

Minutes for June 23, 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
R

Gov. Robertson

Gov. Balderston

CRB

Gov. Shepardson

SSS

Gov. Mitchell

MM

Gov. Daane

DD

Gov. Maisel

SM

Minutes of the Board of Governors of the Federal Reserve System on Wednesday, June 23, 1965. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Noyes, Adviser to the Board
Mr. Molony, Assistant to the Board
Mr. Solomon, Director, Division of Examinations
Mr. Hexter, Assistant General Counsel
Mr. Spencer, General Assistant, Office of the Secretary
Mr. Kopp, Summer Law Clerk, Legal Division

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 The Chase Manhattan Bank, New York, New York, approving the establishment of a branch at 1071 Pennsylvania Avenue, Borough of Brooklyn.	1
Letter to Central Trust Company, Rochester, N. Y., Rochester, New York, approving the establishment of a branch in the Irondequoit Shopping Plaza, Town of Irondequoit.	2
Letter to Old Kent Bank and Trust Company, Grand Rapids, Michigan, approving the establishment of a branch at 72 Monroe Avenue, N.W., coincident with the relocation of the bank's main office from that location to One VandenBerg Center.	3
Letter to Industrial State Bank of Kalamazoo, Kalamazoo, Michigan, waiving the requirement of six months' notice of withdrawal from membership in the Federal Reserve System.	4

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Payment of excessive interest on deposits (Item No. 5). Pursuant to the understanding at the meeting on June 11, 1965, the Federal Deposit Insurance Corporation had been informed that the Board favored the objective of certain legislation proposed by the Corporation, the principal purpose of which was to prescribe a penalty for payment of interest on deposits by any insured bank in violation of Federal regulations prescribing maximum rates of interest. The proposed legislation would also state explicitly that "any borrowing," except subordinated borrowing and borrowing from other banks, would be subject to regulations governing the payment of interest on deposits.

A distributed memorandum from the Legal Division dated June 21 advised that the Bureau of the Budget had requested by June 23 the Board's views on the draft bill submitted by the Corporation, which included not only the amendment to section 18(g) of the Federal Deposit Insurance Act that was embodied in the bill the Board had considered but also a new provision that would similarly amend section 19 of the Federal Reserve Act.

The first section of the draft bill received from the Budget Bureau was identical with that previously considered by the Board and therefore it presented the same problems of draftsmanship. A new section 2 (amending the Federal Reserve Act) presented additional difficulties as it did not seem to fit correctly into section 19 of the Act. It was expected that representatives of the Legal Division would confer with the Corporation's staff on the matter before the end of the week,

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but in view of the Budget Bureau's request for a response by June 23 it was not practicable to clear up the drafting problems before the Board's reply was sent.

There was attached to the memorandum a draft of response to the Budget Bureau that would outline the Board's understanding of the purposes of the Corporation's proposal and urge enactment of legislation that would accomplish such objectives. The letter would mention the existence of drafting problems but would point out that this did not affect the soundness of the objectives of the draft bill.

At the Board's request, Mr. Hexter summarized the information that was presented in the June 21 memorandum.

There followed a general discussion that related primarily to the desirability of resolving problems of draftsmanship that might give rise to conflicts of interpretation if the proposed legislation should be enacted in the form submitted by the Federal Deposit Insurance Corporation. The Board emphasized that such problems should be worked out with the staff of the Corporation as rapidly as feasible so that the necessary changes could be accomplished before a bill was introduced in Congress. It was suggested that a reasonably flexible posture be taken at the drafting discussions.

Following further discussion, during which certain editorial changes suggested by Governor Daane were agreed upon, the letter to the Bureau of the Budget was approved unanimously. A copy of the letter, in the form transmitted, is attached as Item No. 5.

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Bank of Dublin. Mr. Solomon reviewed developments leading up to the pending purchase of assets and assumption of liabilities of Bank of Dublin, Incorporated, Dublin, Virginia, a State member bank, by Peoples Bank of Radford, Radford, Virginia, a subsidiary of The First Virginia Corporation, a registered bank holding company. He also reported on the roles played by the various supervisory authorities, a question presented by the position taken by staff of the Federal Deposit Insurance Corporation, and an application for a branch in Dublin filed recently by a national bank in a nearby town.

It was understood that a memorandum on this matter would be distributed to the members of the Board for their information, as suggested by Chairman Martin during a discussion that followed Mr. Solomon's review.

The meeting then adjourned.

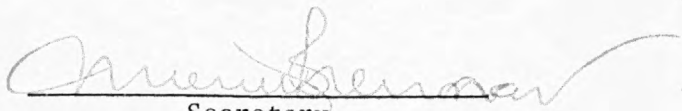
Secretary's Note: Governor Shepardson today approved on behalf of the Board memoranda recommending the following actions relating to the Board's staff:

Appointment

Edna Jean Chavis as Stenographer, Division of Personnel Administration, with basic annual salary at the rate of \$4,480, effective the date of entrance upon duty.

Acceptance of resignation

Charles G. Stevens, Statistical Clerk, Division of Research and Statistics, effective at the close of business June 26, 1965.


Secretary



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

2128
Item No. 1
6/23/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 23, 1965

Board of Directors,
The Chase Manhattan Bank,
New York, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by The Chase Manhattan Bank, New York, New York, of an in-town branch at 1071 Pennsylvania Avenue, Borough of Brooklyn, 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.)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

2129
Item No. 2
6/23/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 23, 1965

Board of Directors,
Central Trust Company, Rochester, N. Y.,
Rochester, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Central Trust Company, Rochester, N. Y., Rochester, New York, of a branch in the Irondequoit Shopping Plaza at 2133 Hudson Avenue, Town of Irondequoit (unincorporated area), Monroe 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

Item No. 3
6/23/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 23, 1965



Board of Directors,
Old Kent Bank and Trust Company,
Grand Rapids, Michigan.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by Old Kent Bank and Trust Company, Grand Rapids, Michigan, at 72 Monroe Avenue N. W., Grand Rapids, Michigan, coincident with the relocation of Old Kent Bank and Trust Company's main office from that location to One Vandenberg Center, Grand Rapids, Michigan. The Board has approved this branch 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.)

Item No. 4
6/23/65

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 23, 1965



Board of Directors,
Industrial State Bank of Kalamazoo,
Kalamazoo, Michigan.

Gentlemen:

The Federal Reserve Bank of Chicago has forwarded to the Board of Governors Executive Vice President Frances P. Hamilton's letter of June 7, 1965, together with the accompanying resolutions dated May 19, 1965, signifying your intention to withdraw from membership in the Federal Reserve System and requesting waiver of the six months' notice of such withdrawal.

The Board of Governors waives the requirement of six months' notice of withdrawal. Upon surrender to the Federal Reserve Bank of Chicago of the Federal Reserve Bank stock issued to your institution, such stock will be canceled and appropriate refund will be made thereon. Under the provisions of Section 208.10(c) of the Board's Regulation H, your institution may accomplish termination of its membership at any time within eight months from the date the notice of intention to withdraw from membership was given.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 5
6/23/65

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 23, 1965

Mr. Phillip S. Hughes,
Assistant Director for
Legislative Reference,
Bureau of the Budget,
Washington, D. C. 20503

Dear Mr. Hughes:

This is in response to a communication from your office, dated June 16, 1965, requesting the Board's views on a draft bill, presented by the Federal Deposit Insurance Corporation, "To amend the Federal Deposit Insurance Act and the Federal Reserve Act to provide a penalty for violations of regulations prescribing the maximum rates of interest which insured banks may pay on deposits, and for other purposes." As indicated in the proposed letter of transmittal from the FDIC to the Speaker of the House of Representatives, the principal purpose of the draft bill is to prescribe a penalty that will serve as an effective deterrent to payment of interest on deposits by any insured bank in violation of Federal regulations prescribing limits on the rates of interest that banks may pay.

Heretofore, achievement of legislative and regulatory objectives in this field has been impeded not only by the absence of an effective penalty, but also by the practices of some insured banks in accepting funds under the designation of "borrowings" rather than "deposits". The Federal banking laws and regulations are now couched in terms of limitations of interest rates on "deposits", and Federal bank supervisory agencies have taken the position that, under existing regulations, those limitations do not control the rates of interest that banks may pay on "borrowings". The draft bill is intended to make clear that, in most cases in which a bank receives funds in circumstances giving rise to a debtor/creditor relationship, the transaction is subject to interest-rate limitations regardless of whether it is called a deposit or a borrowing.

As the Board understands the proposal, it is not intended to prescribe an inflexible penalty or to prescribe that in all circumstances a "borrowing" must be governed by interest-rate limitations applicable to deposits, but rather to establish general principles

Mr. Phillip S. Hughes

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along these lines, leaving the application of those principles and penalties to regulation, either as to classes of situations or in individual cases, by the designated bank supervisory agencies.

The Board of Governors favors the enactment of legislation to amend the Federal Deposit Insurance Act and the Federal Reserve Act along these lines. The integration of these proposals into existing statutory provisions involves problems of draftsmanship, and the staff of the Board is working with the staff of the FDIC to ascertain whether ambiguities and possibly overlapping provisions can be eliminated, in the interest of clarity as well as ease of interpretation and administration. However, these problems do not affect the soundness of the FDIC's proposal, as described herein, and the Board of Governors urges enactment of legislation that would accomplish its objectives.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.