

Minutes for April 5, 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><i>M</i></u>
Gov. Robertson	<u><i>R.</i></u>
Gov. Balderston	<u><i>CCB</i></u>
Gov. Shepardson	<u><i>[Signature]</i></u>
Gov. Mitchell	<u><i>[Signature]</i></u>
Gov. Daane	<u><i>[Signature]</i></u>

Minutes of the Board of Governors of the Federal Reserve System on Monday, April 5, 1965. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman 1/  
Mr. Balderston, Vice 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. Farrell, Director, Division of Bank Operations  
Mr. Solomon, Director, Division of Examinations  
Mr. Hexter, Assistant General Counsel  
Mr. Shay, Assistant General Counsel  
Mr. Hooff, Assistant General Counsel  
Mr. Sammons, Adviser, Division of International Finance  
Mr. Kiley, Assistant Director, Division of Bank Operations  
Mr. Goodman, Assistant Director, Division of Examinations  
Mr. Leavitt, Assistant Director, Division of Examinations  
Mr. Smith, Assistant Director, Division of Examinations  
Mr. Sprecher, Assistant Director, Division of Personnel Administration  
Mr. Sanders, Attorney, Legal Division  
Mr. Egertson, Supervisory Review Examiner, Division of Examinations  
Messrs. Lyon and Poundstone, Review Examiners, Division of Examinations  
Mr. Hart, Assistant to the Director, Division of Personnel Administration  
Mr. Sidman, Financial Accountant, Securities and Exchange Commission (on loan to the Board)

1/ Attended afternoon session only.

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Circulated or distributed items. The following items, copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:

	<u>Item No.</u>
Letter to Bay City Bank, Bay City, Michigan, approving the establishment of a branch in Hampton Township.	1
Letter to the Federal Reserve Bank of Chicago regarding the status of Financial Data Corp., Gary, Indiana, as a holding company affiliate.	2
Letters to The Bank of California, National Association, San Francisco, California, granting permission to organize a corporation under section 25(a) of the Federal Reserve Act, to be known as Bank of California International Corporation, San Francisco, California, and discussing the relationship of this proposal to the voluntary foreign credit restraint effort.	3-4
Letter to First National City Bank, New York, New York, regarding the question how the value of fixed assets and equipment of a foreign branch should be treated in relation to the voluntary foreign credit restraint effort.	5
Letter to the Executive Director of the Cabinet Committee on Federal Staff Retirement Systems regarding the Board Plan of the Retirement System of the Federal Reserve Banks.	6

In connection with Item No. 3, question was raised whether the corporation being organized by Bank of California, National Association, should be entitled to the advantage referred to in the guidelines for banks under the voluntary foreign credit restraint effort indicating that an Edge Act corporation that "has not yet undertaken any significant volume of loans and investments may take

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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." It was noted that in this case the articles of association and the organization certificate were received by the Federal Reserve Bank of San Francisco on February 9, 1965. Accordingly, it was indicated that there would be no objection to going along with the \$2.5 million leeway if the corporation decided to use its own base under the voluntary effort. The view was expressed, however, that the same advantage should not be given to new Edge or agreement corporations that had not filed their papers prior to the announcement of the President's balance of payments program. In this connection, Mr. Goodman stated that to the best of his knowledge there were no other proposals of comparable status to the one before the Board. It was agreed that the Board's reasoning should be made known to Bank of California, National Association, and a copy of the letter sent for this purpose is attached as Item No. 4.

The letter to First National City Bank (Item No. 5) regarding the question how the value of fixed assets and equipment of a foreign branch should be treated in relation to the voluntary foreign credit restraint effort reflects a minor change agreed upon at this meeting in the draft letter that had been distributed, the purpose being to clarify the intent of the letter.

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In connection with Item No. 6, it was pointed out that the current request from the Cabinet Committee on Federal Staff Retirement Systems did not call for information on the Bank Plan of the Retirement System of the Federal Reserve Banks or for views on the integration of Federal Government staff retirement systems with Social Security. Accordingly, the Board's reply did not go into those matters. Governor Mitchell indicated that in these circumstances he did not object to the sending of the letter. However, he favored in principle the integration of Federal Government staff retirement systems with Social Security and felt that such a view should be stated when the appropriate occasion presented itself.

Report on competitive factors (Huntingdon-Petersburg, Pennsylvania). Unanimous approval was given to the transmittal to the Comptroller of the Currency of a report on the competitive factors involved in the proposed merger of Union National Bank and Trust Company of Huntingdon, Huntingdon, Pennsylvania, and The First National Bank of Petersburg, Petersburg, Pennsylvania. The conclusion read as follows:

While consummation of the proposed merger of The First National Bank of Petersburg into Union National Bank and Trust Company of Huntingdon would eliminate the competition existing between the two banks, the overall effect of the proposed merger on competition would not be significantly adverse.

Question in connection with registration statement. A draft of distributed letter to The Chase Manhattan Bank, New York, New York,

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called attention to an apparent inconsistency between information contained in the bank's registration statement filed pursuant to Regulation F, Securities of Member State Banks, and the listing application submitted to the New York Stock Exchange. In the registration statement Vice President Adam C. Heck had expressed his opinion with respect to the accompanying financial statements as "principal accounting officer," whereas in the listing application Executive Vice President C. A. Agemian was described as the bank's "chief accounting officer" and as being responsible for the bank's accounting system and records.

After discussion it was understood that the Board's staff would get in touch with Mr. Agemian by telephone regarding this matter and that no letter would be sent if the question could be resolved in such manner.

All members of the staff except Messrs. Sherman, Kenyon, Molony, Fauver, Farrell, Solomon, Hexter, Kiley, Leavitt, Smith, Sprecher, and Hart then withdrew from the meeting.

Examination of Cleveland Bank. Mr. Smith summarized information disclosed through the examination of the Federal Reserve Bank of Cleveland by the Board's field examining staff as of January 4, 1965, his comments being based on the report of examination and related memoranda that had been circulated to the Board.

After discussion it was agreed that there were no matters disclosed by the examination that appeared to warrant action on the part of the Board.

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Bank of White Sulphur Springs. In supplementation of Mr. Solomon's report on March 31, 1965, Mr. Leavitt reviewed further developments relating to the condition of the Bank of White Sulphur Springs, White Sulphur Springs, West Virginia, a State member bank. His remarks dealt, among other things, with a change that had been made in the position of chief executive officer, further appraisal of losses that might develop from a line of paper that the bank had acquired from an automobile dealer, and the completeness of the current examination of the bank by the Federal Reserve Bank of Richmond, from which it appeared unlikely that any shortage of bank funds was involved. He also indicated that representatives of the Richmond Reserve Bank and the State Banking Department planned a full discussion of management and capital with the member bank's directors, perhaps later this week, and that the directors were planning to have an audit made of the institution.

All members of the staff except Messrs. Sherman, Sprecher, and Hart then withdrew from the meeting and there ensued preliminary discussion of a matter that it was understood would be considered further by the Board this afternoon. The meeting then recessed and reconvened in the Board Room at 3:00 p.m. with all of the members of the Board present along with Messrs. Sherman and Sammons (Adviser, Division of International Finance).

Voluntary credit restraint effort (Item No. 7). Governor Robertson presented a proposed letter to the President of the Export-Import Bank in which concern would be expressed about the possibility

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that commercial banks might arrange loans through the Export-Import Bank, with or without its guaranty, or might purchase insurance for the purpose of placing credits outside the target established for foreign lending by banks under the President's balance of payments program. The letter would suggest certain procedures that might provide a solution to the problem.

After discussion, during which Governor Robertson responded to a number of questions by other members of the Board concerning the voluntary foreign credit restraint effort and the relationship to it of financing arranged through the Export-Import Bank, the Board concurred in his sending the proposed letter to the Export-Import Bank. A copy is attached as Item No. 7.

Mr. Sammons then withdrew from the meeting.

Salaries of officers at New York Bank (Item No. 8). Following preliminary consideration of the matter earlier today, the Board at this time considered further the request of the Federal Reserve Bank of New York by letter dated March 25, 1965, for the payment of salaries at specified rates to Vice Presidents Alan R. Holmes and Robert G. Link for the period from March 24, 1965, through December 31, 1965. Effective the close of business March 23, 1965, Robert W. Stone had resigned as Vice President of the Bank and Manager of the System Open Market Account to become an officer of a national bank. Effective March 24, 1965, Mr. Holmes, who had been in charge of the research function, was selected as

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Manager of the System Open Market Account by the Federal Open Market Committee, and the directors of the New York Bank had voted that Mr. Holmes was acceptable to the Bank. The directors had fixed his salary, subject to Board approval, at the rate of \$30,000 per annum, an increase of \$3,500. The directors also promoted Mr. Link from Adviser to Vice President, with responsibility for the research function, and fixed his salary at the rate of \$27,000 per annum, an increase of \$2,500. The proposed salaries were discussed in a distributed memorandum from the Division of Personnel Administration dated March 31, 1965.

As to Mr. Holmes, it was the view of the Board that the proposed salary was appropriate in view of his record with the Reserve Bank and the nature of the responsibilities to which he had now been assigned. As to Mr. Link, it was noted that the salary proposed for him was slightly in excess of the salary paid to Mr. Holmes as Vice President in charge of the research function. However, in recognition of the importance of the research function at the New York Bank, the salary proposed for Mr. Link was not called into serious question. Instead, concern was expressed principally about the necessity for continuing the Bank's research activities under strong leadership that would attract the kind of staff required to carry forward this work at a more than adequate level.

At the conclusion of the discussion the proposed salaries for Messrs. Holmes and Link were approved unanimously with the understanding that the Reserve Bank would be advised accordingly. A copy of the letter sent to the Bank pursuant to this action is attached as Item No. 8.

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At this point the following members of the staff joined the meeting:

Mr. Kenyon, Assistant Secretary  
Mr. Noyes, Adviser to the Board  
Mr. Molony, Assistant to the Board  
Mr. Cardon, Legislative Counsel  
Mr. Fauver, Assistant to the Board  
Mr. Brill, Director, Division of Research and Statistics  
Mr. Farrell, Director, Division of Bank Operations  
Mr. Solomon, Director, Division of Examinations  
Mr. Hexter, Assistant General Counsel  
Mr. Leavitt, Assistant Director, Division of Examinations

Bank supervisory arrangements. As noted at the meeting on April 2, 1965, the Board had been invited to testify on Monday, April 12, before the Subcommittee on Bank Supervision and Insurance of the House Banking and Currency Committee concerning bill H. R. 6885, introduced by Congressman Patman, and bill H. R. 107, introduced by Congressman Multer, both relating to bank supervision at the Federal level. In addition, Chairman Patman had requested reports on the two bills. Both bills would centralize Federal functions relating to bank supervision, abolishing the Office of the Comptroller of the Currency and the present Board of Directors of the Federal Deposit Insurance Corporation and transferring the bank supervisory functions of the Board of Governors to the central supervisor. However, the Patman bill would vest the consolidated functions in the Secretary of the Treasury, while the Multer bill would place them in a new five-man Federal banking commission.

Several memoranda had been distributed preparatory to today's discussion. These included a memorandum from Governor Balderston dated

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April 5, 1965, expressing several thoughts on alternative possibilities for the coordination or consolidation of Federal bank supervisory functions; a memorandum from Mr. Forrestal of the Legal Division dated April 2 summarizing the Patman bill; a memorandum from Mr. Cardon dated April 5 comparing the Patman and Multer bills; and a memorandum from Mr. Solomon dated April 5 discussing some of the things needed from bank supervision by interested parties and alternative structural arrangements.

Leading off today's discussion at the invitation of Chairman Martin, Governor Balderston stated reasons why he felt it would be desirable if the Board could come to a unified position on the subject. Further, he felt that the Board's position should be so plausible, persuasive, and rational that even if no legislation were enacted at the present time, the position would be one that the Board could continue to endorse. Should the Board be able to agree on a unified position, he suggested that the Chairman be asked to inform the Administration accordingly, with the timing of such advice left to the discretion of the Chairman.

Governor Balderston then expressed the view that the bank examination function should be assigned to the Federal Reserve on the ground that it would be preferable not to combine this with the insurance function. He suggested, in support of this view, that bank examiners who worked primarily for the insuring authority would be likely to classify loans so as to restrain the extension of credit at the very times when the central bank might not like it to be restrained, since they would have

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in mind minimizing risks. More important, however, he did not believe that the discount function could be administered properly without continuing contacts between the Federal Reserve and the banks eligible to borrow at the discount window. Such contacts needed to be enhanced rather than diminished. He thought it important that the Reserve Bank Presidents and other officers be on a first-name basis with commercial bankers in their districts, as an aid in knowing what was happening at the banks currently. Informal contact was built upon the various connections that the Reserve Banks had with the commercial banks, and the examining function was an essential part of that link. In short, his preference would be for the Board to endorse the centralization of the bank examination function in a single Federal agency; and of the alternatives he favored the suggestion of the Commission on Money and Credit that the function be unified in the central bank. If the situation involved starting with a blank piece of paper, he did not think any arrangement would be considered seriously other than that the central bank should charter and supervise the commercial banks. He hoped that the Board would stand foursquare behind the report of the Commission on Money and Credit. The Federal Reserve had been reluctant to seem to grasp for authority, but he believed the logical and rational answer, if unification was desired, was that the unification be in the Federal Reserve.

Governor Daane referred to his contacts, while he was in the Treasury Department, with the work of the President's Committee on

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Financial Institutions. He felt that the Committee's report represented, in effect, an attempt to find compromise language. In essence, the Committee was saying that there ought to be some way of compelling the three Federal bank regulatory agencies to work together within the present framework. If that could not be done, however, then it was quite clear that the Committee favored shifting over to consolidation of the bank supervisory function in one place. Sentiment ran against consolidation in the Treasury, principally, perhaps, because of personalities involved when the Committee's work was in process.

Governor Daane then said that after much soul searching he came out in his own thinking in terms of favoring concentration of the bank supervisory responsibility in the Federal Reserve. His personal interests, he noted, ran more in the direction of monetary policy and balance of payments responsibilities. Nevertheless, he felt that there would be a significant loss in terms of monetary policy, both its formulation and implementation, if bank supervisory powers were removed from the Federal Reserve. This loss would be most marked at the Reserve Bank level, but it would also affect the Board in terms of the contacts coming from and relating to its supervisory and regulatory powers. Something would be lost in the present sense, but more importantly in the future sense because he believed that the Federal Reserve would be more vulnerable to a move to bring monetary policy matters within the sphere of the Executive Branch of the Government. The supervisory function had a

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relationship to central banking, he observed, in terms of responsibility for money and credit and for sound credit conditions. If a move was to be made away from the present setup, he concluded that the place to put bank supervisory powers was in the hands of the Federal Reserve. Governor Robertson's proposal for a Federal banking commission would be his second choice, for this would afford some insulation from political pressures. His last choice would be consolidation in the Treasury, for he felt certain that the exercise of these powers by the Treasury would lapse over into an added influence on monetary policy deliberations.

Governor Mitchell commented that the Federal Reserve had done its best to make the present regulatory setup work. However, he had come to the judgment that this setup was working less and less effectively. There was more and more footdragging on the part of one agency or another, and the situation had become intolerable. Part of the difficulty lay in the fact that the banking system was changing so rapidly, and bank regulation was not keeping up with it. In his opinion, one agency was all that was needed. He felt that the Federal Reserve could perform the regulatory activity as well as any other agency--perhaps even better, although he would not want to make the latter assertion for public consumption. Further, it should be able to do the job economically by delegating a substantial amount of work to the Federal Reserve Banks. A system was in operation that would not disappear whether it was given this work or not, for it had many other functions. If the

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Federal Reserve were given the entire responsibility for bank regulation, he would propose to decentralize much of the work; and he had set up a comprehensive list of what was involved. He would delegate the chartering of new banks to the Federal Reserve Banks, as the guidelines had been fairly well established. With overall review by the Board, uniform methods could be assured throughout the country. He would also delegate approval of the establishment of branches. At the moment he would not be prepared to delegate action on bank merger and bank holding company applications, because the guidelines were not well enough established, but the day no doubt would come when these responsibilities could also be delegated. The bank examination function was already in effect delegated. In his opinion the examination function, particularly as it related to appraisals of securities portfolios, loan portfolios, and capital structure, suffered from the infrequency of examinations and reports. The Board should be getting more reports more often, and there should be more on-the-spot inspections. The regulations required to implement the banking statutes would continue to be promulgated by the Board. The insurance activities of the Federal Deposit Insurance Corporation presumably could be performed in some section of the Federal Reserve's organization if the whole bank regulatory responsibility were centralized in the Board.

In summary, Governor Mitchell said, the Board for years had tried to work along with the other supervisory agencies, but now the system was

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breaking down. So that this would not happen again, the responsibility should be placed in the hands of one agency. The best agency, in his view, would be the Federal Reserve System because of its organizational characteristics, which would permit delegation of responsibilities by the Board, and the work could be done uniformly. In his opinion such a solution would be popular with many banks, for he believed that the Federal Reserve's reputation was good.

Governor Shepardson indicated that he agreed essentially with what had been said thus far. It seemed to him that a multiple bank supervisory structure was basically unsound. The argument sometimes was advanced that the division of responsibilities provided protection against a dictatorial position on the part of one agency, but in his view this was not a valid argument. If there was a basis for supervision of a segment of the economy, this must be found in the public interest. And one agency working in the public interest was preferable to multiple agencies, which for various reasons had at times seemed to get into the position of considering themselves advocates or protectors of particular parts of the industry. If there was justification in the public interest for supervision, it seemed to him intolerable to offer banks the opportunity to shift from one supervisor to another in the hope of receiving more liberal treatment. While statements had been made that the several banking agencies got along reasonably well until recent years, it should be recalled there had been a controversy of long

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standing between the Board and the Federal Deposit Insurance Corporation in the matter of absorption of exchange charges and no doubt other such disagreements among the agencies could be mentioned.

The argument for unification, Governor Shepardson thought, was a strong one, and several factors argued in favor of placing the responsibility in the Federal Reserve. He agreed with the comments that had been made in this regard from the standpoint of the System's responsibility for monetary and credit policy, which was implemented through the commercial banking system. For this reason, the Federal Reserve should have close relationships with the commercial banks and an opportunity for close observation of activities within the banks. If a banking commission were established, this would only reduce the number of agencies interested in bank supervision from three to two, and there would still be the problem of coordinating the activities of the two agencies. In his judgment it would be preferable to have only one agency involved, and to have the bank supervisory function tied in with the function of formulating and implementing monetary and credit policy. By way of illustration, it might be noted that the fixing of maximum permissible rates of interest on time and savings deposits seemed now to have a much more important relationship to monetary policy than had been anticipated at one time. Also, the question of the quality of credit was of direct concern to the Federal Reserve. The Federal Reserve should have the opportunity for close contact with the commercial banks, without

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the charge of duplicating activities of other agencies, in order to obtain knowledge of the credit situation.

In summary, Governor Shepardson said, on the matter of centralizing the bank supervisory function, he felt there were persuasive arguments on grounds of economy and consistency of actions, and also on grounds of necessary relationships between the Federal Reserve and the banking system as an aid in formulating monetary and credit policy, that strongly supported placing the bank supervisory function in the Board, with authority, of course, to delegate certain types of actions.

Governor Robertson said he was pleased that everyone apparently had come to the conclusion that there was a need for unification of the bank supervisory function. In his view, however, the responsibility should not be placed in the Federal Reserve. If the Federal Reserve had responsibility for bank examinations, he felt that this would substantially endanger the status of the System. If the Federal Reserve were supervising banks that got into trouble under unfortunate circumstances, such as developed recently in the San Francisco National Bank case, this could injure the image of the System as a whole and in turn reflect on monetary policy. It could damage public confidence in all of the System's operations, and this was too important to risk.

As to the need of the central bank to exercise bank supervisory Powers in connection with the formulation of monetary policy, Governor Robertson said he did not believe that any Board member or Reserve Bank

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President made a judgment on monetary policy on the basis of examination reports, whether the bank was examined by the Federal Reserve, the Comptroller of the Currency, or the Federal Deposit Insurance Corporation. Neither did the matter of first-name relationships have anything to do with bank examinations; instead, this depended on other normal contacts between the central bank and commercial bankers all over the country. All of the information needed by the Federal Reserve could be obtained through access to reports of examination plus the right to require any information it desired from banks coming to the discount window. Nothing essential to the formulation of monetary policy or administration of the discount window depended on the examination of banks by the Federal Reserve. Further, if the Federal Reserve had responsibility for the examining function, there was the danger that in a time of implementing a decision to ease monetary policy there might be a temptation for the System to tell its examiners to close their eyes in analyzing credits, and this would be the very time when the examiners should be analyzing loans most closely. Even if the System did not use the examining function for the purpose of implementing monetary policy, it would run the risk of being charged with that practice, and this could endanger the respect enjoyed by the Federal Reserve throughout the whole community.

Governor Robertson agreed that consolidation of the bank supervisory function in the Treasury would be undesirable. Certain decisions in the area of bank supervision were of such importance that the power

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to make them should not reside in one man. Instead, they called for a composite judgment. Consequently, he would not favor the Patman bill. And he did not feel that the Federal Reserve would be furthering its long-run interests by seeking transfer of the bank supervisory function to the Federal Reserve.

Governor Robertson observed that if the Federal Reserve began to perform for the entire Federal Government an essential function such as the examining of banks, the System would be one step closer to the point where all of its operations might be taken into the Executive Branch of the Government.

Chairman Martin inquired whether the "two-agency problem" could be resolved to the satisfaction of the Board members by writing into the statutes language that would explicitly require the bank supervisory authority to make available at all times information that was considered of value to the central bank.

Governor Daane indicated that this would not resolve the problem satisfactorily as far as he was concerned. It was not simply a matter of obtaining reports and statistical data; instead, it came down to the question of relations with the banking community. He felt--perhaps influenced by his Reserve Bank experience--that this was a highly important consideration. The decentralized structure of the Federal Reserve System offered a unique advantage in this regard as well as an advantage from the standpoint of cost, as Governor Mitchell had mentioned.

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Governor Mitchell said the banking commission proposal was unacceptable to him not because it failed to put everything in one place but rather because it involved taking so much away from the central bank. The difficulty involved was in drawing a line between the money and credit function and the bank supervisory function. One possible solution to the two-agency dilemma might be to require that the bank supervisory authority give the central bank any information the latter asked for at any time, and possibly this would be sufficient. But he was not willing to forego accepting responsibility simply because it involved accepting hazards. In the area of monetary policy, people were certainly going to be criticizing the Federal Reserve System continually for one reason or another, and the only answer was for the System to do the best job it could and make the best possible record. The same would be true with respect to bank supervision. He regarded the proposal for a Federal banking commission as decidedly a second-best choice. It would be difficult, he thought, to draw a line between the functions of that agency and the functions of the central bank, and this might well be a constant source of difficulty. It could lead to the compromising of objectives as, for example, if the banking commission did not favor the collection of certain statistics felt to be needed by the central bank.

Governor Mitchell commented further that Federal Reserve personnel had a reputation for being objective in their various activities, including the examination of banks. This was a factor that should not

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be dismissed lightly. He also referred to his concern--and that of the Board--about the quality of credit, and the examination of banks added to the store of knowledge available in studying credit quality.

Governor Daane commented that, as a matter of fact, examining policy had not been attuned to changes in monetary policy. The question had come up at times, but this had not been done. He did not see why having more banks to examine would necessarily increase the temptation to adjust examining policy to monetary policy.

Governor Robertson replied that there had been a time in the 1930's when an attempt was made by a source within the Board to have examining policy flex with monetary policy. If it had not been for the other banking agencies taking a strongly adverse position, this would have happened. He went on to say that he thought it would be quite appropriate in establishing any sort of consolidated bank supervisory unit to write into the legislation a requirement that the agency obtain and provide information needed by the Federal Reserve. This should be mandatory and not permissive.

Governor Balderston said he assumed Governor Robertson made reference to data necessary for monetary policy determination, and he asked whether Governor Robertson had thought through the same question with reference to the discount function. Provisions could be written into the law requiring a banking commission to furnish the Federal Reserve reports and research data, but this would leave the question of

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obtaining continuing information for the benefit of administration of the discount window.

Governor Robertson, in reply, noted that the Federal Reserve presently examines only a fraction of the country's banks. He felt that satisfactory contacts with banks could be maintained for purposes of the discount function whether or not the banks were examined by the Federal Reserve. In his view, whatever "muscle" accrued to the Federal Reserve through the examining of banks would count for little so far as the handling of discount operations on a sound basis was concerned. In answer to a question, he saw no reason to believe that a program such as the current voluntary foreign credit restraint effort would work any more effectively if the Federal Reserve had access to all banks through the examining process.

Asked whether he thought there was a likelihood that any single regulatory body might be dominated by the industry, Governor Robertson said he had thought about the question and did not believe there was any more chance of this occurring than of the Federal Reserve being dominated by the banking industry. There was always a possibility that any Government agency performing a supervisory function might be dominated by the industry concerned and become a voice of the industry. Such charges could always be made, but he did not see why this would be any more true if a banking commission was established than under the prevailing regulatory structure. In reply to a question on whether the

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establishment of the proposed banking commission might not tend to result in concentration of authority at the headquarters, Governor Robertson noted that the legislation would contain specific provisions for delegation of authority, with right of appeal to the commission itself. He went on to say that if the Federal Reserve had the examining responsibility, it would in effect pay the expenses out of public funds, whereas both national banks and State banks now paid their own way for the cost of examinations. He added that field organizations of the other bank supervisory agencies were already in existence, and the field organizations of the several banking agencies would simply be pulled together if a banking commission was established, with a resultant reduction in overhead costs. He assumed that field offices of the banking commission would be provided space in Federal Reserve Banks, and perhaps in the branches.

Chairman Martin then commented that an important decision was involved that the Board ought to try to bring to a head. He suggested that the members of the Board think about the matter further overnight and that the Board meet tomorrow at 9:30 a.m. with a view to reaching a decision as to what course it wanted to follow, particularly in relation to the testimony that had been requested before the Subcommittee of the House Banking and Currency Committee next Monday.

There followed a brief discussion concerning a point raised by a member of the staff that if responsibility for bank supervision was centered in the Board and powers to decide certain types of cases were

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delegated to the Federal Reserve Banks, the service of bankers as directors of the Reserve Banks could lead to conflicts of interest, or at least to charges of such conflicts. The point was recognized by the Board, but the thought was expressed that arrangements could be worked out to deal with it satisfactorily.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board the following items:

Memorandum from Robert L. Sammons, Adviser, Division of International Finance, requesting permission to accept a minor honorarium for a lecture on the U. S. balance of payments to trainees of the Business Council for International Understanding.

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

Appointment

Thomas A. Sidman as Accountant-Analyst, Division of Examinations, with basic annual salary at the rate of \$14,170, effective the date of entrance upon duty.

Salary increases, effective April 11, 1965

Dorothy E. Swink, Statistical Assistant, Division of Research and Statistics, from \$5,495 to \$5,660 per annum.

N. Lois Orr, Secretary, Division of International Finance, from \$5,000 to \$5,165 per annum.

Robert F. Achor, Review Examiner, Division of Examinations, from \$12,915 to \$13,335 per annum.

John M. Poundstone, Review Examiner, Division of Examinations, from \$12,915 to \$13,335 per annum.

Lois Buckley, Telephone Operator, Division of Administrative Services, from \$4,950 to \$5,085 per annum.

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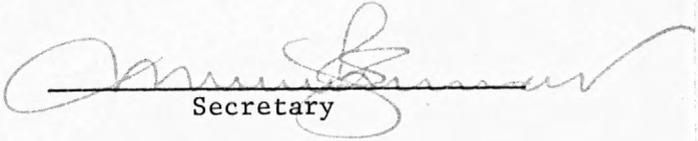
Salary increases, effective April 11, 1965 (continued)

John C. Chisolm, Cafeteria Laborer, Division of Administrative Services, from \$3,500 to \$3,615 per annum.

James E. Miller, Operator (Tabulating Equipment), Division of Data Processing, from \$4,480 to \$4,630 per annum.

Acceptance of resignation

Albert C. Bain, Senior Operator (Tabulating Equipment), Division of Data Processing, effective at the close of business April 10, 1965.

  
Secretary

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

Item No. 1  
4/5/65

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 5, 1965



Board of Directors,  
Bay City Bank,  
Bay City, Michigan.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Bay City Bank, Bay City, Michigan, of a branch at the northeast corner of the intersection of Center Avenue and Harding Road, Hampton Township, Bay County, Michigan, 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  
4/5/65



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 5, 1965

Mr. Leland M. Ross, Vice President,  
Federal Reserve Bank of Chicago,  
Chicago, Illinois. 60690

Dear Mr. Ross:

This refers to your letter of March 12, 1965, with reference to the status of Financial Data Corp., Gary, Indiana, as a holding company affiliate of Bank of Indiana, National Association.

At the time of the Board's January 17, 1964, letter, Financial Data Corp. owned 45,200 of the 90,000 outstanding voting shares (50.22%) of Bank of Indiana. From the information presented, the Board understands that Bank of Indiana has now been converted to a national bank with the title of Bank of Indiana, National Association; that no change occurred in Financial Data Corp.'s ownership as a result of the conversion; that no additional bank stock has been acquired by the corporation since January 17, 1964; and that no significant change has taken place otherwise in the activities of Financial Data Corp. since that date.

In view of these facts, please advise Financial Data Corp. that no redetermination of its status as a "holding company affiliate" is necessary at this time.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.

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

Item No. 3  
4/5/65



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 5, 1965

Mr. Charles de Bretteville,  
President,  
The Bank of California, National Association,  
400 California Street,  
San Francisco, California 94120.

Dear Mr. de Bretteville:

The Board of Governors has approved the Articles of Association dated February 4, 1965, and the Organization Certificate dated February 5, 1965, of Bank of California International Corporation, and there is enclosed a preliminary permit authorizing that Corporation to exercise such of the powers conferred by Section 25(a) of the Federal Reserve Act as are incidental and preliminary to its organization.

Except as provided in Section 211.3(a) of Regulation K, the Corporation may not exercise any of the other powers conferred by Section 25(a) until it has received a final permit from the Board authorizing it generally to commence business. Before the Board will issue its final permit to commence business, the president, cashier, or secretary, together with at least three of the directors, must certify (1) that each director is a citizen of the United States; (2) that a majority of the shares of capital stock is held and owned by citizens of the United States, by corporations the controlling interest in which is owned by citizens of the United States, chartered under the laws of the United States or of a State of the United States, or by firms or companies the controlling interest in which is owned by citizens of the United States; and (3) that of the authorized capital stock specified in the Articles of Association at least 25 per cent has been paid in in cash and that each shareholder has individually paid in in cash at least 25 per cent of his stock subscription. Thereafter the cashier or secretary shall certify to the payment of the remaining instalments as and when each is paid in, in accordance with law.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

April 5, 1965

Preliminary Permit

IT IS HEREBY CERTIFIED that the Board of Governors of the Federal Reserve System, pursuant to authority vested in it by Section 25(a) of the Federal Reserve Act, as amended, has this day approved the Articles of Association dated February 4, 1965, and the Organization Certificate dated February 5, 1965, of BANK OF CALIFORNIA INTERNATIONAL CORPORATION duly filed with said Board of Governors, and that BANK OF CALIFORNIA INTERNATIONAL CORPORATION is authorized to exercise such of the powers conferred upon it by said Section 25(a) as are incidental and preliminary to its organization pending the issuance by the Board of Governors of the Federal Reserve System of a final permit generally to commence business in accordance with the provisions of said Section 25(a) and the rules and regulations of the Board of Governors of the Federal Reserve System issued pursuant thereto.

BOARD OF GOVERNORS OF THE  
FEDERAL RESERVE SYSTEM

(SEAL)

(Signed) Elizabeth L. Carmichael

By

Elizabeth L. Carmichael,  
Assistant Secretary.

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BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 4  
4/5/65

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 5, 1965.

Mr. Charles de Bretteville,  
President,  
The Bank of California, National Association,  
San Francisco, California.

Dear Mr. de Bretteville:

In a separate letter of this date you have been advised that the Board has approved the Articles of Association and the Organization Certificate of Bank of California International Corporation.

Enclosed for your information is a copy of a letter dated March 8, 1965, sent to all Edge Act and Agreement Corporations regarding the President's program to improve the nation's balance of payments position. As stated in Guideline (11), Edge Act and Agreement Corporations are included in the voluntary foreign credit restraint effort. Under that Guideline, the foreign loans and investments of such a Corporation may be combined with those of the parent bank, 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 bank, its paid-in capital and surplus, up to \$2.5 million, even though an equivalent amount of foreign loans and investments have not yet been made as of December 31, 1964.

Edge Act and Agreement Corporations organized subsequent to February 10, 1965, will not be regarded as having a separate base for the purpose of the voluntary foreign credit restraint effort.

The application of your bank to establish a Corporation under the provisions of Section 25(a) of the Federal Reserve Act was received by the Board of Governors March 5, 1965. However, in view of the fact that the Articles of Association were dated February 4, 1965, the Organization Certificate dated February 5, 1965, the transmittal letter from counsel for your bank dated February 5, 1965, and were received by the Federal Reserve Bank of San Francisco on February 9, 1965, it is the view of the Board of Governors that Bank of California International Corporation, if it desires, may take as a base, alone and not in combination with its parent, its paid-in capital and surplus, up to \$2.5 million.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

Enclosure

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

Item No. 5  
4/5/65



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 5, 1965.

Mr. Walter B. Wriston,  
Executive Vice President,  
First National City Bank,  
399 Park Avenue,  
New York 22, New York.

Dear Mr. Wriston:

This refers to your letter of March 17, 1965, with reference to three letters from the Board of Governors dated March 12, 1965, acknowledging your advices of intention to establish additional branches in Antwerp, Kuala Lumpur, and Santo Domingo. You stated that the third paragraph of each of the letters would seem to indicate that the value of your fixed assets and equipment in a foreign branch should be included when computing the 105 per cent target on loans and investments during 1965 under the voluntary foreign credit restraint effort. The particular sentences to which you refer read as follows:

"With respect to the establishment of foreign branches, funds to be invested (whether in the form of allocated capital, advances, and fixed assets and equipment) should be counted as part of the 5 per cent target."

The sentence in question was intended only to cover the home office investment in a branch (whether in the form of allocated capital, advances, or otherwise) including funds provided for investment in fixed assets and equipment. The Board concurs with the position taken in your letter that, to the extent that you build and furnish buildings abroad with funds received from branch depositors, or other outside sources, such investments would not represent foreign assets for purposes of the credit restraint effort.

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. 6  
4/5/65



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 5, 1965.

Mr. David F. Lawton,  
Executive Director, Cabinet Committee  
on Federal Staff Retirement Systems,  
c/o United States Civil Service Commission,  
Washington, D. C. 20415.

Dear Mr. Lawton:

This refers to your letters of March 10 and 24, 1965 addressed to Mr. Edwin J. Johnson, concerning the study of Federal Staff Retirement Systems. Reference is also made to Mr. Johnson's reply of March 22 and conversations with the Board's staff of Personnel Administration regarding this study.

The history of retirement coverage for Board employees shows that, beginning about 1921, employees who came directly to the Board from a position in the Government covered by Civil Service Retirement retained retirement benefits under Civil Service. In 1934, Board employees other than those covered by Civil Service Retirement became eligible for coverage under a newly established "Retirement System of the Federal Reserve Banks" for all employees of the Federal Reserve System. Membership was made up largely of Reserve Bank employees; benefits were identical for both Reserve Bank and Board of Governors employees. Board employees under this plan had somewhat lesser benefits than retirees subject to the Civil Service Retirement Act.

Effective January 1, 1944, the Board of Governors approved for its employees (as distinguished from Federal Reserve Bank employees) the establishment of a separate retirement plan within and as a part of the Retirement System of the Federal Reserve Banks. The purpose of the Board of Governors plan was to provide benefits comparable to those under the Civil Service.

At the present time, employees of the Board of Governors are covered by either of two retirement plans, with virtually identical benefits available to them:

- (1) The Board of Governors Plan of the Retirement System of the Federal Reserve Banks;

or

- (2) The Civil Service Retirement and Disability Fund.

Mr. David F. Lawton

About 83 per cent of employees are under the Board of Governors Plan; the remaining 17 per cent are under the Civil Service Plan.

In general, the Board of Governors Plan covers all members of the staff who do not come directly from a position in the Government covered by Civil Service Retirement. The Civil Service Retirement Plan covers all Board employees who, at time of appointment to the Board's staff, had funds on deposit with the Civil Service Retirement and Disability Fund. However, a new employee with funds on deposit with the Civil Service Retirement System transfers to the Board of Governors Plan if he has prior service credit with a Federal Reserve Bank.

The legal authority for the establishment of the Federal Reserve Retirement System is derived from provisions of Section 10 of the Federal Reserve Act granting broad authority to the Board of Governors to fix the compensation of its own employees, which would encompass the establishment of a retirement system. Enclosed is a copy of the Rules and Regulations of the Retirement System of the Federal Reserve Banks (Attachment I). Section 10 (pgs. 29-30) deals specifically with employees of the Board of Governors.

The principal differences between the Board of Governors and Civil Service retirement systems are the provisions for funding, age at retirement, and transfer of pension credit.

Funding - Unlike the Civil Service Retirement System, the Board Plan is completely funded. Covered Board employees contribute at the rate of 6.5 per cent -- the same rate as Civil Service retirement members -- of basic salary per year. The Board of Governors provides contributions (currently 16.14 per cent of salaries) to cover the remaining cost of the plan, based on the Actuary's annual calculation of experience expectancy of Board employees.

Age at Retirement - As a matter of policy, members of the Board of Governors Plan retire at age 65. The age 65 requirement, of course, differs from that of Civil Service. Outside consultants who have reviewed the Federal Reserve Retirement System report that unless a normal retirement age is observed in practice, management representatives as well as employees fail to plan toward retirement, retirements are unduly delayed, and, eventually, late rather than normal retirement becomes the rule rather than the exception. They also cite the advantage of conforming with Social Security practices as to the retirement age. Consultants believe a pension plan should be designed to insure that employees will retire at the time their withdrawal from the active work force will best serve the interest of the employer; that no method had been discovered whereby retirement may be made selectively on some basis other than chronological age, without running serious risk of discrimination and adverse employee reaction. Their studies also show that retirement at age 65 is general community practice.

Transfer of Pension Credit - The Board of Governors Plan gives credit for retirement purposes for all services performed as an employee of the Federal Government, the District of Columbia Government, or a Federal Reserve Bank.

Mr. David F. Lawton

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As you know, pension credit for Federal Reserve Bank service is not creditable under the Civil Service Plan.

In other respects, provisions of the Board of Governors Plan are substantially the same as those of Civil Service. Attached is an excerpt from a report, dated February 29, 1964, of the consulting Actuary of the Retirement System of the Federal Reserve Banks summarizing the benefit and contribution provisions applicable to employees of the Board of Governors (Attachment II).

Your letter of March 10 requests a statement of objectives for the Board Retirement Systems. The principal objective is to provide for the orderly retirement and financial security of Board employees when their working careers are terminated. The plans also provide desired financial protection against disability and death.

From the standpoint of management, a retirement plan is an important tool in attracting and holding the most desirable personnel, reducing turnover, fostering promotional opportunities, stimulating morale, and promoting efficiency and economy. Realistically, competition in the market for employees, and particularly the existence of a retirement plan for Civil Service workers, makes it imperative that the Board of Governors provide a comparable program for all of its employees.

The Board believes that the plans provide for equitable treatment of employees, on the basis of external and internal comparisons. Externally, benefits and employee contribution rates are equal to those of other Government agencies. Internally, benefits are comparable for all Board employees depending, of course, on salary levels and length of service.

With respect to national manpower requirements, the Board of Governors Plan is tailored to our particular needs in permitting the transfer of pension credits not only between the Board Plan and Civil Service retirement systems, but also between the Board Plan and the Retirement System of the Federal Reserve Banks. These provisions help us in the recruitment of employees with experience in specialized fields, e.g., bank examiners, economists, lawyers, etc. Similarly, Board personnel may transfer to other Government agencies or Reserve Banks where their experience and training are needed, without loss of pension credit.

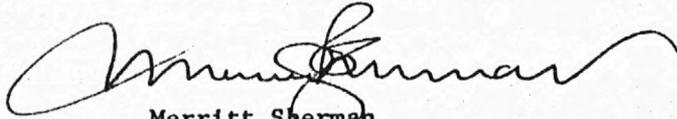
If additional information is desired regarding the operation and objectives of the Board of Governors retirement systems, the Board will be glad to supply it.

Mr. David F. Lawton

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As requested in your letter of March 24, 1965, selected material contained in Part I of the Kaplan Report (1954) on Retirement Policy for Federal Personnel, is being up-dated and will be forwarded to your office on or before April 20.

Very truly yours,

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

Merritt Sherman,  
Secretary.

Attachments.



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

1111  
Item No. 7  
4/5/65

JAMES LOUIS ROBERTSON  
MEMBER OF THE BOARD

April 5, 1965.

The Honorable Harold F. Linder,  
President,  
The Export-Import Bank of Washington,  
811 Vermont Avenue, N. W.,  
Washington, D. C. 20571

Dear Harold:

We are becoming increasingly concerned about the possibility that banks may arrange loans through your institution, with or without your guarantee, or may purchase FCIA insurance, solely for the purpose of placing such credits outside of the target established for foreign lending by banks under the President's Balance of Payments Program. By this procedure the banks, in effect, would free an equivalent amount of funds for making other loans--possibly including loans of relatively low priority--while still remaining within their ceilings. This would obviously reduce the effectiveness of the program by diminishing pressure on the banks to curtail their non-priority credits.

There is attached a copy of the report form which will be used by the larger banks to report their foreign lending to us. You will note that line 3 of the form provides for the deduction of all credits guaranteed or insured by, or arranged through, the Export-Import Bank. We have interpreted the phrase "participations in individual Export-Import Bank loans" to include all bank loans to foreigners in which the Export-Import Bank has any part, whether through guarantee, through direct participation, or through insurance, and regardless of whether the Export-Import Bank has guaranteed in any way that part of the credit held by the commercial bank.

If we could be assured that the total amount of foreign lending by commercial banks which would be reportable on line 3 of our Form 391 would not increase in 1965 by more than a reasonable amount (satisfactory to both of us), there would be no objection to continuing to exclude all Export-Import Bank-connected credits from our guidelines. As I see it, this might be accomplished in one of two ways:

The Honorable F. Linder

(1) We might fix a separate target ceiling for the types of credits reported on line 3, which, it should be noted, include the non-guaranteed portion of loans "arranged through" the Export-Import Bank. This could be either the same 5 per cent applicable to other loans or some other percentage, depending on the amount outstanding at the end of 1964 and the amount of increase for the current year that might be considered reasonable. Such a ceiling would, of course, be applicable to each bank individually.

(2) The overall target for increases in this type of loan may be fixed as under alternative (1). However, instead of setting an equal percentage target for each commercial bank, the Export-Import Bank might assume responsibility for insuring that the total of such assets held by all commercial banks does not exceed the agreed amount.

The second alternative would obviously be more flexible since the amount of business that could be done by any particular bank would not be limited by the amount previously undertaken by that bank. It would also have the advantage, from our point of view, of not involving any change in, or addition to, our existing guidelines. I realize, however, that it might involve some changes in your procedures, particularly with respect to credits which can be extended by banks, or insurance which can be placed by FCIA, without previous authorization by you.

If you agree--and I hope you will--that we can proceed along these lines, I am sure our staffs can work out the details. If not, I would welcome any suggestions you might have as to alternative procedures. In any event, we must not permit this problem to get ahead of us, and therefore it is of utmost importance that an appropriate solution be devised quickly.

Sincerely,

(Signed) J. L. Robertson

Enclosure.

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

1113  
Item No. 8  
4/5/65



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 6, 1965.

CONFIDENTIAL (FR)

Mr. Alfred Hayes, President,  
Federal Reserve Bank of New York,  
New York, New York 10045.

Dear Mr. Hayes:

The Board of Governors approves the payment of salaries to the officers of the Federal Reserve Bank of New York listed below, for the period March 24 through December 31, 1965, at rates indicated, which are those fixed by your Board of Directors, as reported in your letter of March 25, 1965.

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
Alan R. Holmes	Vice President	\$30,000
Robert G. Link	Vice President	27,000

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.