

Minutes for June 11, 1965.

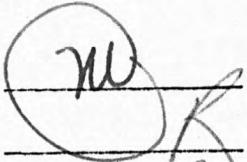
To: Members of the Board  
From: Office of the Secretary

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

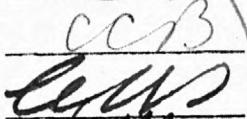
It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

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.

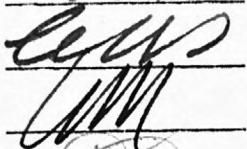
Chm. Martin

  
ML

Gov. Robertson

  
CCB

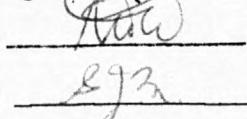
Gov. Balderston

  
LJFS

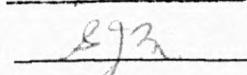
Gov. Shepardson

  
JMM

Gov. Mitchell

  
RHW

Gov. Daane

  
EGZ

Gov. Maisel

Minutes of the Board of Governors of the Federal Reserve System on Friday, June 11, 1965. The Board met in the Board Room at 9:30 a.m.

PRESENT: Mr. Martin, Chairman  
Mr. Robertson  
Mr. Shepardson  
Mr. Mitchell  
Mr. Daane  
Mr. Maisel

Mr. Sherman, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Broida, Assistant Secretary  
Mr. Noyes, Adviser to the Board  
Mr. Molony, Assistant to the Board  
Mr. Cardon, Legislative Counsel  
Mr. Solomon, Director, Division of Examinations  
Mr. Harris, Coordinator of Defense Planning  
Mr. Spencer, General Assistant, Office of the  
Secretary  
Mr. Furth, Consultant

Messrs. Brill, Holland, Koch, Partee, Solomon,  
Williams, Axilrod, Bernard, Eckert, and  
Ettin of the Division of Research and  
Statistics

Messrs. Hersey, Katz, Sammons, and Baker of the  
Division of International Finance

Money market review. There were distributed tables presenting data on recent interest rate developments, the money market, and bank reserve utilization.

Mr. Bernard reported on developments in the Government securities market; Mr. Eckert commented on bank reserves, bank credit, and the money supply; and Mr. Baker reported on recent developments in the foreign exchange market.

Following discussion based on those reviews all members of the staff except Messrs. Sherman, Kenyon, Noyes, Molony, Cardon, Brill,

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Solomon (Examinations), Harris, and Spencer withdrew from the meeting and the following entered the room:

Mr. Hackley, General Counsel  
Mr. Farrell, Director, Division of Bank Operations  
Mr. Kakalec, Controller  
Mr. Schwartz, Director, Division of Data Processing  
Messrs. Hexter, O'Connell, and Shay, Assistant General Counsel  
Mr. Daniels, Assistant Director, Division of Bank Operations  
Mr. Leavitt, Assistant Director, Division of Examinations  
Messrs. Sanders, Via, and Young, Senior Attorneys, Legal Division  
Mr. Egertson, Supervisory Review Examiner, Division of Examinations  
Mr. Sanford, Review Examiner, Division of Examinations  
Mr. Harris, Assistant Review Examiner, Division of Examinations  
Mr. Steinberg, Economist, Division of Data Processing

Discount rates. The establishment without change by the Federal Reserve Banks of Cleveland, Richmond, Atlanta, St. Louis, Minneapolis, and Dallas on June 10, 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 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 Chemical Bank New York Trust Company, New York, New York, approving the establishment of a branch at 2190 White Plains Road, Borough of the Bronx.	1
Letter to Granite City Bank, Elberton, Georgia, approving an investment in bank premises.	2
Letter to New Jersey Bank and Trust Company, Clifton, New Jersey, approving a further extension of time within which to comply with a condition of membership.	3

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Item No.

Letter to the Federal Deposit Insurance Corporation  
regarding the application of The First State Bank,  
Hawkins, Texas, for continuation of deposit insurance  
after withdrawal from membership in the Federal Reserve  
System.

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Cincinnati Branch building (Item No. 5). There had been a series of Board discussions relating to the acquisition of a site on which a new building for the Cincinnati Branch might be constructed. Following consideration of information regarding a proposed building site at the meeting on February 25, 1965, a letter was sent to the Federal Reserve Bank of Cleveland expressing the view that the site then contemplated would be inadequate and that property should be acquired affording between 75,000 and 95,000 square feet of space. At subsequent meetings, on March 12 and March 15, further proposals were also discussed.

There now had been distributed copies of a telegram dated June 9, 1965, from the Federal Reserve Bank of Cleveland that referred to the Board's letter of February 25 and indicated that the suggestions therein for a site for the Cincinnati Branch could not be consummated because the property was not available. The Bank therefore proposed to offer the City of Cincinnati \$1,012,500 for two plots consisting of approximately 67,500 square feet in the Core Renewal Area of Cincinnati and to offer the owners up to \$900,000 for certain adjacent property approximating 7,500 square feet. The total area to be acquired would be 75,000 square feet at a total cost of about \$1,912,500, or \$25.50 per square foot. The Board's approval to tender an offer for the properties was requested.

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Through use of a map Mr. Farrell described the pieces of property that the Cleveland Bank proposed to acquire.

During the general discussion that followed, members of the Board indicated that they felt the site would afford reasonable protection from the standpoint of possible future space requirements, that it seemed preferable to alternatives previously considered, and that they would have no objection to the acquisition of the property.

Accordingly, it was agreed that the Cleveland Bank should be authorized to proceed. A copy of the telegram sent to the Cleveland Bank is attached as Item No. 5.

Payment of excessive interest on deposits (Item No. 6). On April 16, 1965, the Board approved a letter to the Bureau of the Budget responding to a request for views on a legislative proposal of the Federal Deposit Insurance Corporation, the principal effect of which would have been to deprive money placed with an insured bank of Federal deposit insurance if "the person placing the funds in the bank or ... the owner thereof" received "directly or indirectly from the bank or anyone else" compensation for such money in excess of the maximum rate permitted by regulations of the Federal Deposit Insurance Corporation or the Board of Governors. The proposed legislation was based on the theory that payment of "excessive" interest contrived to transform a deposit into a borrowing.

In the Board's letter to the Budget Bureau it was pointed out that to deprive a fund placed with an insured bank, with the intention

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of making a deposit, of the protection of deposit insurance because of a violation by the bank of the rules governing the payment of interest could lead to public confusion and uncertainty as to the insured status of many purported "deposits." Such uncertainty would tend to impair the confidence in the banking system that Federal deposit insurance was designed to provide. The letter concluded by suggesting that alternative means of dealing with the problem be explored.

On April 29 the Board considered a revised draft of legislative proposal by the Corporation and subsequently advised the Budget Bureau, in effect, that the objections previously expressed had not been overcome.

There now had been distributed a memorandum from the Legal Division dated June 9, 1965, with regard to a letter of June 2, 1965, from Chairman Randall of the Federal Deposit Insurance Corporation, who proposed a different type of amendment to the statutes.

The Corporation now proposed to discard the "non-deposit" approach and suggested instead legislation that would make the interest rate regulations more effective by providing a practicable sanction for violations. The new legislative approach would also make clear that statutory and regulatory limitations on payment of interest would apply to most so-called "borrowings" by banks as well as funds that were called "deposits." The Corporation's pending litigation would be terminated if the new draft bill was transmitted to Congress. (The litigation referred to concerned the insured status of certificates of deposit representing funds brokered

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into banks at rates in excess of those permitted on deposits under present regulations. The Corporation contended in the litigation that such funds were borrowings and not deposits, and therefore were not insured.) If the Board concurred with the new approach, it would be necessary to amend section 19 of the Federal Reserve Act.

The Legal Division believed the Corporation's revised draft legislation should not be enacted without certain revisions. However, the Division recommended that the Board send a letter to Chairman Randall that would indicate, in effect, that the approach embodied in the most recent proposal was felt to be an appropriate solution and would recommend that the proposed legislation be submitted to the Bureau of the Budget for consideration. The letter would conclude by saying that further study might indicate the desirability of certain changes in language but that such problems did not warrant postponing the introduction of a bill.

Mr. Hexter summarized the advantages seen in the present approach as compared with the earlier proposal. He noted that normally drafting defects of proposed legislation were eliminated before a bill was submitted. In this particular case, however, it was felt that termination of the pending litigation was of paramount importance and that the Corporation therefore should be encouraged to submit its revised proposal.

Mr. Sanders, however, was of the opinion that changes in language should preferably be made before the proposed legislation was submitted

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to the Budget Bureau. It was not clear to him that the Corporation would dismiss its pending litigation any sooner if such changes were deferred.

Mr. Hackley observed that the proposed letter to Chairman Randall pointed out that the Board would have changes to suggest. During the time that the legislation was in the hands of the Budget Bureau, the changes that were believed desirable could be drafted. Mr. Hexter added that if an effort were made at this point to work out changes in language the legislation might get bogged down.

In discussion, it was the consensus that the objective of legislation such as now proposed by the Corporation was desirable and that the draft bill should be submitted promptly to the Budget Bureau, leaving the changes in language felt by the staff to be necessary to be worked out with the Corporation.

Governor Robertson suggested, however, that the wording of the letter to Chairman Randall be rephrased to state that the Board believed certain amendments to the language of the proposed legislation were desirable and that they would be submitted in due course, but that such changes were not felt to warrant postponing the sending of a draft bill to the Bureau of the Budget.

Agreement with Governor Robertson's suggestion was indicated, and it was understood that the letter to Chairman Randall would be revised accordingly. A copy of the letter, in the form transmitted, is attached as Item No. 6. It was understood that the staff would begin drafting pertinent changes in the proposed legislation for recommendation

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to the Corporation, and that a draft of amendment to section 19 of the Federal Reserve Act also would be prepared.

Messrs. Cardon, Hexter, Daniels, and Sanders then withdrew from the meeting.

Meeting with representatives of Navajo Bancorporation. At its meeting on October 19, 1964, the Board was advised of circumstances relating to the desire of Navajo Bancorporation, Inc., Phoenix, Arizona, a holding company affiliate by virtue of its control of First Navajo National Bank, Holbrook, Arizona, to acquire through foreclosure a majority of the shares of Valley State Bank, Lamar, Colorado, held as collateral for a loan. Counsel for Navajo had been informed that acquisition of the stock of Valley State Bank, even though through foreclosure, would appear to be in violation of the Bank Holding Company Act. At the meeting on October 21, 1964, the Board was informed that the stock had nevertheless been acquired.

At the meeting this morning, Mr. O'Connell recounted the events that had led to the possession by Navajo Bancorporation of stock of Valley State Bank, and also to its acquisition of shares of the Bank of Tucson, Tucson, Arizona.

Mr. O'Connell reported that counsel for Navajo Bancorporation had requested an opportunity to meet with Board representatives to discuss proposals for rectification of the current situation. In connection with the proposed meeting, which was to be held on June 14, 1965,

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Mr. O'Connell inquired whether a member of the Board might be available that day to discuss with Navajo representatives any points they wished to make after talking with the staff.

Following discussion, it was understood Governor Robertson would meet with the Navajo Bancorporation representatives if a meeting with a member of the Board was requested by them.

Secretary's Note: A memorandum dated June 17, 1965, from Mr. O'Connell relating to the staff meeting with representatives of Navajo Bancorporation has been placed in the files of the Board. It developed that a meeting with a member of the Board was not requested.

Mr. O'Connell then withdrew from the meeting.

Direct verification program (Item No. 7). There had been distributed a memorandum from the Division of Examinations dated June 7, 1965, discussing the desirability of banks having a program of direct verification with bank customers to determine the accuracy and authenticity of various asset and liability accounts.

In 1961 the Board requested Federal Reserve Bank examiners to ascertain from each State member bank examined whether the bank had a program of direct verification and to discuss the matter with senior management. The program undertaken in 1961 was for one examination only, and the Division of Examinations believed it was desirable for State member banks again to be urged to adopt the direct verification procedure. A draft of letter to the Federal Reserve Banks asking them to instruct their examiners to urge State member banks, on a continuing

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basis, to adopt such a program was attached to the memorandum. Also attached, for transmittal with the letter to the Reserve Banks, was a copy of a memorandum that summarized the desirability of direct verification.

During discussion, Governor Mitchell inquired whether the Federal Deposit Insurance Corporation, because of its interest in the solvency of banks that it insured, should not take the lead in initiating a program of this nature.

Mr. Solomon said it was understood that the Corporation had given thought to promoting the use of direct verification procedures on the part of nonmember insured banks. He did not know whether the Corporation had issued instructions to its examiners in this regard. However, the thought was to work closely with the Corporation and, if agreement was reached, then to go to the Office of the Comptroller of the Currency and the National Association of Supervisors of State Banks in an effort to put the program on a uniform basis.

Governor Robertson said that he favored the direct verification program, which he felt should be insisted upon by every bank supervisory authority. In his opinion the Federal Reserve had a responsibility, where State member banks were concerned, to promote the use of direct verification. If the System took the lead, the other bank supervisory agencies might be persuaded to follow. He suggested that a copy of the letter to the Reserve Banks be sent at the appropriate time to the Comptroller of the Currency, thus informing him of what the Federal Reserve was doing.

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Other Board members concurred in this reasoning. Accordingly, the letter to the Federal Reserve Banks was approved; a copy is attached as Item No. 7.

Application of State-Planters Bank. There had been distributed a memorandum from the Division of Examinations dated June 7, 1965, together with supporting papers, recommending favorably on the application of State-Planters Bank of Commerce and Trusts, Richmond, Virginia, to merge The Tri-County Bank, Mechanicsville, Virginia.

At the Board's request, Mr. Egertson made a statement regarding the facts of the case and the reasons underlying the recommendation of the Division of Examinations, his comments being based substantially on the information presented in the June 7 memorandum.

Mr. Egertson then responded to several questions. With respect to the objections that had been raised to the merger within the ranks of Tri-County Bank, he indicated that reduction in prestige locally and lack of influence in formulation of policies if the merger were consummated was believed to be the basic concern of the directors who opposed the transaction. They had made known their views to the Federal Reserve Bank of Richmond and had submitted them in writing, but they had not pressed for an oral presentation to the Board. As to the comment in the material presented to the Board that perhaps 10 per cent of the persons who had moved their residences from Tri-County Bank's service area continued to deal with the bank, Mr. Egertson suggested an interpretation that some parties who had moved to Richmond after doing business

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with Tri-County Bank for years continued to maintain their relationship with the bank. He doubted that the figure cited indicated the existence of a great deal of competition between the two banks seeking to merge, or that such competition actually existed to any significant extent.

The views of the members of the Board on the application were then expressed.

Governor Robertson stated that he would disapprove the application, which involved an attempt by United Virginia Bankshares, Incorporated, the bank holding company with which State-Planters Bank was affiliated, to expand its operations via the merger route. The bank holding company was now the largest in Virginia, controlling more than 11 per cent of total bank deposits in the State. State-Planters was the second largest bank in the Richmond-Petersburg-Hopewell area, holding about 29 per cent of the total deposits in that area, and it was the third largest bank in the State. The instant proposal was not the only current expansion move by the holding company through the merger route. A merger of another subsidiary, First and Citizens National Bank of Alexandria, Alexandria, Virginia, with Shirlington Trust Company, Arlington, Virginia, had just been approved by the Comptroller of the Currency. This afforded a good illustration, he thought, of why all mergers involving holding company subsidiary banks should have to come before the Board for approval.

Governor Robertson went on to say that while it was alleged that there was no significant competition between the merging banks,

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circumstances such as the indication that numerous individuals reportedly went back to Tri-County Bank to transact business after moving out of the area indicated to him there was some competition. In any event, there was potential competition. Whatever competition there was, and whatever potential competition there might be, would be eliminated if the merger were approved.

Further, Governor Robertson continued, this was a case where a holding company bank was willing to pay a sizable premium to acquire a local institution, even though it had an office only about 7 miles away. In addition, the principal officers of Tri-County Bank, who were minor shareholders, were being offered emoluments that made the merger advantageous to them, and they were of course in a position to influence the other shareholders.

Governor Robertson noted the trend toward concentration of banking resources in holding companies in the State of Virginia and expressed the view that this trend should be halted before it went too much further.

Governor Shepardson said it seemed to him there might be some competition, actual or potential, between the two banks, and this admittedly would be eliminated if the proposed merger were approved. However, there was a considered plan in Virginia, with which a merger of this kind was consistent, to build up banking resources to meet more adequately the needs of a State that was developing industrially. He was not persuaded

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that the point had yet been reached where the State should be told that it was wrong in what it was trying to do. He concurred with the recommendation of the Division of Examinations and favored approval of the application.

Governor Mitchell said that he would disapprove the proposed merger because he did not think it was necessary to remove an existing local bank from the area in question. State-Planters already had access to the market area of Tri-County and should be able to compete effectively in that area. It was helpful and healthy for a community to have local banking alternatives wherever this could be arranged, and in this particular case the banking needs of the community were being met adequately. Large blocks of credit could be obtained easily, if they were needed, from sources other than Tri-County. Consequently, he did not feel that the banking factors in this case justified overriding the advantages of continuing the local bank in existence. While there were marginal management succession problems, it appeared that they could be dealt with satisfactorily.

Governor Mitchell thought it was desirable to have a certain amount of concentration of banking resources in a State like Virginia, and that State-wide branch banking would be a good thing. But in this case he felt that the local bank should not be merged out of existence.

Governor Daane said that he would approve the application for the reasons cited by the Division of Examinations. As he saw it, the

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merger would result in a bank better able to accommodate the needs of a growing area. In addition, it should insure aggressive banking competition in Hanover County, particularly between State-Planters and its rival of long standing, First and Merchants National Bank of Richmond. On balance, he felt the merger would be beneficial and in the public interest.

Governor Maisel said that he would disapprove the application. Partly as a result of previous mergers, State-Planters had grown to a bank holding 29 per cent of area deposits. In addition, two Richmond banks were in a dominant position, holding a majority of area deposits between them. The situation was competitive at the moment, but with no guarantee for the future. In general principle, he felt it was an undesirable situation for two banks between them to have a majority of area deposits, and he would not favor allowing banks in such a position to grow further via the merger route.

Chairman Martin stated that he would approve the application for the reasons that had been given by the Division of Examinations.

Three members of the Board therefore favored approval and three favored denial, which meant that the proposed merger failed of approval and could not legally be consummated. Question was raised about the possibility of holding the application over for further consideration at a time when a full Board was present, but after discussion it was the prevailing view that such a course should not be followed. It was pointed

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out that under the Board's Rules of Procedure the applicant could request reconsideration, although not on the basis that the case must be decided by a full Board.

Accordingly, it was understood that the Legal Division would begin the drafting of an order and statements with respect to the application.

Application of Citizens Bank. There had been distributed a memorandum from the Division of Examinations dated May 26, 1965, and supporting papers with respect to the application of Citizens Bank, Vermillion, South Dakota, to consolidate with three other banks under its charter and title. The three other banks involved in the proposed consolidation were: Security State Bank, Gayville, So. Dak., Gayville, South Dakota; Farmers State Bank, Tabor, South Dakota; and The Security State Bank, Wakonda, South Dakota. The Division's recommendation was favorable.

After Mr. Egertson summarized the circumstances underlying the application and the reasons for the recommendation of the Division of Examinations, a number of questions were presented by members of the Board.

These questions dealt primarily with the activities of Mr. John T. Vucurevich, who controlled directly or indirectly the four banks involved in the proposed merger together with five other banks in South Dakota, Montana, and Wisconsin and, in addition, was closely associated with a

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South Dakota savings bank. The Minneapolis Reserve Bank indicated that Mr. Vucurevich was regarded as a speculator in banks, that he had at times owned other banks in the Ninth District, and that on one occasion he had sold a bank in Minnesota to a party of questionable standing.

The scope of the questions extended to the earnings record of the banks controlled by Mr. Vucurevich, their capital position, their record of dividend payments, their loan rates, and similar matters.

The responses made by the staff to these questions were based on the merger application and available information that had been assembled bearing upon it, essentially as spelled out in the memorandum of May 26 from the Division of Examinations.

Explanation also was made as to why the control of banks exercised by Mr. Vucurevich and his interests did not come within the purview of the Bank Holding Company Act.

At the conclusion of this discussion, indication was given that in the view of the members of the Board the available information on ownership was not such as to warrant denial of the merger application, which was regarded as otherwise approvable. Accordingly, the application was approved unanimously, with the understanding that the Legal Division would draft an order and supporting statement for the Board's consideration.

Messrs. Shay, Via, Young, Egertson, Sanford, and Harris (Examinations) then withdrew from the meeting and Messrs. Kiley, Assistant

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Director, and McIntosh, Technical Assistant, Division of Bank Operations, and Hart, Assistant to the Director, Division of Personnel Administration, entered the room.

Remote operation of computer facilities. Pursuant to a recommendation by Governor Robertson that was approved by the Board on June 23, 1964, the Division of Data Processing, in consultation with the Federal Reserve Bank of Richmond, had undertaken a study of the feasibility of the sharing by the Board and the Bank of a new computer that would be located at the relocation site currently being established for the joint use of the Board and the Reserve Bank. The results of the feasibility study, which was not yet complete in all details, were presented in a memorandum from Mr. Schwartz dated May 25, 1965, which had been distributed.

The memorandum indicated that remote operation of computer facilities was considerably more feasible than had appeared to be the case a year earlier. As to cost, the monthly rental of a computer simply to replace the present Board computer with minimum additional capacity would be \$16,400. For remote operations, additional costs would be incurred for providing considerably greater capacity for the new computer, for either modifying existing computers at the Board and the Richmond Bank so that they would perform as satellites or replacing them by newer satellite computers, for furnishing communications channels and terminals, and for net additional personnel costs to man the remote

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operation. Additional equipment costs could run as high as \$15,800 per month, but they might be considerably lower depending partly upon the resale value of the Board's present computer and partly upon alternative communications facilities. Net personnel costs could not be specified at this time. It might also be necessary to incur additional costs for outside consultant advice if General Services Administration was not in a position to furnish the required technical assistance. On the other hand, there were grounds for believing that such additional costs would be offset in full or in large measure, in part by the value of direct benefits of remote operations and in part by ultimate savings in System costs. Beyond that, it was considered imperative that the System move vigorously into the computer-communications complex. A pilot project seemed to be a necessary element in developing experience and removing uncertainty, and the proposed Board-Richmond Bank sharing of a remote computer would be a challenging experiment.

There were essentially two ways in which the task could be approached. Under the off-line method, all operations would be performed at the relocation site and high-speed tape-to-tape transmission would be used to communicate programs, data, and results between the relocation site and the Board and the Bank, with small computers at the Board and the Bank to prepare data tapes for transmission and to print transmitted tape results. Under the on-line method, a large computer would be operated at the relocation site and high-speed data transmission

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would be used between it and directly connected satellite computers at the Board and the Bank, with control over the main computer exercised by the satellites. The second alternative (on-line) was regarded as preferable.

According to the memorandum, the following further steps would need to be taken to implement a final decision in favor of remote sharing of a new computer by the Board and the Richmond Bank:

- (1) Firm up feasibility with a detailed analysis of the Richmond Bank's current and prospective work loads.
- (2) Determine beyond reasonable doubt that the machine configuration tentatively selected was in fact both adequate and the best buy for the job.
- (3) Determine beyond reasonable doubt that the control program envisaged by the manufacturer would contain the necessary capacities to perform multi-satellite, multi-programmed remote operations on the large files needed by both the Board and the Bank and still accommodate additional System units up to reasonable levels. Adequate provision for growth in service to the System should clearly be made.
- (4) Determine that potential errors in data transmission would be recognized by the equipment and by programs, and that adequate means of automatic correction were provided.
- (5) Draw up final specifications for physical installation of the new computer, for modifications to the satellite computers at the Board and at the Bank--or for new satellites--and for the communications system.
- (6) Plan firmly for the allocation of data processing and related tasks between the main computer and the satellites and for personnel requirements at the relocation center. As many operations as possible would presumably be moved to the relocation site quickly, and continuous effort would be made to move additional operations.

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- (7) Clear up any remaining doubts about computer potentials that might be inhibited by distance.
- (8) Last but not least, specify precisely the costs and trade-offs so that the Board and the Richmond Bank would have maximum information for final review.

There had also been distributed a letter dated June 1, 1965, in which President Wayne stated that the Richmond Bank had reviewed the memorandum from Mr. Schwartz. The Bank was anxious to cooperate with the Board in efforts to achieve an "operating" relocation site, and also in experimental work that conceivably held great promise for the entire System in the field of electronic data processing. Therefore, the Bank was prepared to participate in the project described in the memorandum in the event the Board decided that it should be undertaken and the expense was justified. The Bank believed that further objective study, as proposed in the eight steps listed in the memorandum, was necessary, and it also believed that certain additional points, as cited in the letter, should be borne in mind.

After comments by Mr. Schwartz on the matters developed in his memorandum, Governor Mitchell commented that he continued to have the same question as a year ago: he wanted to know exactly what could be done with a computer in a remote location. He would like to see a summary of what was being done with computers at all locations throughout the System. There was much to be said, he thought, for taking a look at what was presently being done. Perhaps there was no feasible

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way of bringing together housekeeping operations on a central computer, but maybe there could be a bringing together of a variety of research operations. There was the possibility of centralizing the handling of member bank accounts, thus leading to immediate charge and credit in the check collection function and the elimination of float. There might similarly be a number of other operations that could usefully be centralized. His question was whether such possibilities were being studied.

Governor Daane said he thought the memorandum had dealt with this point by indicating that the Board-Richmond Bank project was to be conducted as an experiment, designed to shed light on the problems involved in bringing more widespread functions into a remote computer operation.

Mr. Schwartz commented at this point that as recently as ten years ago the Reserve Banks saw no use for computers. Now a second stage had been reached; the Reserve Banks maintained that they were doing fine with their own computers. Perhaps this time they were right, but on the other hand it might be found through experimentation that many operations extending down through the housekeeping functions could be centralized. As to member bank accounts, this involved a communications rather than strictly a computer problem.

Governor Maisel observed that there seemed to be two separate problems involved. The first was the problem of accomplishing economies of scale through centralization of computer operations; the second was

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the problem of communications costs. The presently envisaged project seemed to involve the sharing of time on a remote computer rather than joint operations. Perhaps there had to be experimentation with the sharing of time before moving on to the next step.

Mr. Schwartz referred to the size of the staffs required for the operation of computers at each of the 12 Reserve Banks and to the variety of operating methods at the several Banks. In the longer range, he saw a potential for economies of considerable magnitude in the standardization that would come through centralization.

Governor Robertson commented that the progress made in this field in the past few years had been tremendous. Within a matter of another few years, he foresaw the possibility, unless the System lagged behind, of handling a broad range of operations on a single computer, with resultant savings and increased speed. A start had to be made somewhere. Unless an experimental program was launched, the System would soon find itself behind the march of events. In his opinion, the costs would not be as great as suggested in the memorandum; as a matter of fact, he predicted savings.

Mr. Farrell commented that the alternative to experimentation along the lines suggested by Mr. Schwartz was clearly a continuing expansion of personnel and machinery at the individual Banks, thereby foregoing potential savings that could be very substantial, particularly if central computer operations could be extended to include the house-keeping functions.

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Governor Shepardson commented along the same lines. He went on to say that he felt Mr. Schwartz had, if anything, been too conservative in presenting the possibilities involved in moving ahead with exploration of what could be done. Governor Shepardson also referred to the advances being made by commercial banks in the data processing area and the desirability of the System's not falling behind. He concluded by referring to the need for intra-System coordination, that is, between the Banks and also between them and the Board.

Governor Daane pointed out that the immediate question before the Board was whether to proceed with exploration of the eight points mentioned by Mr. Schwartz as requiring further study before a final decision could be made by the Board and the Reserve Bank on a proposal such as Mr. Schwartz had outlined. He saw no reason why additional work should not be undertaken along those lines.

Governor Robertson suggested that the Board authorize moving ahead with such further exploration, with the understanding that the Division of Data Processing would attempt at the same time to provide the answers to questions that any Board member would like to have regarding the total picture.

The Board then authorized moving ahead on the matter subject to the foregoing understanding.

All of the members of the staff except Messrs. Sherman, Kenyon, and Hart then withdrew from the meeting.

Retirement System. In his capacity as a Trustee of the Retirement System of the Federal Reserve Banks, Governor Maisel had caused to

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be distributed a memorandum dated June 10, 1965, in which he noted that the Board of Trustees, at its meeting on June 16, 1965, would consider a memorandum from the Retirement Committee dated April 15, 1965, on the subject "Disposition of Earnings Not Required for Actuarial Purposes and Reserve Accounts." In substance, the Retirement Committee recommended to the Trustees that all existing excess earnings of the Retirement System be distributed currently and that in the future excess earnings be distributed annually. The Board of Governors on June 11, 1964, had stated that it "would defer action on the treatment of the remainder of such excess earnings for at least a year, thus affording an opportunity to review the experience of the Retirement System under the revised mortality tables and the proposed increase in the regular rate of interest."

Governor Maisel commented in his memorandum that he had two basic questions: (1) Were there any excess earnings at the current time? (2) Was the method of distribution a sound one? The first item seemed to depend rather completely on the question whether or not the actuary had been using a proper technique in estimating future liabilities, and the critical issue here was whether the actuary should project an assumed rise in salary rates into the future. Governor Maisel believed that at least an estimate of such potential liabilities was necessary, since future benefits depended directly on the salary scale in the five years prior to an employee's retirement. The current procedure was not to make such an estimate but to assume that the sums required for this purpose would

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arise as a result of conservative estimates in other areas. Governor Maisel did not agree with this theory, feeling that all available information should be used in any decision process, and he noted that Professor McGill, who had served as consultant to the Board on the Retirement System, apparently held a similar opinion. Governor Maisel believed that it would be proper to take the attitude that no division of so-called excess earnings should be made until a projection was made of the impact on liabilities of salaries increasing at the same rate as productivity increases for the economy as a whole.

As to future excess earnings, Governor Maisel felt that when interest earned in any year exceeded the 3.5 per cent credited automatically, this was an excess earning. All annuity accumulations and that part of the retirement reserve based on annuity accumulations (both of which were employee contributions) should be credited annually with the actual rate of interest earned by the invested assets. However, he felt that the remainder of the excess earnings were simply errors in the charges paid by the Reserve Banks and the Board, and that such earnings should be used to reduce the payments by the Banks and the Board in the following year on a pro rata basis.

After commenting in explanation of his thinking on the first question, Governor Maisel inquired whether the Board would regard it as proper for him to raise the point at the meeting of the Board of Trustees and indicate that the Board of Governors might not want to approve a

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distribution of "excess earnings" until a projection was made of the impact on future Retirement System liabilities of an increase in salaries at the same rate as productivity increases for the economy as a whole.

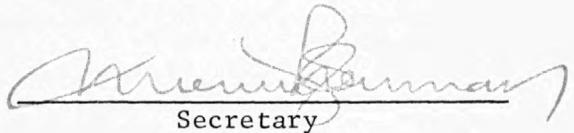
Chairman Martin replied that he felt Governor Maisel would be raising exactly the right type of question, and there was no disagreement with the Chairman's comment.

After some discussion of Governor Maisel's second question, Chairman Martin commented that this involved a complicated matter. He went on to suggest that Governor Maisel be authorized to explore the matter fully, and the latter was so authorized.

Chairman Martin made the further comment that any questions of this kind that Governor Maisel might raise would be valuable from the Board's standpoint. As he (the Chairman) had told Governor Maisel when the latter was designated as a Trustee of the Retirement System, he should endeavor to look into the problems of the Retirement System from every angle.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board a memorandum from the Division of Research and Statistics dated June 10, 1965, recommending that an additional economist position be established in the Capital Markets Section of that Division.

  
Andrew J. Bernays  
Secretary

1962



**BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM**

WASHINGTON, D. C. 20551

Item No. 1  
6/11/65

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

June 11, 1965.

**Board of Directors,  
Chemical Bank New York Trust Company,  
New York, New York.**

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Chemical Bank New York Trust Company, New York, New York, of a branch at 2190 White Plains Road, Borough of the Bronx, New York, New York, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Kenneth A. Kenyon

**Kenneth A. Kenyon,  
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.)

1983

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 2  
6/11/65

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

June 11, 1965.

Board of Directors,  
Granite City Bank,  
Elberton, Georgia.

Gentlemen:

Pursuant to the provisions of Section 24A of the Federal Reserve Act, the Board of Governors of the Federal Reserve System approves an investment of \$271,624.40 by Granite City Bank, Elberton, Georgia, for the construction of new banking quarters, including \$72,250.40 expended for purchase of the land.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,  
Assistant Secretary.

1984

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

Item No. 3  
6/11/65

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

June 11, 1965.

Board of Directors,  
New Jersey Bank and Trust Company,  
Clifton, New Jersey.

Gentlemen:

Pursuant to condition of membership numbered 3, New Jersey Bank and Trust Company agreed, within a period not to exceed three years, to dispose of all corporate stock owned at the time of admission to membership in June 1958. The Board of Governors subsequently extended this period to June 20, 1965. In accordance with the request contained in your letter of May 24, 1965, and after considering the circumstances with respect to further retention of this corporate stock, the Board extends until June 20, 1966, the time within which your bank may comply with membership condition numbered 3.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,  
Assistant Secretary.

1965

BOARD OF GOVERNORS  
OF THE

FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 4  
6/11/65

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

June 11, 1965.

The Honorable K. A. Randall, Chairman,  
Federal Deposit Insurance Corporation,  
Washington, D. C. 20429

Dear Mr. Randall:

Reference is made to your letter of May 19, 1965, concerning the application of The First State Bank, Hawkins, Texas, for continuance of deposit insurance after withdrawal from membership in the Federal Reserve System.

There have been no corrective programs urged upon the bank, or agreed to by it, which have not been fully consummated, and there are no such programs that the Board would advise be incorporated as conditions of admitting the bank to membership in the Corporation as a nonmember of the Federal Reserve System.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.

1986

TELEGRAM  
LEASED WIRE SERVICE

Item No. 5  
6/11/65

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTON

June 11, 1965

Hickman - Cleveland

Reurtel June 9, Board will interpose no objection to your Bank's making offers of (1) to Cincinnati, \$1,012,500 for approximately 67,500 square feet in Core Project, and (2) to owners of Schmidt Building, up to \$900,000 for building and land approximating 7,500 square feet.

(Signed) Merritt Sherman  
SHERMAN

1987



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 6  
6/11/65

OFFICE OF THE CHAIRMAN

June 11, 1965.

The Honorable K. A. Randall, Chairman,  
Federal Deposit Insurance Corporation,  
Washington, D. C. 20429

Dear Kay:

This is in response to your letter of June 2, 1965, with which was enclosed a draft of a bill designed to deal with the problem of payment of excessive interest on bank deposits.

In our judgment, the approach embodied in the Corporation's proposal is an appropriate solution to a serious problem that confronts our agencies and the banking industry. The inclusion as "deposits" of most funds turned over to banks would plug a loophole that now enables banks to circumvent, to a considerable extent, the broad Congressional purpose in this area. Furthermore, we believe that the penalties prescribed in the Corporation's draft legislation would be more practical and effective than existing legal sanctions.

Accordingly, the Board recommends that the proposed legislation be submitted to the Bureau of the Budget for its consideration, and we have directed our staff to draft a bill to amend section 19 of the Federal Reserve Act with respect to this subject and to consult with your staff. The Board believes certain amendments in language would be desirable, and will submit them to you in due course, but such problems of draftsmanship do not warrant postponing the sending of a bill of this nature to the Bureau of the Budget.

Sincerely yours,

(Signed) Bill

Wm. McC. Martin, Jr.

1988



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 7

6/11/65

S-1960

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

June 11, 1965.

Dear Sir:

In the Board's letter of June 9, 1961, (FRLS 3479) the Reserve Banks were requested to ascertain at the next examination of each State member bank whether the bank had a program of direct verification, and to discuss the lack of such program with senior management. The examiners were to report on page 2 of the examination report if banks had a verification program and, if not, the views of management concerning adoption of such a program. If such a program was in effect, the examiners were also to summarize briefly the nature and extent of the program on page E of the confidential section of the examination report under the caption, "Direct Verification Program."

The program undertaken in 1961 was for one examination only; however, some of the Reserve Banks are continuing to emphasize the desirability of direct verification not only as an effective means of bringing shortages to light, but also as a method of preventing them. Since the desirability of direct verification is not believed subject to question, it seems the System should again encourage the use of direct verification programs.

There is enclosed a memorandum entitled "Direct Verification By Banks." Please have a copy of the memorandum supplied to each examiner and assistant examiner at your Bank. This program is to remain in effect until further notice. The June 9, 1961, portion of FRLS 3479 is superseded by this letter.

Very truly yours,

Merritt Sherman,  
Secretary.

Enclosure.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

DIRECT VERIFICATION BY BANKS

Direct verification with bank customers to determine the accuracy and authenticity of various asset and liability accounts has long been recognized as the most effective method of bringing shortages to light, as well as a highly useful means of preventing them. Bank supervisory authorities, both Federal and State, have repeatedly urged adoption of this practice, and in 1961 cooperated with the American Bankers Association in preparing a pamphlet entitled, "Direct Verification for Smaller Banks". One copy of this study was supplied without charge to each ABA member bank and many additional copies have been distributed by those interested in having this practice adopted by banks, both small and large.

Recent experiences have emphasized further the desirability of direct verification by all banks. Several recently discovered shortages which resulted in large losses to banks, or even caused the banks to close, would almost certainly have been discovered in time for appropriate action had a suitable program of direct verification been in effect.

In view of the substantial benefits from direct verification, examiners for each Federal Reserve District will place renewed emphasis on the importance of each bank's instituting and maintaining an adequate program of direct verification. Banks may employ suitably experienced outside accountants to perform the direct verification, or it may be decided in some cases that the job can be done effectively by the bank's own personnel. If direct verification is to be performed by a bank's own personnel, it should be done only under careful controls which permit neither collusion nor manipulation. Some banks may conclude that direct verification should be undertaken at the time of the directors' examination.

Examiners will review any direct verification program in effect and will comment on the "Comment" page as to its extent and objectivity. Those banks without such programs will be urged to initiate steps looking toward the implementation of such a program at an early date.

While direct verification is highly desirable, it must be used as a supplement to an audit program and acceptable internal controls. Examiners will, of course, continue to review and appraise the adequacy of internal controls and the audit program.

June 11, 1965.