

Minutes for May 3, 1965



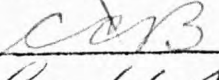
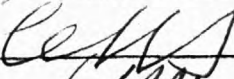
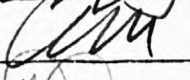
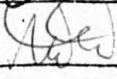

To: Members of the Board

From: Office of the Secretary

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

It is 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></u>
Gov. Robertson	<u></u>
Gov. Balderston	<u></u>
Gov. Shepardson	<u></u>
Gov. Mitchell	<u></u>
Gov. Daane	<u></u>
Gov. Maisel	<u></u>

Minutes of a meeting of the available members of the Board of Governors of the Federal Reserve System on Monday, May 3, 1965. The meeting was held in the Board Room at 10:00 a.m.

PRESENT: Mr. Balderston, Vice Chairman
Mr. Robertson
Mr. Shepardson

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Broida, Assistant Secretary
Mr. Noyes, Adviser to the Board
Mr. Molony, Assistant to the Board
Mr. Brill, Director, Division of Research and Statistics
Mr. Holland, Associate Director, Division of Research and Statistics
Mr. Koch, Associate Director, 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. Spencer, General Assistant, Office of the Secretary
Mr. Axilrod, Chief, Government Finance Section, Division of Research and Statistics
Mr. Gramley, Senior Economist, Division of Research and Statistics
Messrs. Bernard and Ettin, Economists, Division of Research and Statistics
Mr. Dahl, Chief, Special Studies and Operations Section, Division of International Finance
Mr. Furth, Consultant

Mr. Melnicoff, Vice President, Federal Reserve Bank of Philadelphia

Money market review. Mr. Bernard discussed developments in the Government securities market, relating his remarks to distributed tables on current Treasury refunding operations and a chart showing yields on

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Government securities. Mr. Dahl then reported on foreign exchange market developments.

Following this review, Mr. Melnicoff, Mr. Furth, and all members of the Board's staff who had been present except Messrs. Sherman, Kenyon, Noyes, Molony, Brill, Sammons, and Spencer withdrew from the meeting and the following entered the room:

- Mr. Hackley, General Counsel
- Mr. Solomon, Director, Division of Examinations
- Mr. Shay, Assistant General Counsel
- Messrs. Egertson and McClintock, Supervisory Review Examiners, Division of Examinations
- Mr. Poundstone, Review Examiner, Division of Examinations

The following actions were taken subject to ratification at a meeting of the Board at which a quorum was present:

Discount rates. The establishment without change by the Federal Reserve Banks of Minneapolis, Kansas City, and San Francisco on April 29, 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 The Roscommon State Bank, Roscommon, Michigan, approving the establishment of a branch in St. Helen and urging that consideration be given to further strengthening of the bank's capital position.	1

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	<u>Item No.</u>
Letter to First Western State Bank of Minot, Minot, North Dakota, approving the establishment of a branch in Glenburn.	2
Letter to Chase Manhattan Overseas Banking Corporation, New York, New York, interposing no objection to Brasilar Administracao e Participacoes Limitada, a wholly-owned subsidiary, utilizing cruzeiros paid as dividends by Banco Lar Brasileiro S.A., Rio de Janeiro, Brazil, to purchase outstanding preferred shares of Banco Lar.	3
Letter to the Federal Reserve Bank of Boston waiving the assessment of penalties incurred by First Agricultural National Bank of Berkshire County, Pittsfield, Massachusetts, because of deficiencies in its required reserves.	4
Letter to the Federal Reserve Bank of Atlanta waiving the assessment of a penalty incurred by Manufacturers National Bank, Newnan, Georgia, because of a deficiency in its required reserves.	5
Telegram to the Federal Reserve Agent at Boston authorizing the issuance to Shawmut Association, Inc., Boston, Massachusetts, of a general permit to vote its stock of 10 member banks.	6

Report on competitive factors (Vincennes-Sandborn, Indiana).

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 Sandborn Banking Co., Sandborn, Indiana, into The American National Bank of Vincennes, Vincennes, Indiana.

Following a discussion during which it was understood a technical change would be made in the body of the report, the report was approved unanimously for transmittal to the Comptroller. The conclusion read as follows:

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Although only a nominal amount of competition would be eliminated, the merger of American National Bank of Vincennes and Sandborn Banking Co. would reduce the number of banking alternatives from three to two in Knox County, and increase the concentration of banking resources in Knox County's largest bank. The effects on banking competition are adverse.

Messrs. Shay, Sammons, Egertson, McClintock, and Poundstone then withdrew from the meeting.

Advisory Council topics (Item No. 7). There had been distributed a draft of letter to the Secretary of the Federal Advisory Council that would transmit topics suggested for discussion at the Council's forthcoming meeting on May 17-18, 1965.

During discussion certain changes in the draft were agreed upon, following which a letter was approved for transmittal in the form attached as Item No. 7.

Bank of Dublin. Mr. Solomon reported on circumstances that had caused the Bank of Dublin, Incorporated, Dublin, Virginia, a State member bank, to be placed in a status roughly equivalent to conservatorship, with the prospect that it would shortly be placed in receivership.

Study of Board's offices. Governor Shepardson reported on a telephone conversation earlier this morning with a representative of Raymond Loewy/William Snaith, Inc., New York, New York, about the timing of a presentation to the members of the Board of findings in connection with that firm's analysis of space utilization in the Board's building.

It was understood, following discussion, that arrangements would be made for representatives of the firm to meet with the Board members at 11:00 a.m. on May 17, 1965.

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The meeting then adjourned.

Secretary's Notes: The requirements contemplated by the Board's action on April 5, 1965, in approving the issuance of a preliminary permit to Bank of California International Corporation, San Francisco, California, having been completed, a letter was sent to that corporation on April 30, 1965, transmitting a final permit to commence business.

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

Telegram to the Federal Reserve Bank of San Francisco (attached Item No. 8) approving the appointment of Gerald W. LeBlanc as assistant examiner.

Memorandum from the Division of Research and Statistics dated April 28, 1965, recommending that an additional economist position be established in the Banking Section of that Division.

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

Appointments

Warren Moskowitz as Summer Research Assistant, Division of Research and Statistics, with basic annual salary at the rate of \$6,050, effective the date of entrance upon duty.

Joyce Marie Hile as Secretary, Division of Personnel Administration, with basic annual salary at the rate of \$5,165, effective the date of entrance upon duty.

William T. Houser as General Mechanic-Operating Engineer, Division of Administrative Services, with basic annual salary at the rate of \$5,533, effective the date of entrance upon duty.

Reemployment following maternity leave

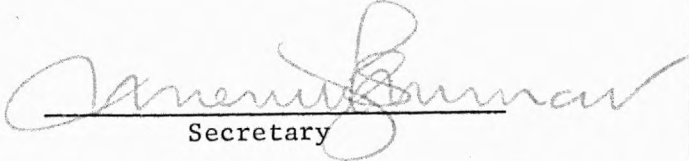
Cynthia Y. Young as Clerk, Division of International Finance, with basic annual salary at the rate of \$4,630, effective May 4, 1965.

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Permission to engage in outside activity

John Huey Johnson, Messenger, Division of Administrative Services,
to perform custodial services.


Secretary

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

Item No. 1
5/3/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 3, 1965

Board of Directors,
The Roscommon State Bank,
Roscommon, Michigan.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by The Roscommon State Bank, Roscommon, Michigan, of a branch at 2049 North St. Helen Road, St. Helen, Michigan, provided the branch is established within six months from the date of this letter.

In approving this branch, the Board notes your bank's less-than-satisfactory capital position. It is understood that plans are now in process for issuance of \$300,000 in capital debentures. While this latter action will improve somewhat your bank's capital position, the Board urges that consideration be given to further strengthening of 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.)

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

Item No. 2
5/3/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 3, 1965

Board of Directors,
First Western State Bank of Minot,
Minot, North Dakota.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by First Western State Bank of Minot, Minot, North Dakota, of a branch at Glenburn, Renville County, North Dakota, provided the branch is established within six months from the date of this letter.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 3
5/3/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 3, 1965.

Chase Manhattan Overseas Banking Corporation,
1 Chase Manhattan Plaza,
New York, New York 10005.

Gentlemen:

Reference is made to your letter of March 4, 1965, transmitted through the Federal Reserve Bank of New York, advising that Banco Lar Brasileiro S.A., Rio de Janeiro, Brazil, has declared a cash dividend for the last six months of 1964 which has resulted in the payment of 218 million cruzeiros to Brasilair Administracao e Participacoes Limitada (your wholly-owned subsidiary in Rio de Janeiro).

It is understood that the "Profit Remittance Law" presently in effect in Brazil makes the cruzeiros received as a dividend by Brasilair virtually inconvertible at the present time and in the foreseeable future.

You state that you, therefore, propose to authorize Brasilair to utilize these accumulated cruzeiros in a gradual program of acquisition of presently outstanding preferred shares of Banco Lar and that it is hoped that Brasilair may eventually acquire at least 51 per cent of the outstanding preferred shares of Banco Lar to permit the retirement of these shares when Banco Lar is in a position to do so.

In the circumstances, the Board of Governors interposes no objection to Brasilair utilizing these accumulated cruzeiros to acquire presently outstanding preferred shares of Banco Lar.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.



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

Item No. 4
5/3/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 3, 1965

Mr. Earle O. Latham,
First Vice President,
Federal Reserve Bank of Boston,
Boston, Massachusetts. 02106

Dear Mr. Latham:

This refers to your letter of April 15, 1965, regarding the penalties totaling \$3,102.72 incurred by the First Agricultural National Bank of Berkshire County, Pittsfield, Massachusetts, on deficiencies in its required reserves for the biweekly computation periods from December 10, 1964, to March 31, 1965.

It is noted that (1) these deficiencies were discovered in the comparison of the Call Report of December 31, 1964, and the Daily Report of Deposits; (2) the deficiencies had resulted from an incorrect treatment of certificates of deposit in the computation and reporting of net demand deposits which caused an understatement of the latter; (3) your Bank feels that the error of deducting certificates of deposit from balances due from other banks was made in good faith; and (4) the bank has previously had a good record with no past evidence of improper use or computation of reserves.

In the circumstances, the Board authorizes your Bank to waive the assessment of the penalties totaling \$3,102.72 for the periods from December 10, 1964, to March 31, 1965.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 5
5/3/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 3, 1965

Mr. L. B. Raisty, Vice President,
Federal Reserve Bank of Atlanta,
Atlanta, Georgia. 30303

Dear Mr. Raisty:

This refers to your letter of April 19, 1965, regarding a penalty of \$1,184.69 incurred by the Manufacturers National Bank, Newnan, Georgia, on an average daily deficiency of \$514,777 in reserves for the biweekly computation period ended April 14, 1965.

It is noted that (1) the deficiency occurred because of the bank's error in drawing a check on its reserve account instead of on its account with a correspondent and (2) evidence supports the bank's statement that the money was on deposit with its correspondent and that the error was entirely unintentional.

In the circumstances, the Board authorizes your Bank to waive the assessment of the penalty of \$1,184.69 for the period ended April 14, 1965.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

TELEGRAM
LEASED WIRE SERVICEBOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

May 3, 1965

CANHAM -- BOSTON

KEBJE

- A. Shawmut Association, Inc., Boston, Massachusetts.
- B. National Bank of Plymouth County, Brockton, Massachusetts;
County Bank and Trust Company, Cambridge, Massachusetts;
The Everett National Bank, Everett, Massachusetts;
Needham National Bank, Needham, Massachusetts;
Newton National Bank, Newton, Massachusetts;
Merchants-Warren National Bank of Salem, Salem, Massachusetts;
Somerville National Bank, Somerville, Massachusetts;
Waltham Citizens National Bank, Waltham, Massachusetts;
The Winchester National Bank, Winchester, Massachusetts;
Congress National Bank of Boston, Boston, Massachusetts.
- C. Prior to issuance of permit authorized herein Applicant shall (1) have acquired a majority of the outstanding shares of each of the banks named above; and (2) execute and deliver to you, in duplicate, an agreement in form accompanying Board's letter S-964 (F.R.L.S. #7190).
STOP. When issuing this general voting permit please advise Applicant that (1) since the consolidation of Congress National Bank with the present National Shawmut Bank of Boston will be consummated under the charter of Congress National Bank, the general voting permit issued with respect to Congress National Bank of Boston will be valid

TELEGRAM
LEASED WIRE SERVICE

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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

CANHAM -- BOSTON

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for the surviving institution bearing the title of The National Shawmut Bank of Boston; and (2) inasmuch as it is the successor to Shawmut Association, as a holding company affiliate the reserve of readily marketable assets which Applicant's predecessor has established and maintained pursuant to Section 5144, Revised Statutes, must continue to be maintained by it.

(Signed) Karl E. Bakke

BAKKE

Definition of KEBJE

The Board authorizes the issuance of a general voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to the holding company affiliate named below after the letter "A", entitling such organization to vote the stock which it owns or controls of the bank(s) named below after the letter "B" at all meetings of shareholders of such bank(s), subject to the condition(s) stated below after the letter "C". The period within which a permit may be issued pursuant to this authorization is limited to thirty days from the date of this telegram unless an extension of time is granted by the Board. Please proceed in accordance with the instructions contained in the Board's letter of March 10, 1947, (S-964).

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

Item No. 7
5/3/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 3, 1965.

AIR MAIL

Mr. Herbert V. Prochnow, Secretary,
Federal Advisory Council,
38 South Dearborn Street,
Chicago, Illinois 60690.

Dear Mr. Prochnow:

The Board of Governors suggests the following topics for discussion at the meeting of the Federal Advisory Council on May 17, 1965, and the joint meeting of the Board and the Council on May 18.

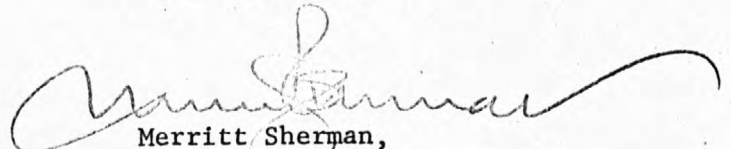
1. Economic conditions and prospects.
 - A. How does the Council appraise the general outlook for the U.S. economy during the remainder of the current year?
 - B. What are the implications of the extension of the steel labor contract for inventory accumulation, industrial activity, prices, and wage settlements in other industries?
 - C. Are businesses becoming uncomfortable with present inventory levels relative to sales?
2. Banking developments.
 - A. After expanding vigorously in the first quarter, business loans appear to have moved erratically in April. Does the Council feel that the peak may have been reached for this year, or are demands likely to persist or even intensify? To what extent do recent credit demands represent temporary borrowing for inventory needs, as contrasted with longer-run needs to finance plant and equipment expenditures?

Mr. Herbert V. Prochnow

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- B. According to the March quarterly interest rate survey, bank lending rates were generally stable. However, another survey indicated considerable firming in lending policies and practices among larger banks, particularly with respect to interest rates and compensating balances. Would the Council care to comment on the reasons for this seeming inconsistency?
- C. The dollar volume of negotiable certificates of deposit outstanding at banks outside New York City has recently shown little net change. To what extent does this reflect inability to sell certificates under Regulation Q ceilings, and to what extent unwillingness to issue them?
- D. Does the recent trend in city bank mortgage acquisitions reflect more a reduced availability of mortgages or a changed attitude toward mortgage loans?
- E. To what extent has reduced bank liquidity associated with the substantial reduction in Government security portfolios become a factor that might inhibit accommodation of future loan demand?
3. How does the Council appraise the results of the voluntary foreign credit restraint effort to date? Does it appear that the priority credit needs--for financing exports and less-developed countries--are being reasonably met? Are there any substantial changes in the guidelines, either for banks or for non-bank financial institutions, that the Council would recommend? Is there any evidence that the program is having a seriously detrimental effect on the ability of U.S. banks to attract or retain foreign deposits, or to perform other banking services for foreign clients? Are there any other views or suggestions the Council would like to offer regarding the future administration of the program?
4. What are the Council's views on monetary and credit policy under current circumstances?

Very truly yours,



Merritt Sherman,
Secretary.

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TELEGRAM
LEASED WIRE SERVICE

Item No. 8
5/3/65

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

May 4, 1965.

GALVIN - SAN FRANCISCO

Relet Cavan April 29, 1965, Board approves appointment of
Gerald W. LeBlanc as assistant examiner for Federal Reserve
Bank of San Francisco effective today.

(Signed) Karl E. Bakke

BAKKE