard to a request from the Senate Banking and Currency Committee for a report on bill S. 1227, which would make permanent the temporary exemption of time deposits of foreign governments and monetary authorities from interest rate limitations prescribed by the Board and the Federal Deposit Insurance Corporation. The reply, as drafted, would indicate that the Board favored enactment of the proposed legislation.

Mr. Young noted that the Board's Legislative Counsel had suggested that, since it was possible that the Senate Banking and Currency Committee would hold hearings, the reply to the Committee's request include a fuller explanation of the Board's position. If this were done, it was unlikely that the Board would be called upon for testimony.

Mr. Hackley mentioned that when the Under Secretary of the Treasury for Monetary Affairs recently testified before the House Banking and Currency Committee on an identical bill, question had been raised as to the desirability of legislation that would make permanent the interest rate exemption. The Committee members instead had favored continuing the exemption on a temporary basis, and the Treasury had been requested to prepare an amendment to extend the authority to June 30, 1970. It was understood that on this basis the Senate Committee might not consider hearings necessary.

3/9/65

-4-

During discussion, reference was made to reasons that had caused the Treasury originally to sponsor legislation of this kind, along with reasons that would support keeping the legislation in effect under current circumstances as a precautionary measure against an outflow of funds due to interest rate considerations.

Governors Robertson, Mitchell, and Daane agreed that the exemption now provided should be continued, but they expressed reservations about advocating that it be made permanent, pointing out that the situation warranting the exemption might change. Governor Robertson suggested, in this connection, that the Board's letter be revised so as to spell out the fact that as long as the country's balance of payments problem continued it was desirable to take whatever steps were necessary to hold foreign official time deposit funds in this country. The letter might also point out that the existing law, since its enactment, did not appear to have created serious banking problems domestically.

At the conclusion of further discussion, unanimous approval was given to a letter revised along the lines suggested by Governor Robertson. A copy of the letter subsequently transmitted to Committee Chairman Robertson is attached as Item No. 1.

Mr. Young then withdrew from the meeting.

Report on H. R. 5012 through 5021, and H. R. 5237 (Item No. 2).

Following discussion, unanimous approval was given to the transmittal of a letter, a draft of which was attached to a distributed memorandum from

3/9/65

-5-

the Legal Division dated March 5, 1965, to Chairman Dawson of the House Committee on Government Operations reporting on certain bills. The bills, H. R. 5012 through 5021, and H. R. 5237, each identical with the others, would amend section 161 of the Revised Statutes with respect to the authority of Federal officers and agencies to withhold information and limit the availability of records.

The Legal Division memorandum noted that the major provisions of the bills were nearly identical with certain of the provisions in S. 1663 of the 88th Congress, both as introduced and as revised, with respect to which the Board transmitted views to the Senate Committee on the Judiciary in letters dated November 6, 1963, July 1, 1964, and July 15, 1964.

A copy of the letter to Chairman Dawson, in the form transmitted, is attached as Item No. 2.

Mr. O'Connell then withdrew from the meeting and Mr. Young, Adviser to the Board and Director, Division of International Finance, entered the room.

Proposed legislation on deposit insurance and related matters.

In a distributed memorandum of March 3, 1965, Mr. Hackley stated that at a recent meeting held at the Treasury Department for the purpose of discussing H. R. 108, a bill that would, among other things, increase deposit and share account insurance coverage, he was requested to obtain a general indication of the Board's present position with respect to

3/9/65

-6-

three policy matters, namely: (1) whether the Board still favored standby authority over deposit interest rates (the Board favored such a proposal in 1963 and again endorsed it in a letter dated May 13, 1964, to Chairman Robertson of the Senate Banking and Currency Committee); (2) whether the proposed legislation should include a provision subjecting short-term unsecured notes issued by banks to maximum interest rate requirements; and (3) whether the legislation should include provisions regarding graduated reserve requirements and extension of reserve requirements to all commercial banks.

At the Board's request Mr. Hackley summarized the contents of his memorandum and described the principal provisions of the Proposed legislation. He noted that in response to request from the Treasury, suggestions concerning the drafting of provisions of the bill that paralleled certain draft bills covered by the Board's legislative program had been prepared; conformitory amendments were attached to the memorandum.

Chairman Martin suggested that the three policy matters mentioned in Mr. Hackley's memorandum be considered in sequence.

In discussion, the members of the Board indicated that they continued to favor the placing of Board authority over deposit interest rate ceilings on a standby basis. However, the bill as drafted would require the Board to consult with the Federal Deposit Insurance Corporation and the Federal Home Loan Bank Board before

3/9/65

-7-

limiting by regulation the rates of interest that could be paid by member banks on time and savings deposits, even if the Board determined that such action was required by general credit conditions or to prevent unsound competitive practices among member banks. It was agreed that a change in the language of the bill containing this requirement should be recommended. The Board favored instead a provision that would require only advising the two agencies of the action proposed to be taken.

Discussion then turned to whether the proposed legislation should include a provision subjecting short-term unsecured negotiable notes issued by banks to maximum interest rate requirements.

Mr. Hackley noted that an ad hoc subcommittee of the Conference of Presidents of the Federal Reserve Banks was exploring various aspects of commercial bank issuance of short-term negotiable notes and certificates of deposit. However, the subcommittee had not yet submitted its findings and recommendations.

Governor Robertson remarked that it was his personal view that unsecured negotiable notes should be classified as deposits. As such, they would be subject to reserve requirements. However, until it was known what recommendations would result from the Conference subcommittee study, the door should be left open. The Board might eventually conclude that the notes should be subject to reserve requirements, but this should not be dealt with in an

3/9/65

omnibus bill like the one under consideration. (Later during the discussion, Mr. Hackley was asked about the Board's authority to determine that short-term negotiable notes should be classified as deposits for reserve requirement purposes. He cited provisions of the Federal Reserve Act under which this might be possible, but expressed the view, in which the Reserve Banks concurred, that legislation would be preferable.)

Governor Mitchell suggested that under the current maximum interest rates unsecured negotiable notes served as a safety valve for banks faced with a liquidity problem, and that this might become increasingly true unless the ceiling was liberalized. It seemed advisable to him to refrain from advocating legislation that would subject such notes to actual interest rate limitations at this time, but he would not object to standby authority, which would not necessarily have to be used immediately.

After further discussion, it was understood that the Board would favor standby authority to fix maximum rates of interest on short-term unsecured negotiable notes issued by member banks.

The question whether the proposed legislation should include provisions with respect to graduated reserve requirements and extension of reserve requirements to all commercial banks was then considered.

Governor Robertson stated that he was against including provisions of this nature in an omnibus bill. The matter was important

3/9/65

-9-

enough to warrant separate legislation, which should be based on a bill proposed by the Board rather than the Treasury.

It was noted that the discussion of legislative proposals contained in the Board's 1964 Annual Report, shortly to be submitted to Congress, would include reference to the need for an equitable system of reserve requirements. However, in view of the differences of opinion that had been expressed within the Board, no specific legislative proposal with respect to such requirements had yet been agreed upon by the Board. During discussion of this matter, it developed to be the consensus that draft legislation should be prepared for consideration by the Board so as to come to grips with the question of the kind of reserve requirement legislation that the Board wished to submit to the Congress at an appropriate time.

It was understood that the Treasury would be informed that the Board would not be in favor of including provisions in H. R. 108 with regard to graduated reserve requirements, or extending reserve requirements to all commercial banks, it being the Board's view that this should be treated separately.

At the conclusion of further discussion of the three policy matters raised in Mr. Hackley's memorandum of March 3, it was understood that the Board's views on each, as indicated at this meeting, would be conveyed to the Treasury Department and that a staff memorandum of the kind submitted with Mr. Hackley's memorandum would be submitted suggesting certain changes in the language of H. R. 108.

3/9/65

-10-

Proposed increase in IMF quota (Item No. 3). Unanimous approval was given to the transmittal of a letter to the Bureau of the Budget favoring enactment of a draft bill "To amend the Bretton Woods Agreements Act to authorize an increase in the International Monetary Fund quota of the United States." A copy is attached as Item No. 3.

Messrs. Leavitt and Forrestal withdrew from the meeting at this point.

Examination of Boston Bank. There had been circulated to the Board the report of examination of the Federal Reserve Bank of Boston made by the Board's field examining staff as of November 30, 1964, together with related supplemental memoranda.

At the request of the Board, Mr. Smith reviewed the examination findings. He noted, among other things, that an employee in the Bank's Research and Statistics Department, Mrs. Ruth B. Norr, had reported indebtedness to Brown Brothers Harriman and Co. in the amount of \$8,500 secured by listed stocks. Mrs. Norr, in accordance with the requirement that employees in certain categories submit annually an information statement regarding financial and other specified matters, had reported such indebtedness and also stated that her husband had engaged in certain securities transactions as her attorney in fact.

In discussion, question was raised whether the Bank was giving appropriate weight to all aspects of the aforementioned matter when viewed in the light of the Board's letter to the Federal Reserve Banks

3/9/65

-11-

of February 10, 1964 (S-1907). Accordingly, it was understood that a letter to President Ellis would be prepared for the Board's consideration.

The report of examination of the Boston Reserve Bank noted also minor holdings of bank holding company stock by Vice President Angney. However, the shares in question were those of organizations in distant Federal Reserve Districts and were reportedly owned jointly by Mr. Angney with his mother. In view of the circumstances, the Board indicated that it would not wish to raise any question on the matter.

As to the examination report of the Federal Reserve Bank of Boston, there were no other matters concerning which action by the Board at this time was deemed necessary.

In response to a question, Mr. Solomon reported that on the basis of an analysis of types of expenditures noted in examination of the various Reserve Banks, a memorandum had been prepared raising questions about guidelines for considering classes of discretionary expenditures. However, before the memorandum was distributed to the Board, comments of interested divisions of the Board's staff were being invited.

Destruction of unfit Federal Reserve notes. Following comments by Mr. Farrell on regulations being discussed by the Board and Treasury staffs for the local destruction of unfit Federal Reserve notes

3/9/65

-12-

if legislative authority should be obtained, Governor Mitchell was designated to discuss with the Treasury Department such aspects of the program as might call for consideration at top level.

The meeting then adjourned.

Secretary's Notes: A letter was sent today over the signature of Chairman Martin to Chairman Robertson of the Senate Committee on Banking and Currency reporting favorably on S. 1309, a bill "To authorize checks to be drawn in favor of banking organizations for the credit of a person's account, under certain conditions." The report on S. 1309 was similar to the Board's report on the companion bill H. R. 4653 that was sent to Chairman Dawson of the House Committee on Government Operations under date of March 2, 1965.

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

Letter to the Federal Reserve Bank of Boston (attached Item No. 4) approving the appointment of Edward L. Reboul as assistant examiner.

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

#### Appointment

Hugh J. Maguire as Supervisory Review Examiner, Division of Examinations, with basic annual salary at the rate of \$15,150, effective the date of entrance upon duty.

#### Salary increases, effective March 14, 1965

Athens J. Messick, Secretary to Governor Mitchell, from \$9,240 to \$9,535 per annum.

George L. Spencer, Jr., General Assistant, Office of the Secretary, from \$9,250 to \$9,520 per annum.

3/9/65

-13-

Salary increases, effective March 14, 1965 (continued)

Phyllis Mulcahy, Assistant Legal File Clerk, Legal Division, from \$4,630 to \$4,780 per annum.

Helen M. Dunn, Statistical Assistant, Division of Research and Statistics, from \$5,505 to \$5,690 per annum.

Patricia Kilroy, Secretary, Division of Examinations, from \$6,060 to \$6,245 per annum.

Clifton Johnson, Messenger, Division of Administrative Services, from \$3,500 to \$3,805 per annum, with a change in title to Mail Clerk-Messenger.

Lowell M. Glenn, Analyst, Division of Data Processing, from \$6,630 to \$7,220 per annum.

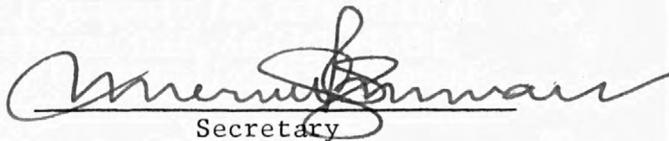
Frank J. Miller, Operator, Tabulating Equipment, Division of Data Processing, from \$4,630 to \$4,780 per annum.

Salary increase, effective March 28, 1965

Russell Hardy Tharp, Programmer-Trainee, Division of Data Processing, from \$6,630 to \$7,220 per annum, with a change in title to Programmer.

Permission to engage in outside activity

E. J. Johnson, Director, Division of Personnel Administration, to install personnel program and review accounting procedures for Help for Retarded Children, Inc., Washington, D. C., without remuneration.

  
Secretary



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 1  
3/9/65

OFFICE OF THE CHAIRMAN

March 11, 1965.

The Honorable A. Willis Robertson, Chairman,  
Committee on Banking and Currency,  
United States Senate,  
Washington, D. C. 20510

Dear Mr. Chairman:

This is in response to your request of February 23, 1965, for the views of the Board with respect to the bill, S. 1227, "To continue the authority of domestic banks to pay interest on time deposits of foreign governments at rates differing from those applicable to domestic depositors."

The present exemption of time deposits of foreign governments and monetary authorities from interest-rate limitations expires on October 15, 1965. This exemption was originally provided in order to reduce the pressures on our gold reserves until more basic measures could bring our international payments accounts into balance. American banks, under the present termination date, may not now enter into deposit contracts that would provide for an interest rate after that date higher than the maximum for domestic time deposits. A continuation of the exemption will make possible an addition to the amount of reserves held by foreign central banks in dollars and a corresponding reduction in requests for redemption of dollar holdings in gold. The Board believes that, in view of the continuing balance of payments problem, the exemption from interest-rate limitations should be extended.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 2  
3/9/65

OFFICE OF THE CHAIRMAN

March 10, 1965.

The Honorable William L. Dawson, Chairman,  
Committee on Government Operations,  
House of Representatives,  
Washington, D. C. 25100

Dear Mr. Chairman:

This refers to your letters dated February 19, 1965, and February 24, 1965, respectively requesting a report and views on bills H.R. 5012 through 5021, and H.R. 5237, each identical with the others, all of which would amend section 161 of the Revised Statutes (5 U.S.C. 22) with respect to the authority of Federal officers and agencies to withhold information and limit the availability of records. For purposes of this reply, references to provisions of H.R. 5012, together with comments thereon, are intended to apply equally to bills H.R. 5013 through 5021, and H.R. 5237.

Subsection (a) of H.R. 5012 is identical with the present language of the entire R.S. 161. In the interest of an ordered administration of Government affairs consistent with the public interest the Board approves the provisions of subsection (a) of H.R. 5012.

With the exceptions of a portion of exemption numbered (4) (p. 3, lines 6 and 7 of H.R. 5012), exemption numbered (8) (p. 3, lines 14-17 of H.R. 5012), and certain other minor variations, the combined subsections (b) and (c) of H.R. 5012 are identical with the provisions of Sec. 3(c) and (e) of S. 1663, 88th Congress, as revised by the Subcommittee on Administrative Practice and Procedure of the Senate Committee on the Judiciary.

Exemption numbered (4) in H.R. 5012 would authorize withholding from the public matters that are "trade secrets and commercial or financial information obtained from the public and privileged or confidential". Exemption numbered (8) would authorize withholding matters "contained in or related to examination, operating, or condition reports prepared by, on behalf of, or for the use of any agency responsible for the regulation or supervision of financial institutions". The language of the latter exemption is identical with

The Honorable William L. Dawson

-2-

language that the Board proposed be added to S. 1663. This proposal, with explanatory comments, was submitted to Chairman Long of the Senate Subcommittee on Administrative Practice and Procedure, by letter of July 15, 1964.

The Board considers the provisions of H.R. 5012 to be a vast improvement over the provisions of S. 1663 as originally introduced and, because of the presence in H.R. 5012 of the above-quoted portion of exemption numbered (4) and exemption numbered (8), to be an improvement over S. 1663 as revised. Nevertheless, the Board continues in its belief made known previously in its expression of views on S. 1663, that the public's right of access to Government records and information is adequately and reasonably secured and served by the provisions of Sec. 3(c) of the Administrative Procedure Act (5 U.S.C. 1002(c)). It is the Board's opinion that a combination of the provisions of Sec. 3(c) of the Administrative Procedure Act with the court enforcement provisions proposed in H.R. 5012 would assure an equitable balancing of the need of Federal agencies to determine themselves what records and information a particular person should or need have, with the public's right to such records and information. Applied to this Board, there is reason to believe that a literal construction of the eight exemptions from disclosure contained in H.R. 5012 could leave exposed to indiscriminate public demand certain critical records and materials relating to the Board's credit and monetary policy functions, as well as to other of its statutorily directed functions. Such a result could impair the Board's effectiveness both as an instrument of national economic policy and as a regulatory body.

Regarding the provisions in subsection (b) of H.R. 5012 which would enable a complainant to secure judicial relief when an agency wrongfully withholds records and information, the Board is in sympathy with the need for a form of judicial enforcement, and is generally in accord with the means to this end provided in subsection (b). Consistent with the Board's position earlier taken with reference to a similar provision in S. 1663, however, the Board opposes the provisions of subsection (b) which would permit "any person", whether or not properly and directly concerned, to have access to all agency records not specifically exempted and, upon mere allegation of an improper withholding, would permit "any person" to bring suit to obtain a court order requiring production. While it is true that, under H.R. 5012, a court order requiring production of agency records would have to be based upon a finding that such records had been improperly withheld, it is believed that such requirement would have but a minimal deterrent effect on the potential number of baseless complaints that could be filed.

The Honorable William L. Dawson

-3-

In respect to cases filed, the agency is assigned the burden of sustaining its action in withholding records or information from "any person". Thus, in any case where the records sought do not fall within one of the eight exemptions set forth in subsection (c) of H.R. 5012, the agency, in attempting to sustain its action, would be denied the opportunity presently offered by section 3(c) of the Administrative Procedure Act of showing that the person demanding access to the agency records is not properly and directly concerned with the matter reflected in such records. The Board is in accord with the purposes of subsections (b) and (c) of H.R. 5012, and, in reference thereto, finds reasonable the placing on the agency of the burden of sustaining its withholding action. However, that burden would be made unreasonable by retention in subsection (b) of the requirement that every agency shall make its records available to "any person".

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

832

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 3  
3/9/65



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

March 9, 1965.

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

Dear Mr. Hughes:

This refers to your legislative referral memorandum of March 3, 1965, regarding the draft bill, submitted by the Treasury Department, "To amend the Bretton Woods Agreements Act to authorize an increase in the International Monetary Fund quota of the United States."

The bill would authorize the United States Governor of the International Monetary Fund to consent to an increase of \$1,035,000,000 in the quota of the United States in the Fund. In order to pay the increase in the United States subscription thus provided for, the bill would also authorize to be appropriated \$1,035,000,000, to remain available until expended. The National Advisory Council on International Monetary and Financial Problems strongly favors the proposed increase in the United States quota in the Fund, and has recommended the adoption of appropriate legislation.

It is understood that 25 per cent of the proposed increase would be paid in gold and that the remainder would be met for the present through the issuance to the Fund of special non-interest-bearing obligations of the United States.

The Board favors enactment of the proposed bill.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

**BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM**

WASHINGTON, D. C. 20551

Item No. 4  
3/9/65.



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

March 9, 1965.

**Mr. Luther M. Hoyle, Jr., Vice President,  
Federal Reserve Bank of Boston,  
Boston, Massachusetts. 02106**

**Dear Mr. Hoyle:**

In accordance with the request contained in your letter of March 4, 1965, the Board approves the appointment of Edward L. Reboul as an assistant examiner for the Federal Reserve Bank of Boston. Please advise the effective date of the appointment.

**Very truly yours,**

(Signed) Elizabeth L. Carmichael

**Elizabeth L. Carmichael,  
Assistant Secretary.**