

Minutes for April 2, 1965

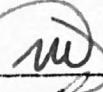
To: Members of the Board  
From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

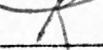
It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

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.

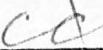
Chm. Martin



Gov. Robertson



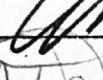
Gov. Balderston



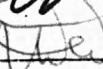
Gov. Shepardson



Gov. Mitchell



Gov. Daane



Minutes of the Board of Governors of the Federal Reserve System on Friday, April 2, 1965. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Balderston, Vice 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. Cardon, Legislative Counsel  
Mr. Fauver, Assistant to the Board  
Mr. Holland, Associate Director, Division of  
Research and Statistics  
Mr. Koch, Associate Director, Division of  
Research and Statistics  
Mr. Partee, Adviser, Division of Research  
and Statistics  
Mr. Hersey, Adviser, Division of International  
Finance  
Mr. Katz, Adviser, Division of International  
Finance  
Mr. Sammons, Adviser, Division of International  
Finance  
Mr. Axilrod, Chief, Government Finance Section,  
Division of Research and Statistics  
Mr. Eckert, Chief, Banking Section, Division of  
Research and Statistics  
Mr. Keir, Chief, Capital Markets Section,  
Division of Research and Statistics  
Mr. Dahl, Chief, Special Studies and Operations  
Section, Division of International Finance  
Mr. Morgan, Staff Assistant, Board Members'  
Offices  
Mr. Furth, Consultant

Money market review. Mr. Axilrod commented on developments in the Government securities market, following which Mr. Dahl reviewed foreign exchange market and related developments. Materials distributed

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in connection with this presentation included tables affording perspective on the money market and on bank reserve utilization.

Following a general discussion of the money market, bank reserves, and aspects of the international financial situation, all members of the staff who had been present except Messrs. Sherman, Kenyon, and Fauver withdrew from the meeting and the following entered the room:

Mr. Farrell, Director, Division of Bank Operations  
Mr. Hooff, 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. Sprecher, Assistant Director, Division of Personnel Administration  
Mr. Egertson, Supervisory Review Examiner, Division of Examinations

Discount rates. The establishment without change by the Federal Reserve Banks of New York, Philadelphia, Kansas City, and San Francisco on April 1, 1965, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

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 Girard Trust Bank, Philadelphia, Pennsylvania, approving the establishment of a branch in the Blue Bell Shopping Center, Grovers Avenue at 70th Street.	1
Letter to The Colonial Bank and Trust Company, Waterbury, Connecticut, approving the establishment of a branch in the Watertown Plaza Shopping Center, Watertown.	2

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Item No.

Letter to the Federal Reserve Bank of St. Louis regarding  
a question with respect to the rate of interest on loans  
by a member bank secured by time deposits in such bank.  
(With the understanding that the substance of the letter  
would be published in the Federal Register and the Federal  
Reserve Bulletin.)

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With respect to Item No. 2, it was agreed that there would be included in the letter to Colonial Bank and Trust Company approving the branch in Watertown a reference to the capital position of the bank. The approved letter reflects this understanding.

Hearings on bank supervisory legislation. It was noted that the Board had been invited to testify on Monday, April 12, before a Subcommittee of the House Banking and Currency Committee with respect to bills introduced by Congressmen Patman and Multer that would, in different ways, reallocate responsibility for bank supervision at the Federal Government level. It was understood that the Board would plan to have a discussion on Tuesday, April 6, for the purpose of determining whether it would be feasible to express a Board position at the hearing or whether the views of individual members of the Board should be presented.

The meeting then adjourned.

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

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Appointments

Charles K. Harley as Summer Research Assistant, Division of International Finance, with basic annual salary at the rate of \$5,165, effective the date of entrance upon duty.

William D. Wheat as Supply Clerk, Division of Administrative Services, with basic annual salary at the rate of \$4,005, effective the date of entrance upon duty.

Salary increase

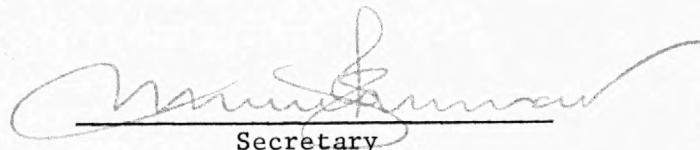
Roger M. Painter, Chauffeur (Station Wagon), Division of Administrative Services, from \$4,971 to \$5,013 per annum, with a change in title to Chauffeur, effective April 2, 1965.

Extension of working hours

Cornelia J. Motheral, Economist, Division of Research and Statistics, from a 4-hour day to a 5-hour day (with annual salary at the rate of \$5,591), effective April 5, 1965.

Acceptance of resignation

Phyllis G. Meadows, Stenographer, Division of Administrative Services, effective April 11, 1965.



A handwritten signature in black ink, appearing to read "Wm. H. Brown". Below the signature is a horizontal line and the word "Secretary" written in a smaller, printed-style font.

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

Item No. 1  
4/2/65

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 2, 1965.

Board of Directors,  
Girard Trust Bank,  
Philadelphia, Pennsylvania.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Girard Trust Bank, Philadelphia, Pennsylvania, of a branch in the Blue Bell Shopping Center, Grovers Avenue at 70th Street, Philadelphia, Pennsylvania, 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 25, D. C.



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Item No. 2  
4/2/65ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 2, 1965.

Board of Directors,  
The Colonial Bank and Trust Company,  
Waterbury, Connecticut.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by The Colonial Bank and Trust Company, Waterbury, Connecticut, of a branch in the Watertown Plaza Shopping Center, Watertown, Connecticut, provided the branch is established within one year from the date of this letter.

The Board approved this branch despite a capital position somewhat below desirable levels. The Board urges that serious consideration be given to strengthening the bank's capital structure.

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.)

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BOARD OF GOVERNORS  
OF THE

FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551



Item No. 3  
4/2/65

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 2, 1965.

Mr. Orville O. Wyrick, Vice President,  
Federal Reserve Bank of St. Louis,  
P. O. Box 442,  
St. Louis, Missouri. 63166

Dear Mr. Wyrick:

This refers to your letter of March 23, 1965, forwarding a question raised by the Kentucky Bankers Association with respect to loans by a member bank secured by time deposits in such bank. It is stated that many banks in Kentucky are now paying interest on time deposits at the maximum rate of 4-1/2 per cent, and the legal rate of interest in Kentucky for ordinary bank loans is fixed by statute at 6 per cent. The specific question is whether the bank may make the loan as section 217.4(e) of Regulation Q requires a member bank to charge a rate of interest not less than 2 per cent in excess of the rate of interest paid on its time deposit when such deposit is used as security for a loan.

As you know, section 19 of the Federal Reserve Act prohibits member banks from paying any time deposit before its maturity, except upon such conditions and in accordance with such rules and regulations as may be prescribed by the Board. The above-mentioned provision of Regulation Q is intended to implement the law and prevent evasion thereof. The specified 2 per cent penalty is designed to discourage loans on time deposits that would, in effect, enable the depositor to obtain his funds before maturity. For this reason, retention of the 2 per cent differential seems desirable.

Since banks in Kentucky are prohibited from charging more than 6 per cent on loans, a member bank in that State that pays 4-1/2 per cent on a time deposit may not make a loan on such deposit without violating Regulation Q. However, there is nothing to prevent a bank and its customer from agreeing to the payment of a lesser rate of interest on the deposit while a loan on the deposit is outstanding. Therefore, by agreement, the rate of interest paid on the deposit could be reduced to 4 per cent during the period of

## BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Mr. Orville O. Wyrick

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the loan, with interest on the loan fixed at 6 per cent. This would not be a circumvention of the Regulation as the customer would still be paying 2 per cent more interest on the loan than he would receive on the deposit. The rate of interest that the bank could pay on the deposit before and after the loan would not be affected.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.