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, June 2, 1965. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
           Mr. Balderston, Vice Chairman
           Mr. Robertson
           Mr. Shepardson
           Mr. Mitchell
           Mr. Daane
           Mr. Sherman, Secretary
           Mr. Kenyon, Assistant Secretary
           Mr. Young, Adviser to the Board and Director, Division of International Finance
           Mr. Molony, Assistant to the Board
           Mr. Hackley, General Counsel
           Mr. Brill, Director, Division of Research and Statistics
           Mr. Solomon, Director, Division of Examinations
           Mr. Shay, Assistant General Counsel
           Mr. Sammons, Adviser, Division of International Finance
           Mr. Goodman, Assistant Director, Division of Examinations
           Mr. Leavitt, Assistant Director, Division of Examinations
           Mr. Spencer, General Assistant, Office of the Secretary
           Mr. Egertson, Supervisory Review Examiner, Division of Examinations
           Mr. Furth, Consultant

Branch application (Item No. 1). Unanimous approval was given to a letter to First Michigan Bank and Trust Company, Zeeland, Michigan, approving the establishment of a branch in Douglas. A copy of the letter is attached as Item No. 1.

Civil Rights Act. Pursuant to the understanding at the Board meeting on May 28, 1965, there had been distributed with a covering memorandum from Mr. Hackley dated May 28, 1965, a revised draft of letter to
the Bureau of the Budget regarding the applicability to the Federal Reserve Banks of Title VI of the Civil Rights Act of 1964.

At the conclusion of a review of the revised draft, during which the comments centered principally on the question whether the Federal Reserve Banks were engaged in extending "Federal financial assistance" and how this matter might be dealt with most appropriately, it was understood that the staff would prepare a further draft reflecting certain suggested changes for consideration at another meeting. In this connection, it was also understood that the next draft would include language along the lines suggested by a member of the staff pointing out that only in isolated instances did member bank borrowings represent more than a fraction of required reserves. The Board could then determine whether it felt that the inclusion of such language would be advisable.

Also in accordance with the understanding at the meeting on May 28, 1965, there had been distributed a draft of letter to the Presidents of the Federal Reserve Banks with respect to Title VII of the Civil Rights Act of 1964.

During discussion at today's meeting several suggestions for changes were made. It was understood that the letter would be redrafted to accommodate these suggestions and that the revised draft would be considered at another meeting.

Examination procedures. There had been distributed a draft of letter to Chairman Multer of the Subcommittee on Bank Supervision and
Insurance of the House Committee on Banking and Currency in response to an inquiry of April 23, 1965, as to the differences in examinations of commercial banks made by the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency; and also regarding the examination of savings banks and the thrift account portion of a commercial bank's business.

In a discussion of the draft letter, it developed to be the consensus that the reply could be strengthened by emphasizing the scope and depth of the Federal Reserve examination process, including the latitude given to examiners to apply appropriate procedures and techniques to whatever extent might be necessary to ascertain the full facts regarding the condition of the bank under examination. The Subcommittee could then reach its own conclusions by comparison of the replies received from the respective bank supervisory agencies.

It was understood that a revised draft would be prepared on this basis and brought back for further consideration.

Study relating to foreign operations of U.S. banks. There had been distributed with a covering note from Mr. Young dated May 25, 1965, a staff memorandum of the same date relating to a possible study of the foreign operations of U.S. banks.

In reviewing the matter Mr. Young noted that the memorandum had been prepared in response to a request by the Board following an executive session discussion. Question had been raised as to how a research project
might be focused on the problem in such a way as to provide a broader perspective for the Board in making decisions on foreign branches of member banks, Edge corporations, and agreement corporations, as well as in executing its examining and supervisory functions. The staff had attempted to respond to this question by discussing first in its memorandum some of the legal and economic aspects of foreign operations of U.S. banks, then turning to research problems and suggesting certain lines of inquiry to which effort might be directed in order to achieve the end result desired by the Board.

Governor Shepardson recalled that when the matter was discussed by the Board there was a feeling that an intensive study should be made in this area. He had been requested to ascertain what might be done to implement such a study. Various suggestions had been made as to individuals who might be recruited for this purpose, but he and Mr. Young each concluded that before a move was made in the direction of actual recruitment a bill of particulars was needed on what was sought to be accomplished. Accordingly, Mr. Furth and other staff members had undertaken the preparation of the memorandum now before the Board. At the same time, some preliminary thinking was in process concerning persons who might be approached outside the Federal Reserve to work on the study. Basically, it appeared there were two alternatives: (1) employment of academic persons with special competence in international economics, or (2) utilization of Federal Reserve staff.
Commenting upon the May 25 memorandum, Mr. Furth said its primary purpose was to point out some of the problems of general economic policy that might be involved in the overseas functions of U.S. banks, particularly in relation to the U.S. balance of payments problem. As portions of the memorandum showed, there were a number of interesting legal problems, and there were also supervisory aspects, but the memorandum concentrated on economic matters.

Mr. Furth went on to describe some of the aspects of activities of foreign branches and subsidiaries of member banks with which a research project might deal, his comments constituting an elaboration upon the suggestions contained in the memorandum. He concluded by observing that one could not be sure whether a study such as outlined would lead to definite conclusions. However, it had been felt that the Board might be interested in considering whether such a project would be worth while.

Mr. Goodman expressed the view that at the least something should be published on the magnitude of foreign operations of U.S. banks, since increasing interest in this area was being displayed by economists and students. He noted that there was a great deal of information available within the Federal Reserve System, particularly through the examiners, that could be used for research purposes. There was also much to be learned through interviews with officers of banks that had overseas branches and Edge or agreement subsidiaries. But if a study were undertaken, he hoped that Federal Reserve personnel would be used to the best possible advantage.
Governor Robertson, who had originally suggested the project, said it was his thought that in this particular field the Board had not taken the time to sit back and take a look at the broad problems involved. The situation might get out of hand unless the Board took such a look and decided where it wanted to go. Without any reflection on the staff, it was a good thing, once in a while, to bring in outsiders to review a problem. The staff should be utilized also, but he would favor trying to locate two or three individuals who were competent in the field, perhaps academicians who were on sabbatical leave.

Governor Mitchell commented that the data presented with the May 25 memorandum did not show the total foreign commitments of U.S. banks. He saw a need to measure the individual involvement of those banks. They now held, he understood, about $10 billion in foreign assets, which raised a question as to how much was known about such assets and their quality.

Mr. Goodman observed that insofar as State member banks were concerned, considerable was known about the volume of foreign loans and their quality. As to national banks, less was known. However, some quantitative information was available from the Treasury B-2 and B-3 reports.

Governor Mitchell emphasized the importance of bank-by-bank data, citing the heavy concentration of exposure, following which Governor Robertson commented that information of the kind mentioned by Governor Mitchell should of course be obtained for the Board. But he felt the
proposed research project also should get under way, headed up by persons from outside the System. Governor Mitchell remarked that it made a poor impression if outsiders were invited in before plans were in readiness.

As the discussion continued, Mr. Shay noted that from time to time there had been proposals to transfer jurisdiction over foreign operations of national banks from the Board to the Comptroller of the Currency. In responding to requests for views on such proposals, the Board had pointed out (1) that authority for foreign operations of U.S. banks had always been centralized in the Board, and (2) that foreign operations of American banks had an important relationship to monetary actions. Questions had been raised in this connection about the real impact of American banking operations abroad, and he had never seen a satisfactory answer. He felt there was a lot of information in the Federal Reserve files that should be developed. Since the Board had claimed a certain competence in this area, the bringing in of outside experts at this stage to bolster, in effect, what had been said about such competence might present a question the Board would want to consider.

Governor Robertson commented that whatever needed to be done should be done to obtain an over-all picture. Whether outside experts were brought in or the job was performed within the System, the task should be accomplished in the best possible manner. He noted that it was common practice to bring in consultants in other fields. This was
no reflection on System personnel, whose time tended to be taken up by
day-to-day operations.

Governor Daane suggested that consultants not be brought in
until after there was a clearly defined project, that is, after the
Board had its ducks in a row. The first step should be to do just that,
by use of information available within the System. The second step
might be to go out and interview persons associated with organizations
such as Edge and agreement corporations. When it came to going beyond
that point to the examining of economic questions presented by U.S.
investments abroad within the framework of general international finance,
one got into a most sensitive area, and he was a long way from approving
that kind of project. Such an area was of concern to a number of depart-
ments of Government, including the State and Treasury Departments. A
project could hardly be instituted unilaterally that would involve talk-
ing with foreigners about such matters as attitudes toward U.S. invest-
ments. To recapitulate, the first step should be to have System personnel
look at the presently available information, then to have this supplemented
by conversations with officers of U.S. banks, and then to review and
consider the question of how to proceed further.

Chairman Martin then commented that the remarks of the Board
members seemed to reflect a favorable attitude toward getting more data
in this field. He suggested that the staff pursue the matter with a
view to pulling together material that was available within the Federal
Reserve, after which the subject could be brought back to the Board for further consideration.

Mr. Young said the thought of the staff had been that the initial memorandum would serve to open the subject for discussion. The staff could now start to look at the subject more intensively and could develop a second memorandum, perhaps by late summer, that would point up the matter in terms of specific tasks.

It was understood that work along the lines contemplated by Mr. Young's remarks would be undertaken.

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

Foreign travel by Mr. Marlin. Pursuant to the recommendation contained in a memorandum dated May 11, 1965, from Mr. Young, Adviser to the Board and Director, Division of International Finance, the Board authorized travel by John A. Marlin, Economist in the Division of International Finance, to various points in Africa during the period July 23 to September 19, 1965, with stopovers in London, Paris, and Rome, with the understanding that Mr. Marlin would pay his own transportation costs but that the Board would pay him per diem in lieu of subsistence at rates authorized by the Standardized Government Travel Regulations for the portion of his trip that would be devoted to official business. According to an itinerary prepared by Mr. Marlin under date of April 27, 1965, a copy of which was attached to Mr. Young's memorandum, Mr. Marlin would
be considered to be on official business for 36 days out of the total of 58 days that he would be absent from the Board's offices.

Extension of appointment as Consultant. After consideration of a memorandum from Mr. Young dated May 25, 1965, the Board authorized extension for another year (that is, through the calendar year 1966) of the appointment of J. Herbert Furth as Consultant, on the same terms and conditions as his current appointment, it being understood that steps would be taken to ascertain whether Mr. Furth wished to accept such an extension of his appointment.

The meeting then adjourned.

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

Letter to the Washington Gas Light Company, Washington, D. C., indicating that the Board was prepared to pay the cost of removal and relocation of a gas line if this should become necessary in the construction of a garage under 20th Street, N.W. (between 21st Street and Virginia Avenue), and under portions of Square N. 128.

Letter to Mrs. Jacqueline M. Dockery, Arlington, Virginia, confirming arrangements for her to conduct a course in Intermediate French for members of the Board's staff as an activity of the Board's Employee Training and Development Program, with payment of a fee of $4 for each session conducted.

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

Salary increase

Dorothy Lee Shafer, Secretary, Division of International Finance, from $5,165 to $5,505 per annum, effective June 6, 1965.
Permission to engage in outside activity

Thomas M. Klein, Economist, Division of International Finance, to teach an undergraduate course in micro-economic theory at the University of Maryland.

Governor Shepardson today noted on behalf of the Board that applications for retirement had been filed by the following persons in the Division of Administrative Services, effective the dates indicated:

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<tr>
<th>Name and title</th>
<th>Effective date</th>
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<tr>
<td>Mary Crawford, Head Cook</td>
<td>June 16, 1965</td>
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<tr>
<td>Catherine Gallagher, Charwoman</td>
<td>July 1, 1965</td>
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<tr>
<td>Morris Mayhew, Gardener</td>
<td>July 1, 1965</td>
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(Signed) Secretary
Board of Governors,  
First Michigan Bank and Trust Company,  
Zeeland, Michigan.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by First Michigan Bank and Trust Company, Zeeland, Michigan, at the southeast corner of the intersection of U.S. Highway 31 and Middle Street, Douglas, Michigan, provided the branch is established within six months from the date of this letter. It is understood that this branch will commence operations at 170 U.S. Highway 31, Douglas, Michigan, approximately one block from the location approved herein above and that operation of the branch at the temporary location will be terminated simultaneously with commencement of operations at the approved permanent location.

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.)