

Minutes for June 14, 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

W

Gov. Robertson

R

Gov. Balderston

RSB

Gov. Shepardson

CS

Gov. Mitchell

M

Gov. Daane

DA

Gov. Maisel

SM

Minutes of the Board of Governors of the Federal Reserve System on Monday, June 14, 1965. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Robertson, Acting Chairman
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. Solomon, Director, Division of Examinations
Mr. Spencer, General Assistant, Office of the Secretary
Mr. Morgan, Staff Assistant, Board Members' Offices
Mr. Furth, Consultant

Messrs. Brill, Holland, Koch, Garfield, Partee, Solomon, Williams, Dembitz, Altmann, Axilrod, Eckert, Ettin, Fisher, Keir, Osborne, Peret, and Wernick and Mrs. Ulrey of the Division of Research and Statistics

Messrs. Hersey, Katz, Sammons, Irvine, Reynolds, Wood, Dahl, Hayes, Maroni, and Mills of the Division of International Finance

Mr. Kareken, Economic Consultant, Federal Reserve Bank of Minneapolis

Economic review. The Division of International Finance reported on international financial conditions, following which the Division of Research and Statistics presented information relating to the domestic economy.

Mr. Kareken, Mr. Furth, and all members of the Board's staff who had been present except Messrs. Sherman, Kenyon, Noyes, Molony,

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Brill, Solomon (Division of Examinations), Partee, Sammons, and Spencer

then withdrew from the meeting and the following entered the room:

Mr. Hackley, General Counsel
 Mr. Shay, Assistant General Counsel
 Mr. Goodman, Assistant Director, Division of Examinations
 Mr. Leavitt, Assistant Director, Division of Examinations
 Mr. Sanders, Senior Attorney, Legal Division
 Mr. McClintock, Supervisory Review Examiner, Division of Examinations
 Mr. Veenstra, Chief, Financial Statistics Section, Division of Data Processing

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 State Bank of Albany, Albany, New York, approving the establishment of a branch in the Colonie Shopping Center, Town of Colonie.	1
Letter to Wells Fargo Bank, San Francisco, California, approving the establishment of a branch in Arcata.	2
Letter to the Federal Reserve Bank of San Francisco regarding the question whether a Federal Reserve Bank should assume full responsibility for securities of member banks held in safekeeping.	3

Report on competitive factors (Greenville-Leland, Mississippi).

Unanimous approval was given to the transmittal of a report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of First National Bank of Leland, Leland, Mississippi, into The Commercial National Bank of Greenville, Greenville, Mississippi.

The conclusion read as follows:

The proposed merger would not eliminate any significant competition between First National Bank of Leland and Commercial National Bank of Greenville, and the overall effect of the proposal on competition would not be adverse.

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Application of Commercial and Savings Bank of St. Clair County (Items 4-6). Pursuant to the decision at the meeting on May 28, 1965, there had been distributed drafts of an order and statement reflecting approval of the application by The Commercial and Savings Bank of St. Clair County, St. Clair, Michigan, to consolidate with Yale State Bank, Yale, Michigan. Also distributed was a dissenting statement by Governor Robertson.

Following discussion, the issuance of the order and statement was authorized, with the understanding that a change in the statement would be made at one point, pursuant to a suggestion by Governor Daane, to emphasize the potential benefits to the Yale community from the proposed consolidation. Copies of the documents, as issued, are attached as Items 4 and 5. A copy of Governor Robertson's dissenting statement is attached as Item No. 6.

Messrs. Shay and McClintock then withdrew from the meeting.

Condition report procedures (Items 7 and 8). There had been distributed a memorandum from Messrs. Partee and Veenstra dated June 10, 1965, submitting drafts of letters (1) to the Federal Reserve Banks that would transmit report forms for use by State member banks and their affiliates in submitting reports of condition at the June call date and advise that it would be necessary to collect a reconciliation statement from national banks, and (2) to the Bureau of the Budget requesting clearance of the reconciliation statement.

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The memorandum outlined a chronology of recent events regarding negotiations among the Federal bank regulatory agencies to effect a uniform condition report format. As pointed out, the Federal Reserve and the Federal Deposit Insurance Corporation planned again to use the 1961 report form for all State banks for the forthcoming call. The Office of the Comptroller of the Currency had advised that since there would not be sufficient time to reach agreement on a uniform report form prior to the June call, it seemed premature to modify the national bank form now being used.

Mr. Veenstra noted that arrangements recently had been completed for the State and Federal bank regulatory agencies to meet on June 23, 1965, to discuss proposals for a uniform report form to be used for the fall or December 1965 call. It seemed likely, in his opinion, that the meeting might lead to a uniform or at least a compatible report form.

Unanimous approval then was given to the letter to the Bureau of the Budget, a copy of which is attached as Item No. 7. Attached as Item No. 8 is a copy of the letter approved unanimously for transmittal to the Federal Reserve Banks.

Voluntary restraint on foreign lending and investing (Item No. 9).

As a part of the President's program designed to improve the international balance of payments position of the United States, the Board issued on March 3, 1965, tentative guidelines on foreign lending and investing by nonbank financial institutions. The guidelines had been issued in tentative form with a view to collecting benchmark statistics from the

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affected institutions, the analysis of which was expected to be helpful in determining whether the guidelines should be modified. There now had been distributed, under date of June 10, 1965, a draft of revised guidelines.

Commenting on the proposed revisions, Governor Robertson said that the purpose was to strengthen the original guidelines, particularly to prevent the substitution of nonbank credit for bank credit. He went on to point out that the revisions had been discussed with the bankers who provided technical advice on the commercial bank guidelines and that the Presidents of the Federal Reserve Banks had been requested to discuss them with representatives of the various categories of nonbank financial institutions. In addition, the proposed changes had been taken up at the staff level with the Treasury, Commerce, and State Departments, and an effort had been made to accommodate the suggestions received. In this process the proposed guidelines had been weakened. They were not as strong as he would like to see them, but he felt they would be more effective than the ones issued in March.

Governor Robertson concluded by saying that the current draft of revised guidelines had been submitted to the Secretary of the Treasury for suggestions. It was anticipated that further comments might be received from the Treasury or from the State Department. However, if the Board approved, he believed the revised guidelines could be put into final form and issued by the end of the week.

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During summarization of the proposed changes and an explanation of them by Mr. Partee, certain suggestions for changes -- principally of an editorial nature -- were presented.

Issuance of the revised guidelines, in a form reflecting consideration of the suggestions made at this meeting and incorporation of further changes submitted by other interested Government departments that might be acceptable to Governor Robertson, was then authorized.

Secretary's Note: The revised guidelines applicable to nonbank financial institutions were issued effective June 21, 1965. A copy is attached as Item No. 9.

Protest of branch application. Mr. Leavitt reported receipt by the Division of Examinations of a telegram from President Regan of the Flushing Savings Bank, Flushing, New York, protesting on behalf of that bank, Flushing National Bank, and College Point Savings Bank, Flushing, the proposed establishment by Manufacturers Hanover Trust Company, New York, New York, of a branch at 156-20 Northern Boulevard, Flushing. Mr. Regan requested that he be permitted to appear before the examiner preparing the file on this matter or before the Board.

Following discussion, it was understood that Mr. Regan would be informed that if there was additional information that he wished to present, he should feel free to discuss the matter with the Division of Examinations. If Mr. Regan evidenced a strong desire to appear before the Board, however, an opportunity should be afforded him to do so.

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National bank matter. Mr. Solomon reported on certain information that had come to the attention of the Division of Examinations through the staff of the Federal Deposit Insurance Corporation with regard to a line of credit extended by Western Pennsylvania National Bank, Pittsburgh, Pennsylvania.

After discussion of this information and certain other matters bearing upon the situation of the national bank in question, it was understood that the Division of Examinations would ascertain whether the Federal Deposit Insurance Corporation had furnished the information to the Comptroller of the Currency.

Secretary's Note: Inquiry of the Federal Deposit Insurance Corporation revealed that the information referred to in this morning's meeting concerning Western Pennsylvania National Bank had been furnished to and discussed with the Office of the Comptroller of the Currency.

The meeting then adjourned.

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

Letter to the Federal Reserve Bank of Chicago (attached Item No. 10) approving the reappointment of C. Andrew Lawrence as assistant examiner.

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

Appointment

Madelene G. Donaldson as Clerk-Typist, Division of Research and Statistics, with basic annual salary at the rate of \$3,680, effective the date of entrance upon duty.

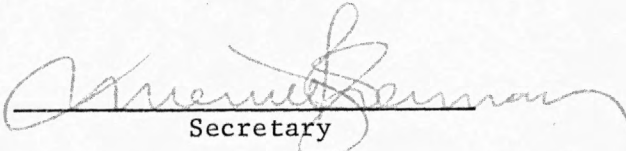
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Salary increases

Frederick R. Dahl, Chief, Special Studies and Operations Section, Division of International Finance, from \$16,130 to \$17,030 per annum, effective June 20, 1965.

Robert F. Gemmill, Economist, Division of International Finance, from \$15,640 to \$16,460 per annum, with a change in title to Senior Economist, effective June 20, 1965.


Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 1
6/14/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 14, 1965



Board of Directors,
State Bank of Albany,
Albany, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by State Bank of Albany, Albany, New York, of a branch in the Colonie Shopping Center, approximately 1,500 feet northeast of the intersection of Wolf Road and Central Avenue (Route 5), Town of Colonie (unincorporated area), Albany County, 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.)



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

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Item No. 2
6/14/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 14, 1965

Board of Directors,
Wells Fargo Bank,
San Francisco, California.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Wells Fargo Bank, San Francisco, California, of a branch either at the northwest corner of the intersection of 13th and G Streets or at the corner of the intersection of 7th and G Streets, Arcata, Humboldt County, California, 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.)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 3
6/14/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 14, 1965



Mr. Eliot J. Swan, President,
Federal Reserve Bank of San Francisco,
San Francisco, California. 94120

Dear Mr. Swan:

This refers to your letter of April 16, 1965, enclosing a copy of a letter from Ralph V. Arnold, President of the First National Bank & Trust Company of Ontario, California. In his letter, Mr. Arnold requested you to present, "through the proper channels", his suggestion that "because of the nature of the relationship of the member banks with the Federal Reserve Bank . . . /the latter/ should assume full responsibility for the safekeeping for securities for member banks".

As you have indicated to Mr. Arnold, a Reserve Bank, unless it wished to act in the capacity of an insurer, would not be subject to absolute liability for loss of securities held by it for safekeeping. Whether the Reserve Banks should, by contract or otherwise, accept absolute responsibility for securities of member banks held by them for safekeeping is a matter of policy affecting the operations of the Reserve Banks that the Board does not consider appropriate for it to explore without having had the benefit of advice and recommendations from the Conference of Presidents.

Accordingly, if you believe that Mr. Arnold's suggestion has merit, you may wish to propose that it be considered at a future meeting of the Conference.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

In the Matter of the Application of
 THE COMMERCIAL AND SAVINGS BANK OF
 ST. CLAIR COUNTY
 for approval of consolidation with
 Yale State Bank

ORDER APPROVING CONSOLIDATION OF BANKS

There has come before the Board of Governors, pursuant to the Bank Merger Act of 1960 (12 U.S.C. 1828(c)), an application by The Commercial and Savings Bank of St. Clair County, St. Clair, Michigan, a State member bank of the Federal Reserve System, for the Board's prior approval of the consolidation of that bank and Yale State Bank, Yale, Michigan, under the charter and title of the former. As an incident to the consolidation, the sole office of Yale State Bank would be operated as a branch of The Commercial and Savings Bank of St. Clair County. Notice of the proposed consolidation, in form approved by the Board, has been published pursuant to said Act.

Upon consideration of all relevant material in the light of the factors set forth in said Act, including reports furnished by the Comptroller of the Currency, the Federal Deposit Insurance Corporation,

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and the Attorney General on the competitive factors involved in the proposed consolidation,

IT IS HEREBY ORDERED, for the reasons set forth in the Board's Statement of this date, that said application be and hereby is approved, provided that said consolidation shall not be consummated

- (a) within seven calendar days after the date of this Order or
- (b) later than three months after said date.

Dated at Washington, D. C., this 14th day of June, 1965.

By order of the Board of Governors.

Voting for this action: Chairman Martin, and
Governors Balderston, Shepardson, Mitchell, Daane,
and Maisel.

Voting against this action: Governor Robertson.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

APPLICATION BY THE COMMERCIAL AND SAVINGS BANK OF ST. CLAIR COUNTY
FOR APPROVAL OF CONSOLIDATION WITH YALE STATE BANK

STATEMENT

The Commercial and Savings Bank of St. Clair County, St. Clair, Michigan ("Commercial and Savings Bank"), with total deposits of about \$17 million, has applied, pursuant to the Bank Merger Act of 1960 (12 U.S.C. § 1828(c)), for the Board's prior approval of the consolidation of that bank and Yale State Bank, Yale, Michigan ("Yale Bank"), which has total deposits of about \$5 million. ^{1/} The banks would consolidate under the charter and name of the Applicant, a State member bank of the Federal Reserve System. As an incident to the consolidation, the sole office of Yale Bank would become a branch of Commercial and Savings Bank, increasing the number of its offices to three.

Under the law, the Board is required to consider, as to each of the banks involved, (1) its financial history and condition, (2) the adequacy of its capital structure, (3) its future earnings prospects, (4) the general character of its management, (5) whether its corporate powers are consistent with the purposes of 12 U.S.C., Chapter 16 (the Federal Deposit Insurance Act), (6) the convenience and needs of the

^{1/} Deposit figures are as of December 31, 1964.

community to be served, and (7) the effect of the transaction on competition (including any tendency toward monopoly). The Board may not approve the transaction unless, after considering all of these factors, it finds the transaction to be in the public interest.

Banking factors. - The financial histories of Commercial and Savings Bank and Yale Bank are satisfactory, and each bank has a sound asset condition and an adequate capital structure. Each bank has a good earnings record and satisfactory future earnings prospects. The management of each bank is satisfactory and, in addition to capable management, the resulting bank would have a sound asset condition, an adequate capital structure, and good future earnings prospects.

There is no indication that the corporate powers of the banks are, or would be, inconsistent with the purposes of 12 U.S.C., Chapter 16.

Convenience and needs of the communities. - Yale has a population of about 1,600 and is located in north-central St. Clair County, about 31 miles northwest of St. Clair and about 27 miles northwest of Port Huron, the county seat. The economy of Yale is based principally on agriculture, especially dairy farming. Yale is encircled by a number of small independent banks situated at distances ranging from about 12 to 20 miles, and the branch office of Commercial and Savings Bank is located at Emmet (population about 280), some 10 miles to the southeast. Although it appears that no pressing need exists for the services of a larger bank in the Yale community, the bank resulting from the proposed consolidation could more readily - and generally more

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economically - make available services not offered by Yale Bank that would both facilitate the economic growth of the area and afford improved convenience for banking customers.

Competition. - Following the consolidation, Commercial and Savings Bank would hold about 12 per cent of total deposits held by the 20 offices of the 9 banks competing to some degree in the combined area served by its 3 offices. There is no evidence that the consolidation would foreclose any meaningful competition between the proponent banks or that it would adversely affect other banks.

Summary and conclusion. - It does not appear that the proposed consolidation would have any adverse consequences for banking competition. At the same time, Commercial and Savings Bank would make available for the area now served by Yale Bank improved and expanded banking services which would, in addition to benefiting the convenience of banking customers, serve to enhance the community's economic prospects.

Accordingly, the Board finds that the proposed transaction would be in the public interest.

June 14, 1965.

DISSENTING STATEMENT OF GOVERNOR ROBERTSON

I am unable to conclude from the record in this case that consummation of the proposed consolidation would be in the public interest within the meaning of the Bank Merger Act of 1960.

As I understand the statute and its legislative history, Congress intended to make approval of a bank consolidation or merger dependent on a positive showing by its proponents that the public interest would thereby be benefited and rejected the philosophy that doubts be resolved in favor of such transactions.^{1/} In this case, there is a showing neither of an advantage for the public nor a reasonable probability thereof. The majority, while essentially conceding that the banking needs and convenience of the community are being satisfactorily met, nevertheless bases its decision on the hope that the improved and expanded (but unneeded) banking services to be offered by the resulting bank will somehow enhance the economic prospects of the Yale area. A mere hope, however fervently held, is not evidence; and it is not, in my judgment, a sufficient basis under the applicable law upon which to rest a finding of public benefit.

Accordingly, I would deny the application.

^{1/} See the discussion on this point in my Dissenting Statement at 49 Federal Reserve Bulletin 16, 17 (1963).

June 14, 1965.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 7
6/14/65

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 14, 1965.



Mr. Edward T. Crowder, Jr.,
Clearance Officer,
Office of Statistical Standards,
Bureau of the Budget,
Washington, D. C. 20503

Dear Mr. Crowder:

Enclosed for your consideration are four copies of Form 83 requesting clearance by your agency of a reconciliation statement to collect supplementary condition report statistics from all national banks at the forthcoming midyear call date. This reconciliation statement is substantively identical to the form used for the same purpose at the June 30 and December 31, 1964 call dates. Copies of the form used for the December 31, 1964 call date are enclosed for your information. The supporting statement and the Board's transmittal letter of June 19, 1964 requesting clearance of the June 1964 form are still valid.

The Federal Deposit Insurance Corporation and the Federal Reserve will again use the 1961 report form for all State banks for the forthcoming call. The Office of the Comptroller of the Currency has now advised the Board that since there will not be sufficient time to reach agreement on a uniform report form prior to the June call, it would seem premature to modify the national bank form now being used. The Comptroller states that to change for the June call would entail two successive changes in the national bank form and has suggested that no further changes should be made until a uniform format is agreed upon.

Arrangements have now been completed for a meeting of representatives from the State and Federal banking agencies to review the uniform report of condition format. This meeting will convene at 10 a.m., Wednesday, June 23 at the Federal Deposit Insurance Corporation building. Informal staff discussions among the three Federal bank supervisory agencies indicate the likelihood that agreement on a uniform report for future calls will be reached at this meeting.

Mr. Edward T. Crowder

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The Board strongly urges collection of this supplementary information for the June 1965 call date, in order to obtain information from national banks vital to the derivation and tabulation of consistent June 30 bank condition data for all Federal Reserve member banks and all insured commercial banks. As mentioned in the previous correspondence on this subject, these summary tabulations are the only source of universe commercial bank balance sheet data and are used extensively by economists, financial analysts, and others in Government and elsewhere. They are required by the Board in the conduct of its responsibility for monetary policy and serve as bench mark data for many related current series. In addition to the need for a consistent summary series, consistent condition information for all classes of individual banks is also required for economic, legal, and banking market analyses comparing banks in the same location or under similar conditions.

The severe time pressures arising from uncertainties with respect to the outcome of efforts to achieve a uniform report for this June call date require that we request advice as soon as feasible of your agency's determination in this matter, so that the forms may be printed and shipped to the Federal Reserve Banks for distribution to the reporting national banks before the call date.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosure.

Item No. 8
6/14/65

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



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 15, 1965.

Dear Sir:

The indicated number of copies of the following forms are being forwarded to your Bank under separate cover for use of State member banks and their affiliates in submitting reports as of the next call date. A copy of each form is attached.

Number of
copies

Form FR 105 (Call No. 176), Report of Condition of State member banks.

Form FR 105e (Revised February 1961), Publisher's copy of report of condition of State member banks.

Form FR 105e-1 (Revised February 1961), Publisher's copy of report of condition of State member banks.

Form FR 220 (Revised March 1952), Report of affiliate or holding company affiliate.

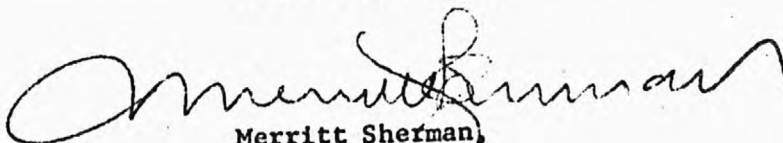
Form FR 220a (Revised March 1952), Publisher's copy of report of affiliate or holding company affiliate.

The forms are identical to those used for the December 31, 1964 report. Form FR 105 includes the schedules on the reverse, which had been eliminated for the spring call. The same form is being printed by the Federal Deposit Insurance Corporation for distribution to insured nonmember State banks. The Comptroller of the Currency will use the same form for national banks as has been used by that agency for the most recent June and December call dates.

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In these circumstances it will again be necessary to collect supplementary information directly from national banks to compile statistical information for all member and all insured banks for the midyear call date. Three copies of a reconciliation statement for each national bank similar to the one used at the most recent June and December call dates will be forwarded as soon as Budget Bureau clearance for this form is received. Operating procedures followed in editing and tabulating national bank reports and the reconciliation statements for the June and December 1964 calls should be followed for handling this call.

Very truly yours,



Merritt Sherman,
Secretary.

Enclosures.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

6/14/65

Revised Guidelines on Foreign Lending and Investing
for U.S. Nonbank Financial Institutions

(Issued pursuant to the President's balance of payments program
by the Federal Reserve System, June 21, 1965)

As an important part of the President's program to improve the balance of payments position of the United States, announced in February 1965, American businesses and financial institutions have been asked to reduce voluntarily their foreign lending and investment activities. In furtherance of this program, the guidelines on foreign lending and investment for financial institutions other than commercial banks are hereby revised.

Included among the types of financial institutions to which the guidelines are applicable are life, fire and casualty insurance companies; corporate noninsured pension funds and State-local retirement systems; mutual savings banks, mutual funds and investment companies; consumer, sales and commercial finance companies; college endowment funds and charitable foundations. Trust companies and trust departments of commercial banks are expected to observe the guidelines wherever possible in the investment of funds entrusted to them or for which they serve as investment advisor. Investment underwriting firms, security brokers and dealers and investment counseling firms, although they may not directly hold assets subject to the guidelines, are requested to inform customers of the program and enlist their support in following the guidelines recommended.

Any nonbank financial institution holding \$500,000 or more in foreign loans, investments or other foreign financial assets is requested

to file a statistical report at the close of each calendar quarter with the Federal Reserve Bank in its District. Such reports are to be filed covering assets held as of June 30, and for any subsequent quarter in which holdings exceed \$500,000. Lending institutions not receiving copies of the reporting form by June 30 may obtain them from the Federal Reserve Banks.

SPECIFIC GUIDELINES

1. Investment of liquid funds abroad should not be increased; if holdings as of the ends of 1963 or 1964 are currently exceeded, such investment should be reduced in a gradual and orderly manner to the lesser of these totals. This category includes all deposits held with foreign banks or foreign branches of U.S. banks, whether denominated in U.S. dollars or a foreign currency and regardless of maturity. It also includes all liquid money market claims on foreign obligors written with an original maturity of 1 year or less, whether such claims are denominated in U.S. dollars or a foreign currency. The term "liquid money market claims" is interpreted broadly to include the securities of Governments and their instrumentalities, commercial paper, finance company paper, bankers' acceptances and other readily marketable paper. This guideline is not intended to restrict the holdings of working balances needed in the ordinary conduct

of business abroad. Neither is it applicable to short-term business credits that are not readily marketable (covered under guideline #2).

2. Investments and credits maturing in 10 years or less at date of acquisition including short-term credits that are not "liquid money market claims" classified under Guideline #1 above, should not be increased by more than 5 per cent during 1965 from end-of-1964 levels. This category includes all bonds, notes, mortgages, loans and other credits carrying maturities at date of acquisition of 10 years or less. The date of final maturity is to be taken in classifying individual credit transactions, except that a credit transaction should not be classified as "long-term" (and hence subject to guideline #3 below) unless 10 per cent or more of the amount to be repaid is scheduled to be repaid after 10 years. Loans guaranteed or arranged by the Export-Import Bank or insured by the Foreign Credit Insurance Association are not to be considered foreign credits for purposes of this program.

Net financial investment in foreign branches, financial subsidiaries and affiliates, if any, should be included among the assets subject to the 5 per cent expansion ceiling under guideline #2. Such financial investment includes payments into equity and other permanent capital accounts of, and net loans and advances to, foreign corporations engaged

principally in financial or real estate activities, in which the institution has an ownership interest of 10 per cent or more. Earnings of a foreign affiliate that are reinvested in the business are not to be included under the guideline target, although institutions are requested to repatriate such earnings to the fullest extent feasible.

In administering restraint in foreign lending and investing, institutions are requested to observe the following priorities or guidas: 1) credits and investments that represent bona fide U. S. export financing should receive absolute priority; 2) non-export credits and investments in the less developed countries are to be given priority consideration second only to bona fide export financing; 3) the flow of investment funds to Canada and Japan, which are heavily dependent on U. S. capital markets, need be restricted only to the extent necessary to remain under the guideline target; 4) unduly restrictive policies should be avoided with regard to credits and investments in the United Kingdom, which has balance of payments problems; 5) non-export credits and investments in other developed countries (see list below) should ordinarily not be made until acceptable investments under the first 4 priorities have been accommodated, and then only within the 5 per cent ceiling for overall expansion under this guideline.

It is recognized that some individual institutions may temporarily exceed the guideline target, because of investments made under the first 2 priorities above, or the taking down of firm prior commitments to lend or invest, or normal seasonal fluctuations. In any case, an institution that exceeds its target should consult with the Federal Reserve Bank in its District regarding a program for moving back within the ceiling in a reasonable period of time.

3. Long-term credits (exceeding 10 years in maturity) and stock investments in foreign companies are not subject to an aggregate target. This category includes bonds, notes, mortgages, loans and other credits maturing more than 10 years after date of acquisition, as well as preferred and common stocks. (Loans and investment in subsidiaries and affiliates, however, are covered by guideline #2). Term loans and serial-payment notes and bonds are to be included in this category if 10 per cent or more of the total amount of the credit is scheduled for repayment to the lender after 10 years beyond date of acquisition.

No percentage ceiling is suggested on long-term credits and investments in the priority categories relating to export financing, to less developed countries, and to Canada, Japan, and the United Kingdom described under guideline #2 above. On credits and investments in the

fifth priority category, however, lending institutions are requested to exercise substantial restraint, and normally would be expected to avoid any increase in the total of such holdings.

The attention of lending institutions is directed to the need to refrain from making loans and investments inconsistent with the President's balance of payments program. Among these are the following:

- 1) long-term credits covered by guideline #3 which substitute for loans that commercial banks would have made in the absence of the voluntary foreign credit restraint effort administered by the Federal Reserve System;
- 2) credits to U.S. borrowers which would aid in making new foreign loans or investments inconsistent with the voluntary restraint program administered by the Department of Commerce; 3) credits to U.S. subsidiaries and branches of foreign companies which otherwise might have been made to the foreign parent, or which would substitute for funds normally obtained from foreign sources; 4) credits to U.S. companies with foreign activities which would take the place of funds normally obtained abroad. Reasonable efforts should be made to avoid accommodating credit requests of these types, regardless of specific guideline targets detailed in this circular.

Notes - None of the guidelines in this circular are intended to apply to the reinvestment of reserves on insurance policies sold abroad in assets within the country involved, in amounts up to 110 per cent of such reserves.

Developed countries other than Canada, Japan, and the United Kingdom are: Australia, Austria, the Bahamas, Belgium, Bermuda, Denmark, France, Germany (Federal Republic), Hong Kong, Ireland, Italy, Kuwait, Liechtenstein, Luxembourg, Monaco, Netherlands, New Zealand, Norway, Portugal, Republic of South Africa, San Marino, Spain, Sweden and Switzerland.

Also to be considered "developed" are the following countries within the Sino-Soviet bloc: Albania, Bulgaria, any part of China which is dominated or controlled by International Communism, Cuba, Czechoslovakia, Estonia, Hungary, any part of Korea which is dominated or controlled by International Communism, Latvia, Lithuania, Outer Mongolia, Poland (including any area under its provisional administration), Rumania, Soviet Zone of Germany and the Soviet sector of Berlin, Tibet, Union of Soviet Socialist Republics and the Kurile Islands, Southern Sakhalin, and areas in East Prussia which are under the provisional administration of the Union of Soviet Socialist Republics, and any part of Viet-Nam which is dominated or controlled by International Communism.

2018

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

Item No. 10
6/14/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 14, 1965

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

Dear Mr. Ross:

In accordance with the request contained in your letter of June 8, 1965, the Board approves the reappointment of C. Andrew Lawrence as an assistant examiner for the Federal Reserve Bank of Chicago. Please advise the effective date of the reappointment.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.