

Minutes for May 5, 1965

To: Members of the Board

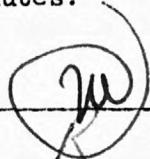
From: Office of the Secretary

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

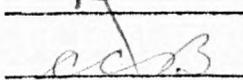
It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

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



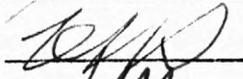
Gov. Robertson



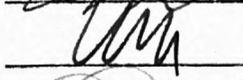
Gov. Balderston



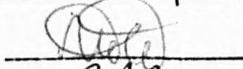
Gov. Shepardson



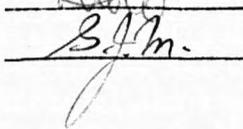
Gov. Mitchell



Gov. Daane



Gov. Maisel



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

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

Mr. Sherman, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Noyes, Adviser to the Board  
Mr. Molony, Assistant to the Board  
Mr. Fauver, Assistant to the Board  
Mr. Hackley, General Counsel  
Mr. Shay, Assistant General Counsel  
Mr. Hooff, Assistant General Counsel  
Mr. Holland, Associate Director, Division of  
Research and Statistics  
Mr. Leavitt, Assistant Director, Division of  
Examinations  
Mr. Langham, Assistant Director, Division of  
Data Processing  
Mrs. Semia, Technical Assistant, Office of the  
Secretary  
Mr. Poundstone, Review Examiner, Division of  
Examinations

The Vice Chairman noted the presence of Governor Sherman J. Maisel, who had taken his oath of office as a member of the Board on April 30, 1965, to fill the unexpired portion of the term ending January 31, 1972.

Ratification of actions. Actions taken by the available members of the Board at the meeting held on May 3, 1965, as recorded in the minutes of that meeting, were ratified by unanimous vote.

Discount rates. The establishment without change by the Federal Reserve Bank of Atlanta on May 3, 1965, of the rates on discounts and advances in its existing schedule was approved unanimously, with the understanding that appropriate advice would be sent to that Bank.

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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 Boston Overseas Financial Corporation, Boston, Massachusetts, approving the acquisition of additional shares of Banco Europeo de Negocios, Madrid, Spain.                                                                                                                                                       | 1               |
| Memorandum from Messrs. Holland and Langham dated May 3, 1965, recommending that designated professors from Yale University be given access to certain data from member bank reports of condition and reports of income and dividends in connection with a study of the role of commercial banks in the American economy. | 2               |

Change in procedure (Item No. 3). There had been distributed a memorandum from the Legal Division dated April 28, 1965, regarding a suggested change in the procedure followed on occasions when it was learned by a Reserve Bank that a State member bank had violated section 24A of the Federal Reserve Act or section 5199(b) of the Revised Statutes by investing in bank premises or paying a dividend without having obtained the Board's prior approval. In such cases the Board usually had advised the State member bank that it would not "object" to the expenditure or dividend payment. According to the suggested revised procedure, such cases would not be submitted to the Board by the Reserve Bank except by mention in the report of examination. Instead, the Reserve Bank would notify the State member bank of the violation by a letter that would

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also caution against future violation. The same procedure would be followed if a violation of section 24A was discovered when only part of the funds representing a proposed investment in bank premises had been expended, except that Board permission would be requested if it was possible to divide the expenditure of funds into separate parts, such as for land and building, and if construction had not begun. Also, if the financial condition of a bank had been adversely affected to a serious extent by an investment or dividend payment, the case would be reported to the Board for appropriate action.

A draft of letter to the Federal Reserve Banks advising of the revised procedure was submitted with the memorandum.

After discussion, a unanimous view in favor of the revised procedure was indicated. Accordingly, approval was given to a letter to the Federal Reserve Banks in the form attached as Item No. 3.

Messrs. Shay, Holland, Langham, and Poundstone then withdrew from the meeting.

Jurisdiction over 20th Street property. Governor Shepardson reviewed negotiations in regard to the triangular-shaped property, bounded by Virginia Avenue, Twentieth Street, and C Street, N.W. (Sq. N. 128), adjacent to the Board's present parking lot. As indicated at the meeting on December 14, 1964, difficulties had been encountered in efforts to obtain jurisdiction over the property for the purpose for providing underground parking in connection with the proposed construction

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of an annex building on the north side of C Street. The program for improvement of the Virginia Avenue area called for use of Sq. N. 128 as a public park, and the District of Columbia Government had made a commitment to transfer the property to the National Park Service of the Department of the Interior, in conformance with the Department's policy that all public parks in the city should be under the jurisdiction of the Department. However, the Department was agreeable to working out an arrangement whereby the Board would have its proposed underground parking, as well as a principal voice in the development planning of the surface. The Board had agreed informally that, on certain conditions, it would not oppose transfer of the property to the National Park Service. There had been drawn up a proposed agreement between the Board and the Department of the Interior that would confirm and authorize the Board's underground parking plan, including control to all access to the underground garage; and provide that the National Park Service would control the surface area, and would plant and maintain it as the Service deemed appropriate for a park, the landscaping, however, to be planned jointly by the Board, the National Park Service, and the National Capital Planning Commission, in order to insure harmony between the park and the landscaping of the Board's proposed annex building. Although several questions raised by the Department of the Interior had been agreeably adjusted, the matter had remained inactive at the Department for several months. Now,

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however, word had been received that the Department would like to execute the agreement with the Board in preparation for presentation of the matter for action by the National Capital Planning Commission within the next few days. It appeared to Governor Shepardson that the stipulations in the agreement would serve the Board's purpose. Therefore, he recommended that the Secretary be authorized to sign the agreement on behalf of the Board.

During the ensuing discussion it was noted that the only immediate expense to the Board arising from the agreement apparently would be the cost of removing certain utility lines under Sq. N. 128, estimated at \$13,500. It was brought out also that execution of the proposed agreement would not involve a commitment on the part of the Board to proceed with the construction of an annex building. However, if construction was delayed to such an extent that the public park was landscaped and the Board later reactivated its building proposal, it might be assumed that the Board would pay for restoration of any part of the park that might be disturbed incident to construction of the annex.

The Secretary was then authorized to execute the agreement on behalf of the Board.

Secretary's Note: Later in the day the Secretary executed the agreement, a copy of which has been placed in the Board's files.

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Bank of Dublin. At the meeting on May 3, 1965, the members of the Board received a preliminary report on difficulties experienced at the Bank of Dublin, Incorporated, Dublin, Virginia, a State member bank. At today's meeting Mr. Leavitt, who had made a visit to Dublin, reported that Peoples Bank of Radford, Radford, Virginia, a subsidiary of First Virginia Corporation, had agreed to take over the Dublin bank by merger. Under Virginia State law the merger could not take place until 30 days after that agreement. The merger would be subject to the approval of the Federal Deposit Insurance Corporation, since the resulting institution would be a nonmember insured bank. However, in view of the emergency conditions that existed, the normal competitive factor report procedures probably would not be followed. Mr. Leavitt also described the circumstances relating to the losses incurred by the Bank of Dublin and measures being taken by the supervisory authorities and First Virginia Corporation.

Voluntary foreign credit restraint effort. Governor Robertson referred to consultations he and members of the Board's staff had had earlier this year with a small group of bankers who provided technical advice in formulating the commercial bank guidelines for the voluntary foreign credit restraint effort. Governor Robertson indicated that it seemed desirable to arrange for a further round of discussions with these bankers (individually).

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The Board authorized the making of the necessary arrangements and payment of travel expenses.

All members of the staff then withdrew except Mr. Sherman.

Foreign travel. The Board approved unanimously a recommendation by Mr. Sammons, Adviser, Division of International Finance, in a memorandum dated April 30, 1965, that Harlow D. Osborne, Chief, Consumer Credit and Finances Section, Division of Research and Statistics, and James K. Nettles, Economist, Division of International Finance, be designated to deliver certain lectures requested by the Center for Latin American Monetary Studies, Mexico City. (Mr. Brill concurred in the recommendation regarding Mr. Osborne.) For this purpose the Board authorized the payment of travel expenses incurred by Messrs. Osborne and Nettles, with per diem in lieu of expenses as prescribed by the Standardized Government Travel Regulations. It was expected that Mr. Osborne's assignment would take approximately three weeks in October-November 1965, and that Mr. Nettles' assignment would take approximately a week early in August.

The meeting then adjourned.

Secretary's Notes: Governor Shepardson  
approved on behalf of the Board on May 4,  
1965, the following items:

Letter to the Federal Reserve Bank of Atlanta (attached Item No. 4) approving the appointment of Harvey Rush Woodside, Jr., as assistant examiner.

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

Appointment

Eleanor J. Clarkson as Assistant Legal File Clerk, Legal Division, with basic annual salary at the rate of \$4,630, effective the date of entrance upon duty.

Acceptance of resignations

Jill D. Francis, Statistical Clerk, Division of Research and Statistics, effective at the close of business May 7, 1965.

Roy L. Stephen, Cafeteria Laborer, Division of Administrative Services, effective at the close of business May 12, 1965.

Permission to engage in outside activities

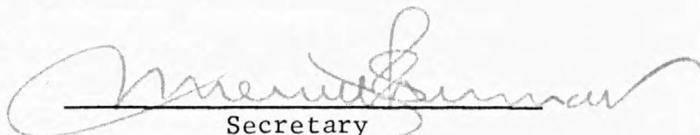
Robert F. Emery, Economist, Division of International Finance, (1) to serve without remuneration as Dean of the Senior Division of the College of Business and Financial Administration, Southeastern University, Washington, D. C., and (2) to accept a royalty for an article on the Japanese bond market published in the April 1965 issue of the Oriental Economist.

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

Letter to the Federal Reserve Bank of Boston (attached Item No. 5) approving the designation of 32 employees as special assistant examiners.

Letter to the Federal Reserve Bank of New York (attached Item No. 6) approving the designation of Benjamin Stackhouse as special assistant examiner.

Memorandum from the Division of Research and Statistics recommending that Mary C. Wing, Technical Editor (Economics) in that Division, be authorized to return to work on a full-time basis, with salary at the rate of \$10,605 per annum, effective May 9, 1965.

  
Secretary

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

May 5, 1965.



Boston Overseas Financial Corporation,  
67 Milk Street,  
Boston 6, Massachusetts.

Gentlemen:

In accordance with the request in your letter of April 9, 1965, transmitted through the Federal Reserve Bank of Boston, and on the basis of information furnished, the Board of Governors grants consent for your Corporation ("BOFC") to purchase and hold 10,000 additional shares, par value Pesetas 1,000 each, of Banco Europeo de Negocios ("BEN"), Madrid, Spain, at a cost of approximately US\$170,000, provided such stock is acquired within one year from the date of this letter.

The Board also approves the purchase and holding of shares of BEN within the terms of the above consent in excess of 10 per cent of your Corporation's capital and surplus.

The foregoing consent is given with the understanding that the foreign loans and investments of BOFC, combined with those of The First National Bank of Boston and Bank of Boston International, including the investment in BEN now being approved, will not exceed the guidelines established under the voluntary foreign credit restraint effort now in effect.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,  
Assistant Secretary.

Item No. 2

5/5/65

May 3, 1965

TO: Board of Governors  
FROM: *AW* Lee W. Langham and  
Robert C. Holland *AW*

SUBJECT: Yale University request for data from reports of condition and reports of income and dividends--study of the role of commercial banks in the American economy.

Professors Tobin, Brainard, Hester, and Pierce, all of Yale University, have undertaken a research project financed by the National Science Foundation and conducted at the Cowles Foundation for Research and Economics at Yale University. All of the four professors will participate in the design and execution of the proposed study, with principal responsibility falling on Messrs. Hester and Pierce. This study is of particular interest to the Division of Research and Statistics and in furtherance thereof Professor Pierce will be joining staff of the Banking Section as a visiting professor for 15 months beginning about midyear.

The study requires use of most items in reports of condition and in reports of income and dividends for individual member banks in the Boston Reserve District covering the period January 1960 through December 1964. These data will be used as percentages of total assets.

The research proposal submitted by the group is lengthy and complex. Its purpose is to improve knowledge about bank operations and how Government policies and regulations affect them. This research begins with a theoretical model which the group proposes to test in detail through use of various statistics on bank assets and liabilities and bank operating results. Briefly, the model views banks as business firms which seek to maximize a discounted future stream of net earnings subject to a number of constraints. The most important constraints include: current and expected levels of demand deposits, time deposits and loan demand, and the degree of uncertainty in these expectations; Government regulations; and interest rates applicable to new assets or liabilities. A bank is assumed to operate from day to day by observing the recent past and modifying its portfolio in response to new situations, e.g., new trends in interest rates, deposit levels, regulations, and loan demand.

#### Proposed Processing Arrangements

Negotiations between Board's staff and the Pierce group originated last December. Since that time Professors Pierce and Hester have visited the Board's offices on several occasions to confer with staff regarding procedures, techniques, and administrative arrangements.

To minimize demands upon personnel of the Data Processing Division, Professor Pierce agreed to undertake the responsibility for developing all programs necessary to complete the proposed study. If the Board approves the Pierce request for access to condition and earnings ratios for individual banks, computations to reduce the identifiable raw data to ratios would be performed on the Board's computer to preserve confidentiality of such raw

To: Board of Governors

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data for individual banks. After these computations have been completed on the Board's computer, tape output with ratios of individual banks under disguised identification codes would then be furnished to the group for further processing on computers at Yale University.

It should be pointed out that a few of the individual bank ratios to be provided will be derived from numbers from the published face of the call report, and hence with considerable effort, an analyst conceivably could use such information to decipher the identity of individual banks. The professors involved, however, would be asked to commit themselves and their staffs not to do any such decoding and not to publish any individual bank ratios as part of their findings.

#### Data Already Furnished the Group

The Boston Reserve Bank has already furnished the group percentage changes in average weekly deposits for individual member banks in the First District for the 1960-64 period. These data were furnished to the group under disguised bank identification codes, and in a form that precluded identification of any individual banks.

#### Recommendation

The Division of Research and Statistics has analyzed the research proposal carefully and recommends that the request for access to condition and earnings data be approved. The justifications for this recommendation are:

1. Professor Pierce will shortly be joining the Board's staff as a visiting professor and will be working on aspects of the group's research proposal and related projects. It is desirable for him to get an early start on the work he is to perform as a staff member.
2. It is believed that the successful completion of the proposed project would be of particular interest to the Board and staff, and it is one that staff would have liked to undertake if its resources had permitted.
3. The study is under the direction of men of recognized competence amply supported by well known institutions. These men have already devoted many months to planning and programming activities necessary to insure the completion of the project.
4. The data processing specifications have been designed to prevent inadvertent disclosure of individual bank data, and use of such data would be circumscribed by agreement with the professors.

To: Board of Governors

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5. Staff participation has been, and will probably continue to be, limited to planning, advice, and criticism.
6. Board computer time required to complete the preparation of the data in the form described for further processing on Yale computer facilities will be moderate, estimated at 15 hours.

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

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ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

May 5, 1965.

Dear Sir:

Occasionally a Federal Reserve Bank learns that a State member bank has violated section 24A of the Federal Reserve Act or section 5199(b) of the Revised Statutes by investing in bank premises or paying a dividend without having obtained the Board's approval. In such cases, the prior approval contemplated by the statutes obviously cannot be given. Instead, the Board usually has advised the member bank that it will not "object" to the expenditure or dividend payment in a letter that has had the effect of notifying the bank that the Board is aware of the violation but does not intend to take disciplinary action.

In the future such cases should not be submitted to the Board except by mention in the report of examination. Instead, the Reserve Bank is requested to notify the member bank of the violation by a letter that also cautions against future violation. Mention in the report of examination will, of course, assure that the violation is brought to the attention of the bank's board of directors.

The same procedure should be followed if a violation of section 24A is discovered when only part of the funds representing a proposed investment in bank premises have been expended. However, Board permission should be requested if it is possible to divide the expenditure of funds into separate parts, such as for land and building, and if construction has not begun.

If the financial condition of the bank has been adversely affected to a serious extent by the investment or dividend payment, the case should of course be reported to the Board for appropriate action.

Very truly yours,

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

Merritt Sherman,  
Secretary.

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BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

Item No. 4  
5/5/65

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

May 4, 1965



Mr. R. M. Stephenson, Vice President,  
Federal Reserve Bank of Atlanta,  
Atlanta, Georgia. 30303

Dear Mr. Stephenson:

In accordance with the request contained in your letter of April 26, 1965, the Board approves the appointment of Harvey Rush Woodside, Jr., as an assistant examiner for the Federal Reserve Bank of Atlanta. Please advise the effective date of the appointment.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,  
Assistant Secretary.

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

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Item No. 5  
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ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

May 6, 1965

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

Dear Mr. Hoyle:

In accordance with the request contained in your letter of April 30, 1965, the Board approves the designation of each of the employees listed therein as a special assistant examiner for the Federal Reserve Bank of Boston.

Appropriate notations have been made of the names to be deleted from the list of special assistant examiners.

Very truly yours,  
(Signed) Karl E. Bakke

Karl E. Bakke,  
Assistant Secretary.



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

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Item No. 6  
5/5/65

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

May 5, 1965.

Mr. Howard D. Crosse, Vice President,  
Federal Reserve Bank of New York,  
New York, New York. 10045

Dear Mr. Crosse:

In accordance with Mr. Quackenbush's telephone request of May 4, 1965, the Board approves the designation of Benjamin Stackhouse as a special assistant examiner for the Federal Reserve Bank of New York.

Very truly yours,

*Karl E. Bakke*

Karl E. Bakke,  
Assistant Secretary.