

Minutes for October 20, 1965

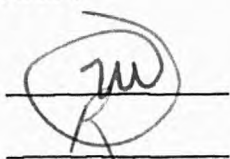
To: Members of the Board
From: Office of the Secretary

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.

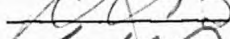
Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, please initial below. If you were present at the meeting, your initials will indicate approval of the minutes. If you were not present, your initials will indicate only that you have seen the minutes.

Chm. Martin

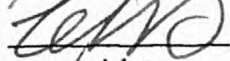


Gov. Robertson

Gov. Balderston



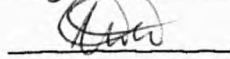
Gov. Shepardson



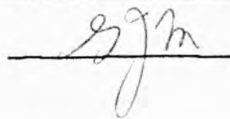
Gov. Mitchell



Gov. Daane



Gov. Maisel



Minutes of the Board of Governors of the Federal Reserve System on Wednesday, October 20, 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. Daane

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. Cardon, Legislative Counsel
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Brill, Director, Division of Research
and Statistics
Mr. Farrell, Director, Division of Bank
Operations
Mr. Solomon, Director, Division of Examinations
Mr. Shay, Assistant General Counsel
Mr. Sammons, Adviser, Division of International
Finance
Mr. Leavitt, Assistant Director, Division of
Examinations
Mr. Sprecher, Assistant Director, Division
of Personnel Administration
Mr. Young, Senior Attorney, Legal Division
Miss Eaton, General Assistant, Office of the
Secretary

Ratification of actions. Actions taken at a meeting of the available members of the Board on Monday, October 18, 1965, as recorded in the minutes of that meeting, were ratified by unanimous vote.

Discount rates. The establishment without change by the Federal Reserve Bank of Atlanta on October 19, 1965, of the rates on discounts

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and advances in its existing schedule was approved unanimously, with the understanding that appropriate advice would be sent to the Bank.

Circulated or distributed 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 Provident International Corporation, Philadelphia, Pennsylvania, approving an amendment to its articles of association.	1
Letter to the Federal Reserve Bank of Kansas City waiving the assessment of a penalty incurred by First National Bank, Chanute, Kansas, because of a deficiency in its required reserves.	2
Letter to Federal Reserve Bank of New York approving the payment of salaries to five officers at rates fixed by the Bank's Board of Directors.	3

Request of Michigan National Bank. A memorandum from the Legal Division dated October 13, 1965, on a matter involving Michigan National Bank, Lansing, Michigan, had been distributed to the Board. In a letter dated September 17, 1965, from Mr. Howard J. Stoddard, Chairman of the Board of Michigan National Bank, a request had been made for a hearing before the Board at its earliest convenience. Mr. Stoddard's letter, addressed to Chairman Martin, referred to the unfavorable report made by the Board on September 8, 1965, to the Senate Banking and Currency Committee on S. 308, a bill to permit the establishment and operation of certain branch offices by Michigan National Bank.

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In discussion, Mr. Young (Legal) commented that he gathered the Principal point Mr. Stoddard would discuss, if he appeared before the Board, related to the question of whether an error of law was made by the Comptroller of the Currency in 1940, as a consequence of which Michigan National Bank had been denied the privilege of operating four branches since that time. This question had been discussed fully before the Senate Banking and Currency Committee at hearings during a previous session of Congress. The Board members would in effect be sitting as judges on a question of law. This would be unusual, Mr. Young said, and it seemed to him Mr. Stoddard should make his case before a Congressional Committee rather than before the Board.

Mr. Hackley noted that the bill considered at the earlier session had been strongly opposed by a number of parties such as the Michigan State Banking Commissioner, the Michigan Bankers Association, the Independent Bankers Association, and the National Association of Supervisors of State Banks, as well as by various banking competitors of Michigan National Bank. To allow Mr. Stoddard to appear before the Board to argue his case without also allowing the opposition to appear might put the Board in a bad light, he felt. He mentioned, incidentally, that Mr. Stoddard had spoken of political factors that entered into the decision of Michigan National not to litigate the Comptroller's interpretation in 1940.

Governor Robertson, who as Deputy Comptroller of the Currency was one of those familiar with the interpretation in 1940, said that as

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he recalled the bank's lawyers had agreed that it was a proper interpretation of the law. It was not until several years later that the bank came in and asked for review. After such review the same conclusion was reached by the Comptroller. Any intimation of political influences was most unfortunate.

Governor Daane commented that he felt the Board's position in its letter of September 8, 1965, was the correct one. However, the question now before the Board was whether it should deny a member bank the right to be heard. The Board's practice had been normally to accede to such a request.

Governor Robertson noted that the decision at issue was not one the Board could reverse; the Board had nothing to do with the interpretation. The Congress had sought the Board's views on pending legislation, which had been given, and now the bank wanted to intercede. However, the Board, in this instance, was not in the role of an agency with independent power to act. He felt it would be inappropriate, in the circumstances, to permit Mr. Stoddard--or opponents of the proposed legislation--to appear before the Board.

Governor Mitchell agreed that apparently there was little the Board could do, but he was inclined to feel that Mr. Stoddard probably should be allowed to come in and talk to the Board about his problem if he wished.

Mr. Hackley noted that this was a legal problem involving the Comptroller of the Currency. The Board was merely asked to provide a

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report on the pending bill. Therefore, he agreed generally with the views of Governor Robertson. On the other hand, if the Board wanted to arrange for Mr. Stoddard to come in and express himself, no harm probably would be done. But if the Board was inclined to reverse its report, it would be appropriate to hear the opposition also.

Governor Shepardson felt no purpose probably would be served in Mr. Stoddard's meeting with the Board. However, he thought there was something to be said for maintaining the practice that the Board had customarily followed in being willing to listen to member banks on matters of concern to them. It should be clear in any letter the Board might send to Mr. Stoddard that the Comptroller's interpretation was a matter outside the jurisdiction of the Board, but if Mr. Stoddard still wanted to come in, the Board could provide him an opportunity, if only as a matter of courtesy.

Governor Balderston commented that he thought the question was largely one of public relations. He gathered the sentiment of the Board members was that nothing probably would be accomplished by hearing Mr. Stoddard, except that he could not then say he had asked the Board to hear his bank's case and had been refused.

It was the consensus, from which Governor Robertson dissented, that a letter along the lines suggested by Governor Shepardson should be prepared and sent to Mr. Stoddard. It was not thought necessary to set a date for a possible appearance at this time; if Mr. Stoddard still wanted to come in after receiving the Board's letter, a date could then be arranged.

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Mr. Young (Legal) withdrew from the meeting at this point.

Loan of personnel to Bank for International Settlements. Mr.

Sammons reported that the Federal Reserve Bank of New York was prepared to make the services of George Bossy, an economist in the Research Department, available to the Bank for International Settlements on the basis of a six-month leave of absence without pay. This would follow a procedure the Reserve Bank had followed in the past of making staff members available from time to time to the Bank for International Settlements.

The proposal was noted without objection, it being understood that the New York Bank would be advised to this effect.

Mr. Sammons withdrew from the meeting at this point.

Bank merger legislation. Mr. Cardon advised that a bank merger bill (H.R. 11489) apparently had been reported by the House Banking and Currency Committee. There was some question whether the meeting at which it was decided to report the bill was a legal one, the Chairman of the Committee contending it was not. In any event, however, it appeared that a report on the bill had been filed last night with the Speaker of the House. Congressman Ashley, a member of the Committee, had requested orally that the Board furnish its views on the bill, on the basis that the Committee had authorized him to act in place of the Chairman of the Committee to bring the bill before the House. Reports had also been asked of the Federal Deposit Insurance Corporation and the Treasury.

Mr. Cardon went on to mention that following receipt of Congressman Ashley's request, there had been distributed for the Board's consideration a draft of possible letter to Congressman Ashley reading as follows:

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You have asked for the views of the Board of Governors on H.R. 11489, relating to bank mergers. The Board recommends enactment of the bill.

The bill would eliminate much of the hardship and confusion that have arisen from the apparently contradictory provisions of the Bank Merger Act of 1960 on the one hand and the Sherman and Clayton Acts on the other, by providing uniform standards by which bank mergers shall be judged in the future, not only by the bank supervisory agencies but also by the Attorney General and the courts in suits instituted under the antitrust laws. In addition, the bill would help to avoid the hardships and inequities of divestiture proceedings in the future, not only by providing for a reasonable time limit on antitrust suits to challenge an approved merger, but also by providing that if such a suit is brought the merger may not be consummated until the suit is decided "unless the court shall otherwise specifically order."

As to past mergers, opinion on the Board is divided, as indicated by the testimony of the Board members during the hearings on S. 1698. A majority of the Board members support the provisions of H.R. 11489; a minority of the members question the wisdom of extending antitrust immunity to mergers that have been challenged in court.

Subsequently, Mr. Cardon continued, it was learned that the bill contained an amendment, reportedly included at the request of Congressman Ottinger, which seemed to present certain problems. He distributed copies of the amendment.

Mr. Shay pointed out that the Ottinger amendment would in effect seem to prevent approval of any bank merger unless it was found that the transaction did not violate the antitrust laws. There followed an exception indicating that the responsible agency, the Attorney General, and any court reviewing the legality of such a transaction should take into

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account the effect on the public interest and the community to be served of six enumerated banking factors. Taken together, it could be argued that the foregoing language might not amount to too much of a change in the standards pursuant to which proposed mergers were considered, but the Ottinger amendment concluded with the following statement: "A merger transaction which tends to lessen competition may be approved where the probable adverse competitive effect thereof is clearly outweighed in the public interest by the probable effect of such transaction in meeting the convenience and needs of the community to be served." In total, Mr. Shay said, the Ottinger amendment--particularly in view of the seemingly contradictory element introduced by the inclusion of the final sentence--could mean different things to different people and could create additional confusion in the administration of bank merger legislation.

Governor Balderston noted that the Board, if it submitted a report, apparently would have to report on the bill as a whole. It could not ignore the Ottinger amendment.

Mr. Cardon commented that the only thing that evidently would be useful to Congressman Ashley at this time would be a favorable report, without qualification.

Governor Daane saw much to be gained by passage of the Ashley bill. The question in his mind was whether the language of the Ottinger amendment was troublesome enough to warrant a report that might kill any chance for the enactment of legislation at this session.

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Mr. Hackley remarked that the principal, and desirable, objective of the Ashley bill was to provide some element of certainty. After thirty days, merging banks would know whether they were safe from the filing of antitrust action. However, he was inclined to agree with Mr. Shay that the Ottinger amendment might well give rise to more differences of interpretation than had existed to date. Also, the Board would be in the position of having to determine whether a bank merger would violate not only the Clayton Act but the Sherman Act.

In further discussion Governor Mitchell said it seemed to him the amendment was badly drafted, and Governor Daane said he would not disagree. He inquired whether it would be feasible to have some change made in the language of the proposed legislation that would allow the Board to report favorably.

Mr. Cardon then suggested awaiting developments, including indication of the nature of the Treasury report, and it was decided to follow this suggestion.

Governor Robertson observed that he was in favor of waiting and moreover that he questioned the advisability of the Board's injecting itself at all into the situation as it had developed in the House, especially by taking a position that would recommend the enactment of a bill including the Ottinger amendment. From his point of view, not only was the bill bad because it contained the retroactive feature, but also because the Board for the first time would have to take into consideration

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the provisions of the Sherman Act as well as the Clayton Act. Further, he agreed that the last sentence of the Ottinger amendment was inappropriate and would lead to confusion.

Meeting dates for Open Market Committee. There had been distributed a memorandum from Mr. Broida dated October 19, 1965, suggesting possible dates for meetings of the Federal Open Market Committee in 1966. The schedule called for 15 meetings, spaced at either three or four-week intervals.

The Board, after discussing the schedule set forth in the memorandum, noted that the matter would be brought up at the meeting of the Open Market Committee to be held on November 2, 1965.

Directors Day. Governor Shepardson referred to a memorandum from Mr. Morgan, Staff Assistant, Board Members' Offices, suggesting the date of March 24, 1966, for Directors Day, with a dinner to be given for the Reserve Bank directors attending the meeting on the evening of March 23.

The Board agreed that the suggested date was appropriate.

The meeting then adjourned.

Secretary's Notes: On October 19, 1965, Governor Shepardson approved on behalf of the Board memoranda recommending the following actions relating to the Board's staff:

Permission to engage in outside activities

Paul F. Quirante, Jr., Statistical Clerk, Division of Research and Statistics, to work for a local music store on a part-time basis.

Dorothy M. Vereb, Statistical Clerk, Division of Bank Operations, to work as cashier at a local theater on a part-time basis.

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

Letters to the Federal Reserve Bank of San Francisco (attached Items 4 and 5) approving the appointment of James E. Denson and Lewis A. Reeves, Jr., as assistant examiners.

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

Salary increases, effective October 24, 1965

Ketty Anagnos, Statistical Assistant, Division of Research and Statistics, from \$5,330 to \$5,495 per annum.

Gloria U. Harper, Secretary, Division of Research and Statistics, from \$5,690 to \$5,875 per annum.

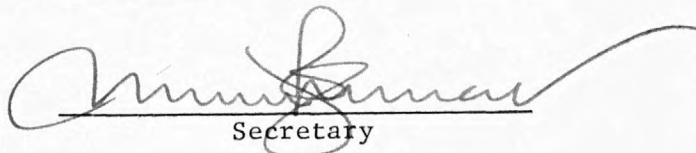
Ruth Logue, Economist, Division of International Finance, from \$12,025 to \$12,380 per annum.

John A. Marlin, Economist, Division of International Finance, from \$7,220 to \$7,465 per annum.

Eleanor E. Omohundro, Analyst, Division of Bank Operations, from \$7,955 to \$8,200 per annum.

Acceptance of resignation

Audrey Litman, Statistical Clerk, Division of Data Processing, effective at the close of business October 29, 1965.


Secretary



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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 20, 1965.

Provident International Corporation,
Broad & Chestnut Streets,
Philadelphia, Pennsylvania.

Gentlemen:

Reference is made to your letter dated September 30, 1965, transmitted through the Federal Reserve Bank of Philadelphia, enclosing a copy of a resolution adopted at a special meeting of the shareholders of your Corporation of September 30, 1965, amending Articles of Association of your Corporation to increase the capital stock to \$2,250,000 consisting of 22,500 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 sale of 2,500 additional shares to Provident National Bank, Philadelphia, for \$500,000, of which \$250,000 will be shown as capital surplus.

Please advise the Board of Governors when the capital increase has been effected.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

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

Item No. 2
10/20/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 20, 1965

Mr. John T. Boysen, Vice President,
Federal Reserve Bank of Kansas City,
Kansas City, Missouri. 64106.

Dear Mr. Boysen:

This refers to your letter of October 6, 1965, regarding the penalty of \$104.08 incurred by the First National Bank, Chanute, Kansas, on a deficiency in its reserve account for the computation period ended September 29, 1965.

It is noted that (1) the deficiency resulted because a new employee responsible for computing the bank's reserve position used Federal Reserve balances reflected on the bank's books instead of the balances from the daily statements forwarded to the member bank by your Bank; (2) the error was not detected until after the computation period had ended, although the bank has good internal controls and procedures; and (3) since 1961, the bank has had only five small deficiencies, for which the penalties were waived by your Bank.

In the circumstances, the Board authorizes your Bank to waive the assessment of the penalty of \$104.08 for the period ended September 29, 1965.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.



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

Item No. 3
10/20/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 20, 1965

CONFIDENTIAL (FR)

Mr. William F. Treiber,
First Vice President,
Federal Reserve Bank of New York,
New York, New York. 10045

Dear Mr. Treiber:

The Board of Governors approves the payment of salaries to officers of the Federal Reserve Bank of New York listed below, for the period October 1 through December 31, 1965, at rates indicated, which are those fixed by your Board of Directors as reported in your letter of September 30, 1965.

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
Bruce K. MacLaury	Assistant Vice President	\$21,000
Thomas M. Timlen, Jr.	Assistant Vice President	23,500
Richard A. Debs	Secretary, and Assistant Counsel	18,000
Ernest E. Blanchette	Manager, and Assistant Secretary	16,000
Betty Jean Shea	Assistant Counsel	14,500

The Board has noted the changes in assignments of these and other officers referred to in your letter.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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Item No. 4
10/20/65

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 20, 1965

Mr. E. H. Galvin, Vice President,
Federal Reserve Bank of San Francisco,
San Francisco, California. 94120

Dear Mr. Galvin:

In accordance with the request contained in Mr. Davenport's letter of October 13, 1965, the Board approves the appointment of James E. Denson as an assistant examiner for the Federal Reserve Bank of San Francisco, effective today.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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Item No. 5
10/20/65

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



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 20, 1965

Mr. E. H. Galvin, Vice President,
Federal Reserve Bank of San Francisco,
San Francisco, California. 94120

Dear Mr. Galvin:

In accordance with the request contained in Mr. Davenport's letter of October 14, 1965, the Board approves the appointment of Lewis A. Reeves, Jr. as an assistant examiner for the Federal Reserve Bank of San Francisco, effective today.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.