

Minutes for August 18, 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

Gov. Robertson

Gov. Balderston

Gov. Shepardson

Gov. Mitchell

Gov. Deane

Gov. Maisel

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Minutes of the Board of Governors of the Federal Reserve System on Wednesday, August 18, 1965. The Board met in the Board Room at 10:00 a.m.

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

Mr. Kenyon, Assistant Secretary
Mr. Young, Adviser to the Board and Director,
Division of International Finance
Mr. Noyes, Adviser to the Board
Mr. Fauver, Assistant to the Board
Mr. Brill, Director, Division of Research
and Statistics
Mr. Farrell, Director, Division of Bank
Operations
Mr. Solomon, Director, Division of Examinations
Mr. Johnson, Director, Division of Personnel
Administration
Mr. Hexter, Assistant General Counsel
Mr. Shay, Assistant General Counsel
Mr. Goodman, Assistant Director, Division
of Examinations
Mr. Leavitt, Assistant Director, Division
of Examinations
Mrs. Semia, Technical Assistant, Office of
the Secretary
Mr. Forrestal, Senior Attorney, Legal Division
Mr. Dahl, Chief, Special Studies and Operations
Section, Division of International Finance
Mr. McClintock, Supervisory Review Examiner,
Division of Examinations
Mr. Furth, Consultant

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

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Item No.

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| Letter to Manufacturers Hanover Trust Company,
New York, New York, approving the establishment
of a branch at 446-48 McDonald Avenue, Borough of
Brooklyn. | 1 |
| Letter to The Connecticut Bank and Trust Company,
Hartford, Connecticut, approving the establishment
of a branch at 399-401 New Britain Avenue. | 2 |
| Letter to First Bank and Trust Company of South
Bend, South Bend, Indiana, approving the establish-
ment of a branch at 220 West Jefferson Boulevard
and an investment in bank premises. | 3 |
| Letter to Macomb County Savings Bank, Richmond,
Michigan, approving the establishment of a branch
in Muttonville. | 4 |
| Letter to Imlay City State Bank, Imlay City, Michigan,
approving the establishment of a branch at 433 Imlay
City Road. | 5 |
| Letter to the Federal Reserve Bank of Dallas waiving
the assessment of a penalty incurred by The First
National Bank of Artesia, Artesia, New Mexico,
because of a deficiency in its required reserves. | 6 |

Study of foreign operations of U.S. banks. At the meeting on June 2, 1965, the Board discussed preliminary proposals looking toward a study of foreign operations of U.S. banks. The purpose of the project would be to enlarge the Board's knowledge and understanding of the activities of foreign branches and Edge and agreement corporations of member banks as they related to the examining and supervisory functions of the Board. It was understood at the conclusion of the discussion that the staff would develop a memorandum that would point up the matter in terms

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of specific tasks. Such a memorandum had now been distributed, with a transmittal note from Mr. Young dated August 6, 1965.

The memorandum stated that a detailed review of the data presently available in the area of the proposed study had revealed not only certain gaps and deficiencies but also possibilities of more intensive exploitation of existing information. The review suggested that the research project be undertaken in four stages: the first two, of an informational nature, would deal with Edge and agreement corporations and with foreign branches; the third step would consist of a broad-scale analysis; and the fourth would involve consideration of legal and policy implications of the conclusions reached in the analysis. More detailed discussion of these steps followed, including broad outlines of procedures contemplated and an indication of the staff resources considered necessary.

After Mr. Dahl summarized the plans described in the memorandum, Governor Mitchell expressed the view that the plan did not define objectives clearly enough. It lacked sufficient focus on two principal issues, namely, quality of credit in foreign lending and impact of foreign operations on the U.S. balance of payments. He believed that eagerness to enter into foreign operations was leading bankers to sacrifice caution and to adopt a double standard of lending -- one for domestic customers and another for those abroad. Governor Mitchell thought it desirable, therefore, that a part of the research project be devoted specifically

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to study of the exposure of U.S. banks due to credits of poor quality abroad, and that this aspect of the study should go forward promptly. He also believed that the project should provide instructive information on the extent to which foreign operations of U.S. banks affected the U.S. balance of payments; it was important especially to know to what extent foreign branches served as channels for investment of American capital abroad. As for Edge Act and agreement corporations, he felt that the Board now had available about all the information it needed and that study of the equity investments of such corporations would not be as fruitful as research into the other two issues he had mentioned. He reiterated his desire for a more precise and specific statement of project objectives than was found in the staff memorandum.

Mr. Goodman agreed with the view expressed by Governor Mitchell as to the amount of information already available in regard to Edge Act and agreement corporations. It might be helpful, he thought, for purposes of the project to have some of the international economists participate in examinations. However, a revision of the condition report form was needed, and the international economists could be helpful in framing such a revision. There was less information available about foreign branches. As for the quality of foreign credits, it was his belief that the officers of the international departments of the large banks were quite sophisticated, and that there might be less of a problem than Governor Mitchell feared, at least insofar as the major banks were concerned.

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Governor Robertson stated that he thought both the quality of credit and the balance of payments aspects were important, but it was also important to get an over-all view of trends in the foreign banking area. He believed that the staff memorandum's approach to the project was good, but he was not completely convinced as to efficacy of the proposals for implementation. It seemed to him that at an early stage the Board should call in consultants from outside the System to go over the project outline and advise whether the proposed procedures would yield the desired results; such a procedure should enable System personnel to move the project forward in a constructive way. One point not covered in the outline of the project, he noted, was how to obtain information about foreign operations of national banks.

Governor Maisel said the thought that persisted in his mind was the desirability of preparing an outline of the anticipated final report of the project, including the questions the report would be expected to answer. In essence, the staff memorandum said that a great many figures would be studied and that the study might or might not provide the answers to questions. It seemed to him that little was likely to be gotten out of the figures unless it was known what was being looked for. Thus, while he was in favor of the project, he feared the present plan of procedure might mean that after a lot of work the results needed would not have been achieved because the wrong questions had been asked.

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Governor Daane cautioned against drawing the frame of reference too tight. He believed that some of the questions involved could be determined at the outset, but not all of them.

Chairman Martin suggested the desirability of engaging a consultant from outside the System, possibly an individual whom he named, to help in formulating the scope of the project.

Governor Mitchell suggested, as an alternative, that the Board's staff produce a framework document that consultants could be called in to appraise and evaluate.

Mr. Furth commented that the questions set out in his memorandum of May 25, 1965, which had been the basis for the Board's discussion on June 2, were intended to suggest areas that might be studied. He had some doubt as to the feasibility of making the questions more concrete at the outset. Although much was known about Edge Act and agreement corporations, their activities comprised only a small fraction of the total foreign operations of U.S. banks. As to the remaining portion, so little was known that the direction the research should take seemed of necessity quite vague.

Governor Daane expressed the view that it would be useful to get the judgment of an expert from outside the System at an early stage. He believed, however, that in research of this kind the way to progress was to get into the study and benefit from experience. He would not like to see the whole project slowed down by an effort to produce an airtight

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outline, although it would seem desirable to produce a more clear-cut statement of objectives if that could be done without setting the boundaries too rigidly.

Chairman Martin then suggested that the members of the Board who had developed an organizational framework for the study of the discount mechanism, namely, Governor Mitchell, as chairman, and Governors Shepardson and Maisel, be asked to explore and recommend a framework for the conduct of the project under discussion, and there was agreement with this suggestion.

All members of the staff then withdrew except Messrs. Kenyon, Johnson, and Hexter, and Mrs. Semia.

Appointment of officers at Atlanta Bank (Item No. 7). At meetings in December 1964 and May 1965 the Board had discussed various aspects of a plan of management succession at the Federal Reserve Bank of Atlanta. There had now been distributed a draft of reply to a letter from Chairman Tarver of the Atlanta Bank dated August 13, 1965, that would state the Board's approval of action taken by the directors in appointing Harold T. Patterson as President and M. Monroe Kimbrel as First Vice President of the Bank, effective October 1, 1965, for the unexpired portion of the five-year terms ending February 28, 1966. (Mr. Patterson would succeed Malcolm Bryan, whose resignation had been accepted by the Board of Directors effective October 1; and Mr. Kimbrel would succeed Mr. Patterson.) The reply to Chairman Tarver would also approve payment of salaries to Messrs.

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Patterson and Kimbrel at the rates of \$35,000 and \$27,500 per annum, respectively, for the period October 1 through December 31, 1965.

The letter was approved unanimously. A copy is attached as Item No. 7.

Fund and Bank luncheons. Governor Shepardson commented on the Board's practice of entertaining at lunch central bankers attending the annual meetings, when held in Washington, of the International Bank for Reconstruction and Development and the International Monetary Fund. In the past luncheons on two days had been given in the Board's building, with the guest list divided. However, it was understood that the meetings this September would involve a larger guest list than previously, and Governor Shepardson described several possible alternative arrangements.

After discussion there was unanimous agreement with Governor Shepardson's suggestion that three luncheons be given this year, with the invitations spread over the three days. There was also agreement with a further suggestion by Governor Shepardson that the guests be offered transportation between meeting headquarters and the Board's building, and the necessary expenditure was authorized.

The meeting then adjourned.

Secretary's Notes: A letter was sent today to First National City Bank, New York, New York, extending to March 1, 1966, the time for establishment of a branch on Avenida Central, Panama City, Republic of Panama. (A letter of July 28, 1964, had acknowledged the bank's notice of intent to establish this branch.)

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Governor Shepardson today approved on behalf of the Board the following items:

Letter to the Federal Reserve Bank of New York (attached Item No. 8) approving the appointment of Maurice M. McAninch as examiner.

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

Appointment

Doris M. Tayman as Charwoman in the Division of Administrative Services, with compensation at the rate of \$1.85 per hour when actually employed, effective the date of entrance upon duty.

Acceptance of resignations

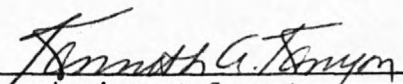
Arthur F. LeVasseur, Clerk, Division of Administrative Services, effective the close of business August 20, 1965.

John I. Mitchell, Laborer, Division of Administrative Services, effective the close of business August 27, 1965.

Military leave

James E. Miller, Operator, Tabulating Equipment, Division of Data Processing, effective August 23, 1965, for an anticipated two-year tour of duty in the Armed Forces of the United States.

Governor Shepardson today noted on behalf of the Board a memorandum advising of the death of Peggy L. Turney, Statistical Clerk, Division of Research and Statistics, on August 3, 1965.


Assistant Secretary



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

Item No. 1
8/18/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 18, 1965

Board of Directors,
Manufacturers Hanover Trust Company,
New York, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Manufacturers Hanover Trust Company, New York, New York, of a branch at 446-48 McDonald Avenue, Borough of Brooklyn, New York, New York, provided the branch is established within six months from the date of this letter.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)



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

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Item No. 2
8/18/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 18, 1965

Board of Directors,
The Connecticut Bank and Trust Company,
Hartford, Connecticut.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by The Connecticut Bank and Trust Company, Hartford, Connecticut, of a branch at 399-401 New Britain Avenue, Hartford, Connecticut, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)



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

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Item No. 3
8/18/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 18, 1965

Board of Directors,
First Bank and Trust Company of South Bend,
South Bend, Indiana.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by First Bank and Trust Company of South Bend, South Bend, Indiana, of a branch at 220 West Jefferson Boulevard, South Bend, Indiana, provided the branch is established within one year from the date of this letter.

The Board of Governors also approves, under the provisions of Section 24A of the Federal Reserve Act, an additional investment in bank premises of \$80,000 for the purpose of constructing facilities for the new branch.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 4
8/18/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 18, 1965



Board of Directors,
Macomb County Savings Bank,
Richmond, Michigan.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Macomb County Savings Bank, Richmond, Michigan, of a branch in the vicinity of the junction of Highway M-19 and Gratiot Road in the unincorporated village of Muttonville, Lenox Township, Macomb County, Michigan, provided the branch is established within six months from the date of this letter.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)



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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 5
8/18/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 18, 1965

Board of Directors,
Imlay City State Bank,
Imlay City, Michigan.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Imlay City State Bank, Imlay City, Michigan, of a branch at 433 Imlay City Road, Imlay City, Michigan, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)



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

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Item No. 6
8/18/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 18, 1965

Mr. Watrous H. Irons, President,
Federal Reserve Bank of Dallas,
Station K,
Dallas, Texas. 75222

Dear Mr. Irons:

This refers to your letter of August 5, 1965, regarding the penalty of \$470.87 incurred by The First National Bank of Artesia, Artesia, New Mexico, on a daily average deficiency of \$204,604.37 in reserves for the biweekly computation period ended July 7, 1965.

It is noted that (1) the deficiency occurred as the result of an unusual and substantial deposit brought about when the President of the bank wired from New York the amount received in the closing of a sale of oil properties; (2) because of intervening holidays, proper credits to the bank's reserve account could not be made until three days later; and (3) the bank has not had a reserve deficiency of any kind for more than 16 years.

In the circumstances, the Board authorizes your Bank to waive the assessment of the penalty of \$470.87 for the period ended July 7, 1965.

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

Item No. 7
8/18/65

OFFICE OF THE CHAIRMAN

August 18, 1965

CONFIDENTIAL (FR)

Mr. Jack Tarver, Chairman,
Federal Reserve Bank of Atlanta,
Atlanta, Georgia. 30303

Dear Jack:

The Board of Governors has approved the appointment of Mr. Harold T. Patterson as President and Mr. M. Monroe Kimbrel as First Vice President of the Federal Reserve Bank of Atlanta, effective October 1, 1965, for the unexpired portion of the five-year terms ending February 28, 1966.

The Board also approved the payment of salaries to Messrs. Patterson and Kimbrel at the rates of \$35,000 and \$27,500 per annum, respectively, for the period October 1 through December 31, 1965.

Sincerely yours,

(Signed) Bill

Wm. McC. Martin, Jr.

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

Item No. 8
8/18/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 18, 1965



Mr. Fred W. Piderit, Jr., Vice President,
Federal Reserve Bank of New York,
New York, New York. 10045

Dear Mr. Piderit:

In accordance with the request contained in your letter of August 16, 1965, the Board approves the appointment of Maurice M. McAninch as an examiner for the Federal Reserve Bank of New York. Please advise the effective date of the appointment.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.