

Minutes for June 28, 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

M

Gov. Robertson

R

Gov. Balderston

ccrB

Gov. Shepardson

Shep

Gov. Mitchell

Mitch

Gov. Daane

Daane

Gov. Maisel

sgm

Minutes of the Board of Governors of the Federal Reserve System
on Monday, June 28, 1965. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Noyes, Adviser to the Board
Mr. Molony, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Kelleher, Director, Division of Administrative Services
Mr. Shay, Assistant General Counsel
Mr. Koch, Associate Director, Division of Research and Statistics
Mr. Sammons, Adviser, Division of International Finance
Mr. Goodman, Assistant Director, Division of Examinations
Mr. Smith, Assistant Director, Division of Examinations
Mr. Kern, Assistant Director, Division of Administrative Services
Mrs. Semia, Technical Assistant, Office of the Secretary
Miss Dingle, Senior Economist, Division of Research and Statistics
Mr. Egertson, Supervisory Review Examiner, Division of Examinations

Circulated or distributed items. The following items, copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:

Item No.

Letter to Continental International Finance Corporation, Chicago, Illinois, approving an amendment to the Corporation's Articles of Association.

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Item No.

Letter to First Chicago International Finance Corporation, Chicago, Illinois, granting consent to purchase shares of First Chicago Nominees Limited, London, England. 2

Letter to the Chairman of the Conference of Presidents of the Federal Reserve Banks regarding a proposed study of System purchasing procedures. 3

Report on competitive factors (Roanoke-Pearisburg, Virginia).

A revision of the proposed conclusion having been agreed upon, unanimous approval was given to the transmittal to the Comptroller of the Currency of a report on the competitive factors involved in the proposed merger of Bank of Giles County, Pearisburg, Virginia, into The First National Exchange Bank of Virginia, Roanoke, Virginia. In the form in which approved, the conclusion read as follows:

There is little competition existing between Bank of Giles County, Pearisburg, and The First National Exchange Bank of Virginia, Roanoke, and effectuation of the instant proposal would not significantly alter Roanoke Bank's competitive capacity in the areas in which it currently operates, nor alter its position in relation to other large banking organizations in the State. However, it would substantially alter the competitive situation in the area served by Bank of Giles County, and expand Roanoke Bank's geographic coverage into an additional county in southwestern Virginia. Since 1960, Roanoke Bank has absorbed 10 banks in southwestern Virginia, and consummation of this merger would further this trend.

Membership of Security Trust Company (Item No. 4). There had been distributed a memorandum dated June 23, 1965, from the Division of Examinations regarding a request that the Board approve a proposed new

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bank for membership in the Federal Reserve System. In March 1961 First National Bank and Trust Company and Security Trust Company (a State member bank), both of Lexington, Kentucky, merged under the charter of the national bank. The Department of Justice instituted antitrust proceedings, the United States Supreme Court held the merger to be unlawful, and the U. S. District Court ordered a reversal of the merger so that the situation would be similar to that previously existing. Under the plan of divestiture there would be two banks, one a national bank and the other a State member bank, with assets and liabilities prorated on a basis comparable to pre-merger conditions. The firm of Arnold, Fortas & Porter, Counsel for the merged institution, requested to be informed in writing that the Board approved the plan, so that it might be submitted to the Banking Commissioner of Kentucky.

Approval of the plan was not a matter for the Board's decision, but it appeared that the Board might state that upon application it would approve Federal Reserve membership for the new Security Trust Company of Lexington, Kentucky. The Federal Reserve Bank of Cleveland, which had analyzed the plan of divestiture and the existing condition of the merged institution, was of the view that the proposed new State bank would be an acceptable member of the System. The Division of Examinations recommended that the Board inform Arnold, Fortas & Porter that the new Security Trust Company would be accepted for membership in the Federal Reserve System if the dissolution of the merged institution was carried out in accordance with the proposed plan of divestiture. A draft of letter for that purpose was attached to the memorandum.

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After a discussion during which certain changes in wording were agreed upon, the letter was approved unanimously in the form attached as Item No. 4.

Messrs. Kelleher, Shay, Goodman, Kern, and Egertson then withdrew from the meeting.

Member bank borrowing (Item No. 5). On April 13 and May 28, 1965, the Board discussed a suggestion that the Federal Reserve Banks be requested to report at the end of each reserve computation period conspicuous instances of repetitive borrowing by member banks. The matter was held in abeyance pending discussion with the Federal Reserve Bank discount officers at their conference on June 7-8, especially with a view to making it clear to them that the request for reports was not intended to call for a change in discount practices. The subsequent discussion with the discount officers was summarized for the Board's information in a memorandum of June 11, 1965, from Mr. Holland, Associate Director, Division of Research and Statistics.

In a distributed memorandum of June 23, 1965, Messrs. Solomon and Holland expressed the view that the most helpful current information on member bank borrowing would be (1) data on inappropriate or unusual cases of individual bank borrowing, and (2) information on developing trends in aggregate bank borrowing behavior.

As to the first of these classifications, although information on the incidence and volume of member bank borrowing from the Reserve Banks

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was available from the reports (FR 527 and FR 527a) received from the Banks for each reserve computation period, it was felt that these data needed to be amplified by requesting from the Reserve Banks facts and comments comparable to those developed in conjunction with examinations. This additional information would include (1) the reasons why certain banks were borrowers for extended periods; (2) identification of the borrowings that had problem or other aspects of a special nature; (3) actions taken or contemplated by the Reserve Banks in respect to situations referred to under (1) or (2); and (4) general information that might be significant in keeping informed on present and prospective uses of Reserve Bank credit, such as developing or anticipated trends in member bank borrowing, changes in the general character of collateral, and anticipated emergency borrowings. There had been general agreement among the discount officers that quarterly reporting would be reasonable and appropriate, and that the information requested by the Board's examiners in connection with an examination might be used as a guideline for the material to be included in the quarterly reports. Attached to the memorandum was a draft of letter that would request the Federal Reserve Banks to submit the proposed quarterly reports.

As to the second classification of information, namely, developing trends in aggregate bank borrowing behavior, the memorandum proposed that the Board's staff, drawing upon present Form FR 527 reports made by the Reserve Banks, prepare tables relating to (1) all member banks (2) reserve city member banks, and (3) country member banks, summarizing for

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four-week periods statistics as to borrowings and numbers and classes of banks in debt to the Reserve Banks. The tables would be supplemented periodically by textual commentaries, the scope of which was specified in the memorandum. The procedure would be experimental and was recommended for a trial period. Examples of the tables, containing hypothetical data, were attached to the memorandum.

After introductory comments by Mr. Solomon, the discussion centered on the proposed monthly statistical analysis. Although this would be in an experimental stage for some time, if it proved sufficiently informative the thought was that it might eventually supplant the present reports (L.5.3 and L.5.4) prepared by the Division of Bank Operations from the Reserve Bank submissions on Form FR 527.

Governor Mitchell observed, however, that the proposed statistical tables apparently would not serve the same purpose as the listings prepared by Bank Operations from Form FR 527a, which listings contained bank names and were available promptly and at frequent intervals. In his view these listings of continuous borrowers should continue to be available to the members of the Board.

It was indicated that such listings (weekly for reserve city banks and quarterly for other banks) would be continued. The reports prepared from Form FR 527 also would be continued, at least for the time being.

It was hoped, however, that much of the basic data for the proposed monthly statistical analysis could eventually be obtained from the

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Reserve Banks on punch cards, with computer processing on the Board's equipment. If so, the task of processing the data now prepared by Bank Operations from Form FR 527 would be expected to shift from that Division to the Division of Data Processing in cooperation with the Division of Research and Statistics.

During further discussion Governor Mitchell suggested certain changes, which proved acceptable to the other members of the Board, in the draft of letter to the Federal Reserve Banks concerning the proposed quarterly reports. The letter was thereupon approved unanimously in the form attached as Item No. 5. The Board also approved the preparation of the proposed monthly statistical analysis on an experimental basis.

Foreign travel by Mr. Nettles. Governor Shepardson stated that First Vice President Treiber of the Federal Reserve Bank of New York had requested that Mr. Nettles, Economist in the Board's Division of International Finance, accompany Mr. Treiber to a meeting in Mexico City of a working group appointed by the recent meeting of central bank governors at Punta del Este to study proposals for establishing a Latin American reserve pool. The meeting, expected to last for approximately one week, was to be held early in July 1965.

In accordance with Governor Shepardson's recommendation, the Board approved Mr. Nettles' travel and authorized payment of his actual expenses for purposes of the trip.

The meeting then adjourned.

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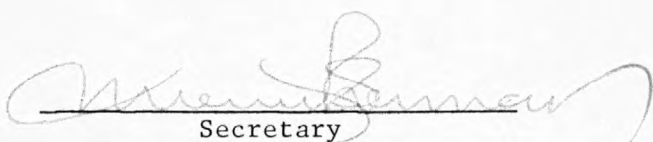
Secretary's Note: Governor Shepardson today approved on behalf of the Board memoranda recommending the following actions relating to the Board's staff:

Appointment

Marguerite T. Hudgins as Research Assistant, Division of Research and Statistics, with basic annual salary at the rate of \$6,050, effective the date of entrance upon duty. (It was understood that Miss Hudgins would work on a half-time basis through August 28, 1965, with salary at the rate of \$3,025 per annum, and that beginning August 29 she would work on a regular full-time basis.)

Salary increases, effective July 4, 1965

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>Research and Statistics</u>			
James D. Goetzinger, Economist		\$ 9,240	\$ 9,535
A. Jane Moore, Economist		9,830	10,125
Tynan Smith, Senior Economist		19,310	19,880
William Paul Smith, Economist		10,250	10,605
Alfred J. Tella, Economist		10,960	11,315
<u>International Finance</u>			
David G. Hayes, Economist		10,605	10,960
<u>Bank Operations</u>			
Daniel E. Lucas, Analyst		7,220	7,465
<u>Administrative Services</u>			
Eugene E. Bishop, Guard		4,410	4,545
Willard D. Creasey, Chauffeur		5,283	5,554
Carl S. Hackney, Messenger		3,385	3,500
John H. McDonald, Guard		4,140	4,275
John I. Mitchell, Laborer		3,500	3,615
Carlton C. Poling, Chauffeur		5,283	5,554
Aubrey L. Simmons, Sergeant, Guard Force		5,660	5,825
Herman Lee Tobler, Sergeant, Guard Force		5,825	5,990
R. A. Windsor, Assistant Supervisor, Motor Transport Unit		5,782	6,074


Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 1
6/28/65

WASHINGTON, D. C. 20551



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 28, 1965.

Continental International
Finance Corporation,
231 South LaSalle Street,
Chicago 90, Illinois.

Gentlemen:

Reference is made to your letter dated June 11, 1965, addressed to Mr. Leland Ross, Vice President of the Federal Reserve Bank of Chicago, enclosing a copy of a Consent signed under date of June 14, 1965, on behalf of Continental Illinois National Bank and Trust Company of Chicago, sole shareholder of your Corporation, consenting to the amendment of the Articles of Association of your Corporation to increase the capital stock to \$8,000,000 consisting of 80,000 shares of the par value of \$100 each.

In accordance with the request, and pursuant to the provisions of Section 211.3(a) of Regulation K, as revised effective September 1, 1963, the Board of Governors approves the amendment to Article SEVENTH of your Articles of Association.

It is noted that your present capital structure will be increased by the purchase of 30,000 shares at a price of \$200 per share by Continental Illinois National Bank and Trust Company of Chicago. Please advise the Board of Governors when the capital increase has been effected.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

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

Item No. 2
6/28/65



**ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD**

June 28, 1965.

**First Chicago International
Finance Corporation,
38 South Dearborn Street,
Chicago 90, Illinois.**

Gentlemen:

In accordance with the request and on the basis of the information furnished in your letter addressed to Mr. Leland Ross, Vice President of the Federal Reserve Bank of Chicago, the Board of Governors grants its consent to the purchase by your Corporation of 100 shares, par value £1 each, of First Chicago Nominees Limited, London, England, at a cost of approximately US\$300.

It is understood that the nominee corporation is to be organized and maintained solely for the purpose of acting as nominee for the London branch of The First National Bank of Chicago; is to hold in its name equities purchased on the London market on behalf of customers of that Bank; and, that all shares of the nominee corporation are to be owned by your Corporation, except one share to be held upon trust by the Vice President in charge of the London branch as British law requires at least two registered shareholders.

Very truly yours,

(Signed) Kenneth A. Kenyon

**Kenneth A. Kenyon,
Assistant Secretary.**

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

Item No. 3
6/28/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 28, 1965

Mr. Karl R. Bopp, Chairman,
Conference of Presidents,
Federal Reserve Bank of Philadelphia,
Philadelphia, Pennsylvania. 19101

Dear Mr. Bopp:

During the discussion by the Board on Directives to the Staff regarding examination and supervision of the Federal Reserve Banks, copies of which were forwarded to the Banks under date of May 26, 1965, reference was made to System purchasing procedures and the possibility of reducing expenses through arrangements for the centralized or coordinated purchasing or leasing of equipment, services, or supplies.

The Board believes that it would be worth while for an appropriate committee of the Conference of Presidents to make a study and report on this matter. In addition to such other findings and conclusions as might grow out of the study, the Board would be particularly interested in--

- (1) A summarization of views with respect to the possibilities, and advantages and disadvantages of a System-wide program for centralized or coordinated purchasing.
- (2) The extent to which possibilities for such arrangements are now the subject of attention by Conference committees.
- (3) The extent to which purchases at the individual Banks are being made on the basis of competitive bids.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.



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

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Item No. 4
6/28/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 28, 1965.

Arnold, Fortas & Porter,
1229 Nineteenth Street, N. W.,
Washington, D. C. 20036

Dear Sirs:

This refers to your letter of June 9, 1965, with respect to the Proposed Plan of Divestiture of First Security National Bank and Trust Company of Lexington, Kentucky. The Board has reviewed the Plan, particularly the provisions dealing with the proposed organization of a new State bank. On the basis of the Plan as submitted, and the Board's favorable findings as to the probable successful operations of the proposed State bank, the Board will admit the new bank to membership in the Federal Reserve System, if and when the bank receives a State charter, provided the organizers accept the usual conditions of membership as set forth in section 208.7 of Regulation H, copy of which is enclosed.

It is noted that shares of stock of the proposed new State bank are to be issued to a designated corporate trustee to be held by it until directed by the District court to be distributed to the proper shareholders. If the State bank becomes a member of the Federal Reserve System, the corporate trustee will thereby become a holding company affiliate within the definition of that term as contained in 12 U.S.C. 221a and may not vote such stock without a voting permit from the Board or a determination by the Board that the corporate trustee is not engaged as a business in holding the stock of banks. In any event the corporate trustee must, within 90 days from the date of acquisition of the stock of the member State bank, file an agreement on the Board's Form P-5 that such corporation shall be subject to the conditions and limitations applicable to holding company affiliates of national banks. A copy of Regulation P, dealing with this subject, is also enclosed for your information.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosures.

cc: Asst. Attorney General in Charge
of Antitrust Division, Dept. of Justice.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 29, 1965.



Dear Sir:

During the meeting of the Reserve Bank discount officers held in the Board's building on June 7 and 8, 1965, reference was made to the Board's directives to its staff (copy forwarded to you with letter dated May 26, 1965), which included the following statement among the responsibilities listed for the Division of Examinations:

"Between annual examinations the Division should review, and bring to the attention of the Board, as appropriate, information regarding conformance of Reserve Bank lending to the principles of Regulation A."

As was pointed out to those present at the meeting, the Board has been relying mainly on the annual examinations of the Reserve Banks to develop information on member bank borrowing situations of special interest, but because of the rather long intervals at times occurring between examination dates, the Board would like to have a supplemental means of bringing more frequently to its attention information on the nature of and reasons for cases of repetitive or unusual borrowings of individual member banks. (The reports (FR 527) submitted by the Reserve Banks for each reserve computation period do not provide this explanatory detail.)

The Board does not wish to bring about any general tightening of discount standards or to encroach upon the Reserve Bank's primary responsibility in the extension of credit; rather the purpose is to establish a means of obtaining more timely information concerning individual borrowing cases of a special nature and to assist in assuring uniform application of Regulation A.

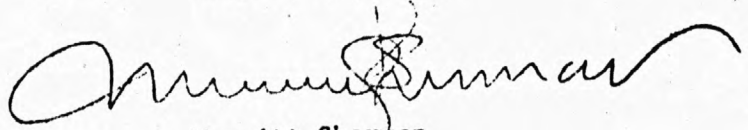
The purpose of this letter is to request that, commencing for the quarter-year ended June 30, 1965, and continuing for each quarter thereafter, until further notice, you forward to the Board within ten days after the end of the quarter a report on the discount function that would include the following information:

- (1) A listing and review of cases of repetitive or unusual borrowings during the preceding three months, including:
 - (a) Historical data sufficient to provide proper perspective pertaining to the listed banks.
 - (b) Reasons why borrowings of named banks are frequent, continuous, or unusual, with supporting factual detail.
 - (c) Any administrative actions taken or contemplated by the Reserve Bank in respect of each situation.
- (2) Current developments or trends in member bank borrowings.
- (3) Anticipated developments or trends, including possible new or emergency requests for credit.
- (4) Any other information considered pertinent.

The information to be covered, as outlined above, should be considered experimental and subject to modification after there has been an opportunity to appraise its usefulness. It also may be necessary at times to seek additional information by telephone or correspondence.

Any suggestions you may have from time to time on the subject will be welcome.

Very truly yours,



Merritt Sherman,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.