

Minutes for October 8, 1965

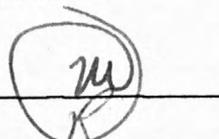
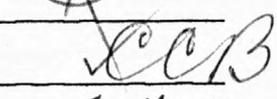
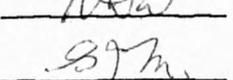
To: Members of the Board

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	<u></u>
Gov. Robertson	<u>_____</u>
Gov. Balderston	<u></u>
Gov. Shepardson	<u></u>
Gov. Mitchell	<u></u>
Gov. Daane	<u></u>
Gov. Maisel	<u></u>

Minutes of the Board of Governors of the Federal Reserve System
on Friday, October 8, 1965. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Broida, Assistant Secretary
Mr. Young, Adviser to the Board and Director,
Division of International Finance
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Solomon, Director, Division of Examinations
Miss Eaton, General Assistant, Office of the
Secretary
Mr. Morgan, Staff Assistant, Board Members'
Offices
Mr. Furth, Consultant

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

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

Money market review. Mr. Axilrod presented a review of develop-
ments in the Government securities market, Mr. Ettin reviewed bank credit
developments, and Mr. Baker summarized foreign exchange market develop-
ments. Tables affording perspective on the money market, the capital
market, and bank reserve utilization were distributed, along with charts
on the use of negotiable certificates of deposit, the latter being the
subject of special analysis by Mr. Ettin.

Following the foregoing presentation, Mr. Koch commented on the
relationships between money market variables, other financial variables,

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and nonfinancial measures of the general economy, from the standpoint of the development of criteria for open market policy, and a general discussion ensued during which references were made to various points explored at yesterday's meeting with academic consultants.

All members of the staff except Messrs. Sherman, Kenyon, Broida, Young, Molony, Hackley, Brill, Solomon (Examinations), Holland, and Sammons, and Miss Eaton then withdrew from the meeting and the following entered the room:

Mr. Farrell, Director, Division of Bank Operations
 Mr. O'Connell, Assistant General Counsel
 Mr. Kiley, Assistant Director, Division of Bank Operations
 Mr. Thompson, Assistant Director, Division of Examinations
 Mr. Poundstone, Review Examiner, Division of Examinations

Discount rates. The establishment without change by the following Federal Reserve Banks on October 7, 1965, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to the respective Banks: New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Kansas City, Dallas, and San Francisco.

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 the Presidents of all Federal Reserve Banks regarding a proposed survey of Protection Departments in the Reserve Banks.

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Item No.

Order providing a further extension of time for First National Corporation, Appleton, Wisconsin, to acquire shares of First National Bank of Appleton and Valley National Bank, a proposed new bank, (both of Appleton, Wisconsin), and for Valley National Bank to be opened for business; letter to First National Corporation regarding this matter.

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Letter to International Banking Corporation, New York, New York, acknowledging receipt of advice that The Mercantile Bank of Canada, Montreal, Canada, intended to establish an additional branch in Canada, to be located in the City of Quebec.

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The foregoing Item No. 1 grew out of the January 15, 1965, report of a staff committee that had been requested by the Board to consider staff assignments regarding examination and supervision of the Federal Reserve Banks. At its meeting on February 15, 1965, the Board had agreed with the committee's recommendation that the Board, after consultation with the Presidents of the Reserve Banks, engage an outside agency to make a survey of the Protection Department at each Reserve Bank office, with the objective of appraising the effectiveness of the protection function from the standpoint of security provided and in relation to the staffing and other costs involved. The Division of Examinations had subsequently ascertained that the Federal Bureau of Investigation, because of manpower problems, would not be able to undertake the project. However, it had learned that a formal request addressed to the Chief of the U.S. Secret Service probably would be acted upon favorably. The proposed letter inviting the comments of the Reserve Banks had been prepared in cooperation with the Division of Bank Operations.

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In discussion of the matter Governor Mitchell referred to differences from one Reserve Bank to another in the uses made of the guard force, including the areas of the respective Banks afforded protection by guards. These variations, which reflected management policy, would have an effect costwise, and he felt that they deserved attention in the course of the proposed survey. It was pointed out that one part of the survey plan called for observation of deployment of the guard force, and it was agreed that the matter referred to by Governor Mitchell would be borne in mind in carrying out the survey.

In connection with the request by First National Corporation, Appleton, Wisconsin, for further extension of time to acquire shares of First National Bank and Valley National Bank, both of Appleton, and for the latter to be opened for business, the staff recommended that the requests be granted but that First National Corporation be advised that the Board would not look favorably upon any further request for extensions of time. Governor Mitchell noted that a small holding company was involved. He suggested the possibility of advising that the Board had granted the present request and merely adding that the Board trusted that the extensions now granted would suffice. Upon question, Mr. O'Connell indicated that evidences of management laxity had been confirmed by the Federal Reserve Bank of Chicago, which felt that an admonition of the type contained in the proposed letter would be appropriate. A consensus developed in favor of this alternative, and it was agreed to send the letter as drafted.

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In a discussion of Item No. 4, relating to the proposed establishment of an additional branch by Mercantile Bank of Canada, Governor Robertson commented that he thought this was an unwise thing to do, just as he had thought the original approval for International Banking Corporation to acquire Mercantile Bank was unwise, particularly when the Government of Canada had openly expressed opposition. He recalled that he had voted against such approval. But it seemed to him that this was not primarily a supervisory problem; instead it was a problem for the State Department. The State Department apparently condoned it, so he would go along. Governor Mitchell observed that in a case of this kind, involving establishment of a branch in a foreign country where a branch or branches already were located, the Board's regulation required only notification of intent to establish the additional branch. Thus, it was going a little beyond the usual even to raise a question. He saw no particular objection to checking with the State Department, as had been done in this case, but as far as the Board's rules were concerned this seemed to be permissible. Governor Maisel expressed the view that the matter turned primarily on management and political decisions, with which he saw no reason to get involved.

All members of the staff except Messrs. Sherman, Brill, Solomon, and Holland then withdrew from the meeting.

Processing of merger and holding company cases (Item No. 5).

Before this meeting there had been distributed a memorandum from

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Governor Shepardson dated October 6, 1965, regarding the analysis of economic factors involved in bank merger and holding company cases.

A copy of the memorandum is attached as Item No. 5.

Governor Shepardson summarized the contents of the memorandum, after which Messrs. Brill, Holland, and Solomon commented favorably on the proposals that had been presented by Governor Shepardson. After a general discussion of the work that had been done in the past by the Banking Markets Unit of the Division of Research and Statistics and the implementation of the proposals for change that had been advanced by Governor Shepardson, unanimous approval was given to the latter's recommendations.

The meeting then adjourned.

Secretary's Notes: On October 7, 1965,
Governor Shepardson approved on behalf
of the Board the following items:

Letter to the Federal Reserve Bank of Boston (attached Item No. 6) approving the designation of Maurice P. Shea, 3rd, as special assistant examiner.

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

Appointments

Thurman E. Council as Messenger, Division of Administrative Services, with basic annual salary at the rate of \$3,385, effective the date of entrance upon duty.

Raphael L. Wallace as Messenger, Division of Administrative Services, with basic annual salary at the rate of \$3,385, effective the date of entrance upon duty.

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Salary increases, effective October 10, 1965

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>Board Members' Offices</u>			
Doreen Dippre, Secretary to Governor Shepardson		\$ 9,535	\$ 9,830
Robert I. Stewart, Messenger		4,555	4,680
Henry Tate, Messenger		4,680	4,805
<u>Office of the Secretary</u>			
Adaline R. Beeson, Records Analyst		6,985	7,170
Helen E. Cook, Supervisor, Bank and Miscellaneous Records		6,985	7,170
Beatrice Hunter, Chief, Records Section		9,830	10,125
Mildred E. Pilger, Assistant Chief, Records Section		8,935	9,180
<u>Legal</u>			
Dorothy V. Brooke, Secretary		6,800	6,985
Jean Crosby, Secretary		7,650	7,850
Robert S. Plotkin, Senior Attorney		14,660	15,150
<u>Research and Statistics</u>			
Bernard N. Freedman, Economist		13,755	14,175
Tressa B. Hemminger, Secretary		6,800	6,985
Evelyn M. Hurley, Economist		11,670	12,025
Lyndall C. McCloud, Economist		12,735	13,090
Watkins Leigh Ribble, Jr., Economist		8,945	9,240
Harvey A. Robinson, Statistical Assistant		7,650	7,850
Alvern H. Sutherland, Chief Librarian		13,335	13,755
Charles G. Trescott, Library Assistant		6,320	6,485
Lorman C. Trueblood, Economist		17,110	17,600
Joan Lee Turek, Economist		10,250	10,605
Mary C. Wing, Technical Editor (Economics)		10,605	10,960
<u>International Finance</u>			
Levon H. Garabedian, Administrative Assistant		8,650	8,945
Paul Gekker, Senior Economist		17,030	17,600
Dorothy L. Helprin, Economist		8,935	9,180

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Salary increases, effective October 10, 1965 (continued)

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>Bank Operations</u>			
John C. Franzoni, Technical Assistant		\$12,735	\$13,090
<u>Personnel Administration</u>			
Ruth Hadley Goodyear, Secretary		7,650	7,850
John J. Hart, Assistant to the Director		14,660	15,150
<u>Administrative Services</u>			
Marjorie B. Beattie, Manager, Cafeteria		9,790	10,060
Ruth P. Ellis, Cafeteria Helper		4,305	4,420
Ruth M. Flowers, Charwoman		4,305	4,420
Edith C. Hartzell, Charwoman		4,305	4,420
Bert Harvey, Chauffeur (Station Wagon)		3,994	4,514
Ethelyn M. Palmer, Secretary		6,985	7,170
<u>Office of the Controller</u>			
Joseph H. Hoyle, Supervisor, Payroll and Disbursing		7,450	7,650
Benjamin R. Reading, Accountant		7,450	7,650
<u>Office of Defense Planning</u>			
Margaret M. Wolfe, Secretary		7,450	7,650
<u>Data Processing</u>			
Margaret K. Ball, Supervisor, Call Report Unit		7,450	7,650

Acceptance of resignation

Guy E. Noyes, Adviser to the Board, effective at the close of business October 29, 1965.

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

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Appointments

Gloria Agnes Chapuis as Key Punch Operator, Division of Data Processing, with basic annual salary at the rate of \$4,005, effective the date of entrance upon duty.

Robert B. Haycock as Analyst, Division of Bank Operations, with basic annual salary at the rate of \$5,875, effective the date of entrance upon duty.

Adlyn E. McWhirter 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.

Extension of appointment

Leslie M. Alperstein, Summer Research Assistant, Division of Research and Statistics, appointment extended to about February 15, 1966, with no change in basic annual salary at the rate of \$6,050.

Salary increases

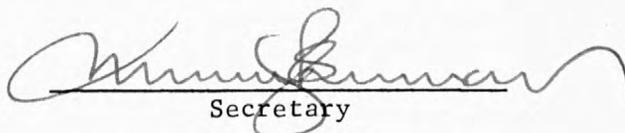
George L. Spencer, Jr., General Assistant, Office of the Secretary, from \$9,520 to \$10,125 per annum, with a change in title to Staff Assistant, effective October 10, 1965.

Dale K. Osborne, Economist, Division of Data Processing, from \$12,380 to \$13,335 per annum, effective October 10, 1965.

Theodore J. Vander Noot, Jr., Chief Analyst, Division of Data Processing, from \$13,090 to \$14,175 per annum, effective October 10, 1965.

Transfer

Mary Ann Rose, from the position of Clerk-Typist in the Division of Administrative Services to the position of Clerk-Typist in the Division of Data Processing, with no change in basic annual salary at the rate of \$4,005, effective October 24, 1965.


Secretary

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Item No. 1
10/8/65

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



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 8, 1965.

Dear Sir:

As you know, committees of the Conference of Presidents have recently completed studies of internal controls and safeguards in the Federal Reserve Banks with the broad objective of strengthening the provisions in effect for the safe custody of valuables entrusted to their care. As a somewhat related matter affecting both internal and external security, the Board believes it would be timely to undertake a survey and appraisal of the Protection Departments in the Banks. As contemplated, such a survey would comprehend all pertinent aspects of the protection function, including but not necessarily limited to--

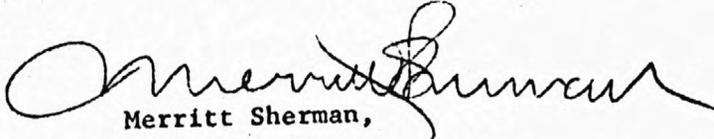
1. Organization and administration of the Protection Department in each Reserve Bank office.
2. Quantitative and qualitative analysis of the guard force.
3. Protection equipment to control access to building and secured areas, to protect guard stations, etc.
4. Communications and alarm systems, including tie-in to city police department or other outside protection services.
5. Deployment of guard force (1) during business hours, (2) after vaults are closed, (3) after business hours.
6. Firearms and other weapons.

Because of the specialized nature of the function, the Board considers it desirable that the survey be performed by persons who have special competence in the field of security, and has inquired informally of the U.S. Secret Service about the possibility of their undertaking the assignment. On the basis of their response, it seems probable that the Secret Service would be willing to assist in the project.

Although the discussions have been on a purely tentative basis, it was generally understood that if the Secret Service assumes the task, the program of Reserve Bank surveys will likely extend over a fairly long period of time, depending upon availability of manpower and other convenience factors; and that the order of Bank visits would probably be suited to the option and convenience of the Secret Service. It is planned also that one member of the Division of Bank Operations and one member of the Division of Examinations would accompany and be of general assistance to the agent or agents making the surveys.

Before concluding arrangements with the Secret Service, the Board would like to receive any views and comments you may have with respect to this proposed project.

Very truly yours,


Merritt Sherman,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

UNITED STATES OF AMERICA
BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C.

In the matter of the Application of
FIRST NATIONAL CORPORATION,
Appleton, Wisconsin,
for prior approval of acquisition of
voting shares of First National Bank of
Appleton, and Valley National Bank, a
proposed new bank, both of Appleton,
Wisconsin.

ORDER EXTENDING PERIOD OF TIME

WHEREAS, by Order dated February 25, 1965, the Board of
Governors, pursuant to section 3(a)(1) of the Bank Holding Company Act
of 1956 (12 U.S.C. 1842(a)(1)) and section 222.4(a)(1) of Federal Reserve
Regulation Y (12 CFR 222.4(a)(1)), approved an application on behalf of
First National Corporation, a proposed Wisconsin corporation, pursuant
to which it would become a bank holding company through the acquisition
of 80 per cent or more of the voting shares of First National Bank of
Appleton and Valley National Bank, a proposed new bank, both of Appleton,
Wisconsin; and said Order was made subject to the proviso "that the acqui-
sition so approved shall not be consummated . . . (b) later than three months
after said date [of Order]", and "that Valley National Bank be opened for
business within six months [of the date of the Board's Order]"; and

WHEREAS, pursuant to request of Applicant, by Order of the Board dated June 10, 1965, the Board's Order of February 25, 1965, was amended to allow Applicant until October 1, 1965, to consummate the acquisition approved by the Board, and until no later than December 31, 1965, to effect the opening for business of Valley National Bank; and

WHEREAS, Applicant has requested a further extension of the time within which the approved acquisition may be consummated and within which Valley National Bank is to be opened for business; and it appearing to the Board that such further extensions of time would not be inconsistent with the public interest,

IT IS HEREBY ORDERED, that the Board's Order of June 10, 1965, as published in the Federal Register on June 17, 1965 (30 F. R. 7851), be and hereby is amended so that the proviso relating to the dates by which the acquisition, approved shall be consummated, and Valley National Bank opened for business, shall read: "(b) later than December 1, 1965, and provided, further, that Valley National Bank shall be opened for business no later than March 1, 1966."

Dated at Washington, D. C., this 8th day of October, 1965.

By Order of the Board of Governors.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 8, 1965



AIR MAIL - REGISTERED
RETURN RECEIPT REQUESTED

First National Corporation,
204 West College Avenue,
Appleton, Wisconsin. 54910

Gentlemen:

This acknowledges your letter dated September 27, 1965, transmitted to the Board through the Federal Reserve Bank of Chicago, whereby it is requested that First National Corporation be given until December 1, 1965, to consummate acquisition of the shares of First National Bank of Appleton and Valley National Bank, and to March 1, 1966, to open for business the Valley National Bank.

The Board has granted First National Corporation's request for extensions of time and a copy of the Board's Order to this effect is enclosed.

The Board notes that with the extensions of time granted to Applicant, more than a full year will have elapsed between the date of the Board's approval of Applicant's proposal and the date of Applicant's opening Valley National Bank for business. Further, the Board notes that in respect to each of the two extensions of time requested, said requests were submitted on or about the last day of the period previously granted for effectuation of Applicant's proposal. In view of the foregoing circumstances, Applicant is advised that the Board assumes that Applicant will totally consummate its proposal within the time periods now granted, and that the Board will not look favorably upon any further request for extensions of time.

The Federal Reserve Bank of Chicago should be advised when the acquisition of shares is consummated and Valley National Bank is opened for business.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosure

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

Item No. 4
10/8/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 8, 1965.

International Banking Corporation,
399 Park Avenue,
New York, New York. 10022

Gentlemen:

This will acknowledge your letter of September 2, 1965 (received September 8, 1965), advising that The Mercantile Bank of Canada, Montreal, Canada, intends to establish an additional branch in Canada to be located in the City of Quebec, Province of Quebec. It is understood that the branch will be located at 580 Grande Allee East.

Unless the branch is actually established and opened for business on or before November 1, 1966, it will be deemed that plans for its establishment have been abandoned, in which event authority to establish the branch under notice furnished in your letter of September 2, 1965, will automatically terminate.

Please inform the Board of Governors, through the Federal Reserve Bank of New York, when the branch is opened for business, furnishing information as to the exact location of the branch. The Board should also be informed promptly of any future change in location of the branch in the City of Quebec.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date October 6, 1965To Board of GovernorsSubject: Analysis of economic factors
involved in merger and holding
company casesFrom Governor Shepardson

In the bank merger and holding company cases presented to the Board of Governors the most difficult problems usually arise in judging the economic impact of the proposals, i.e., the competitive factor and the convenience and needs factor. The recent decisions by the Federal Courts have focused attention almost exclusively upon the effect of mergers on the markets affected; both the definition of the relevant markets and the presumed impact upon competition have been at issue in these recent cases.

In early 1962, when the Board approved the inauguration of a broad research program on the relationship between banking structure and market performance, one of the arguments presented in the memorandum requesting authorization was ". . . there is also need for the provision of more organized economic analysis of the individual bank merger and holding company cases coming before the Board." Since the establishment of this research effort, the Banking Markets Unit has contributed analyses in a few selected cases, but most of its efforts have been directed toward (a) longer-range background studies, and (b) the development of statistical and analytical methodology that could be used in the study of problem areas.

On the basis of the progress made by the Unit to date, I believe that a useful framework for consistent economic analysis of bank structure changes has been developed and that it would be further sharpened if it were required to be applied on a regular basis to the cases that come before the Board. This could be done by asking the Banking Markets Unit to present an economic analysis of the convenience and needs and competitive factors on selected cases as a supplement to that prepared by the Examinations Division.

The analysis to be presented by the Banking Markets Unit could vary in accord with the issues presented in each case, from a brief comment in those cases dominated by banking factors to a fairly elaborate appraisal in those cases involving substantial market overlap. Of necessity there would be a period of experimentation in developing these new procedures, as analytical approaches and information-collecting techniques are adapted to the various types of cases that come up for decision.

Even with currently available data, an economically oriented analysis of the convenience and needs and competitive factors ought to sharpen the issues and make Board decisions easier. But it is also likely that such analysis would often make clearer the need for supplemental information in order to resolve such issues as the degree of competitiveness in markets for bank services and the extent to which higher lending limits and additional types of banking services are needed in an area. In some cases the necessary supplementary data could undoubtedly be obtained by correspondence with the Federal Reserve Banks and the applicants. On the other hand, it might well be that the preparation of economic analyses would point up the need for more "on-the-spot" investigations of bank records and customer attitudes. Unless and until the Reserve Banks can develop the necessary competence in this field, such information might have to be obtained either by contracting with a suitable survey organization or by adding a small group of interviewers to the Board's staff. The important consideration, however, is not how such information is gathered, but that it be made available in analytical form and in timely fashion to help the Board reach its judgments concerning the approval or denial of applications.

While such a procedure might result in some duplication of effort for a time, it would afford the Unit opportunity to develop procedures and for the Board to appraise the usefulness of such reports without disrupting the present flow of information from the Examinations Division.

It is assumed, of course, that the Unit and the Division will work in close cooperation in the development of sources and exchange of information to the mutual advantage of each and that, as a result of the experiment, a more satisfactory long-range program may be developed.

To implement this proposal, several steps would seem to be essential:

1. Additional competent personnel would be needed, and the Research Division hopes to get Mr. George Hall, who was formerly with the Board, to return and take an important part in this program. If Mr. Hall is not available, they have other competent prospects in mind.

2. The Unit should be given the status of a section and since Mr. Brill's plans for reorganization of his Division, which will be presented at a later date, contemplate another assignment for Tynan Smith, the Division should be authorized to recruit Mr. Hall for a Section Chief position.

3. The Secretary should be authorized to write a letter to the Presidents of the Federal Reserve Banks asking the cooperation of their Examination and Research Departments in providing such additional information as the Unit may need and within their capabilities.

4. The Unit should be authorized to explore the use of a survey organization to get the necessary additional survey data in appropriate cases.

I recommend that the above steps be authorized.

WMD

Item No. 6
10/8/65

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



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 8, 1965

Mr. Lee J. Aubrey,
Assistant Vice President,
Federal Reserve Bank of Boston,
Boston, Massachusetts. 02106

Dear Mr. Aubrey:

In accordance with the request contained in your letter of October 4, 1965, the Board approves the designation of Maurice P. Shea, 3rd as a special assistant examiner for the Federal Reserve Bank of Boston.

The authorization heretofore given your bank to appoint Mr. Shea as an examiner is hereby canceled.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.