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 Monday, December 6, 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 1/
Mr. Maisel

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Broida, Assistant Secretary
Mr. Young, Senior Adviser to the Board and Director, Division of International Finance
Mr. Holland, Adviser to the Board
Mr. Solomon, Adviser to the Board
Mr. Cardon, Legislative Counsel
Mr. Hackley, General Counsel
Mr. Brill, Director, Division of Research and Statistics
Mr. Solomon, Director, Division of Examinations
Mr. Kakalec, Controller
Mr. O'Connell, Assistant General Counsel
Mr. Daniels, Assistant Director, Division of Bank Operations
Messrs. Goodman and Leavitt, Assistant Directors, Division of Examinations
Mr. Sprecher, Assistant Director, Division of Personnel Administration
Mr. Bass, Assistant Controller
Mrs. Semia, Technical Assistant, Office of the Secretary
Mr. Dahl, Chief, Special Studies and Operations Section, Division of International Finance
Messrs. Egertson, Goodfellow, and Poundstone of the Division of Examinations
Mr. Hart, Assistant to the Director, Division of Personnel Administration

1/ Joined meeting at point indicated in minutes.
Circulated or distributed items. The following items, copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:

<table>
<thead>
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<th>Item No.</th>
<th>Description</th>
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<tr>
<td>1</td>
<td>Letter to New England Merchants National Bank, Boston, Massachusetts, granting permission to organize a corporation under section 25(a) of the Federal Reserve Act to be known as New England Merchants Bank International, Boston, Massachusetts.</td>
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<tr>
<td>3</td>
<td>Letter to the Federal Reserve Bank of Minneapolis waiving the assessment of a penalty incurred by Dakota National Bank, Fargo, North Dakota, because of a deficiency in its required reserves.</td>
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<td>4</td>
<td>Letter to Republic National Bank of Miami, Miami, Florida, granting its request for permission to maintain reduced reserves.</td>
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<td>5</td>
<td>Letter to Civic Plaza National Bank, Kansas City, Missouri, granting its request for permission to maintain reduced reserves.</td>
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In connection with Items 4 and 5, Governor Maisel asked whether, when certain banks were granted permission to maintain reduced reserves and it appeared that other banks in the same community were likewise eligible, it would not be appropriate to suggest to the banks that had not applied for the privilege that it might be to their advantage to do so. The staff mentioned various circumstances, such as the prestige of...
reserve city bank status, that sometimes made banks prefer to forego the privilege that might be accorded them. It was brought out that in 1963 the views of the Reserve Bank Presidents had been requested as to the desirability of suggesting that banks that appeared to be eligible apply for the reduced reserve privilege, and that the principal factors taken into account in considering such an application were discussed in an article in the June 1964 Federal Reserve Bulletin. It was believed that smaller banks in reserve city status were generally familiar with the possibility of applying for reduced reserves and that their failure to do so was a matter of choice.

Reports on competitive factors. Reports to the Federal Deposit Insurance Corporation on the competitive factors involved in the following proposed mergers were approved unanimously for transmittal to the Corporation in a form in which the conclusions were stated as follows:

Merger of The Peoples Bank, Norlina, North Carolina, into Peoples Bank & Trust Company, Rocky Mount, North Carolina

While consummation of the proposed merger of Peoples Bank & Trust Company, Rocky Mount, and The Peoples Bank, Norlina, would eliminate a small amount of competition between the two banks, the overall competitive effect of the transaction would not be significantly adverse.

Merger of The First National Bank of Lancaster, Lancaster, South Carolina, into The Anderson Bank of Dillon, Dillon, South Carolina

Consummation of the proposed merger of The Anderson Bank of Dillon and The First National Bank of Lancaster would have no adverse competitive effects.
False or misleading advertising (Item No. 6). In response to the Board's letter of October 13, 1965, (approved October 11), stating that false or misleading advertising by member banks constituted an unsafe and unsound practice and was a proper subject of concern to the Board and to the Federal Reserve Banks from a bank supervisory standpoint, the Federal Reserve Bank of Boston in a letter of November 5, 1965, described the measures it proposed to use in complying with the Board's request and asked if the Board regarded those measures as adequate. There had been circulated a draft of reply that would answer the Boston Reserve Bank's question in the affirmative.

The letter to the Federal Reserve Bank of Boston was approved unanimously, with the understanding that the substance of the exchange of correspondence would be transmitted to all Reserve Banks for their information. A copy of the letter subsequently sent to the Federal Reserve Banks is attached as Item No. 6.

Payroll service. Pursuant to previous discussion at meetings of the Board, there had been distributed a memorandum dated November 16, 1965, from the Office of the Controller setting forth the advantages and disadvantages of a plan that would extend to all employees of the Board the service of mailing pay checks upon request directly to designated banks for deposit. (Such a plan was already in effect for members of the Board, the field examining staff, and any employee absent on leave or official business.) It appeared to the Office of
the Controller, on balancing the considerations mentioned in the memorandum, that from the viewpoint of economy the service would not be warranted. However, if the Board decided that employee convenience was sufficient justification, the Controller requested permission to adopt the one-check plan, under which the aggregate of employee salaries to be deposited in a particular bank would be sent to that bank in a single check, with accompanying specification as to the amount to be credited to the account of each person. It was noted that although a study made last year had indicated that a relatively small percentage of employees' pay checks were deposited in entirety and a relatively large number of banks throughout the country were used by employees, if the general availability of deposit service was made known it was possible that deposit habits might change in such a way that it would be economical to use the one-check plan.

Governor Shepardson stated that he questioned the justification for undertaking the service. It seemed to him there was only a small burden upon each employee to handle his own check, whereas general deposit service would involve in the aggregate an additional expense item.

Governor Mitchell expressed the view that the service should be offered, even if some small cost to the Board was involved. Such a service to employees was becoming common; it was understood that the practice was being adopted more widely in Federal Government departments and agencies.
Governor Shepardson observed that a study had revealed that Board employees' checks were deposited in a large number of banks. This would seem to indicate that the one-check plan, which it was understood was to be employed by Government agencies where there were sufficient checks deposited in one bank to justify it, would be of limited value to the Board's Controller.

In response to an inquiry from Governor Maisel it was brought out that the Board's payroll, at present not handled on the computer, would be so handled sometime after the first of the year. Governor Maisel then said that he would be in favor of setting up the new computerized system in such a way as to facilitate deposit service.

Governor Robertson expressed himself in favor of moving forward with the plan, on a voluntary basis. He thought the cost would be relatively small.

After further discussion during which it was emphasized that the deposit service should be provided on a voluntary basis and that if any employee did not wish to use it he would be free to handle his check personally, it was agreed that the deposit service would be offered to employees and would be initiated as soon as the necessary operational details could be arranged. Governor Shepardson stated that he would not oppose this action, although he would not have recommended it.

Messrs. Kakalec, O'Connell, Goodman, Bass, Dahl, Egertson, Goodfellow, and Poundstone then withdrew from the meeting.
Reserve Bank officer salaries (Items 7 and 8). There had been distributed memoranda dated December 2 and 3, 1965, from the Division of Personnel Administration stating that salary proposals for Reserve Bank officers for the calendar year 1966 included payments to 11 new officers and to 21 officers whose titles were being changed. The Reserve Banks concerned had indicated they would appreciate early advice of Board approval of salary payments to these officers so that public announcements might be made as soon as possible. The Division recommended favorably and suggested that, if the Board approved, the Reserve Banks concerned be so informed by telephone. The officers involved would be listed in the year-end letters to the Reserve Banks signifying the Board's approval of salary payments to all officers.

The officer salaries listed in the memoranda were approved unanimously, with the understanding that the Reserve Banks would be informed as suggested by the Division. Copies of the memoranda are attached as Items 7 and 8.

Status of General Auditor. During discussion of the foregoing item, Mr. Solomon (Examinations) called to the Board's attention that a precedent would be set by approval of salary for G. William Metz as Vice President and General Auditor at the Federal Reserve Bank of Philadelphia. This would be the first time that the General Auditor of a Federal Reserve Bank also held the title of Vice President. The Philadelphia Reserve Bank was understood to have chosen the title as a
means of giving additional recognition and prestige to the individual concerned, who had demonstrated outstanding abilities. However, a question of policy might be presented in that the title of Vice President connoted a line of command from the President of the Reserve Bank, whereas the General Auditor was directly responsible to the Board of Directors. Mr. Solomon thought it should be recognized that there were Systemwide implications in terms of precedent. If the Board approved, however, he suggested that the letter to the Philadelphia Bank relating to approval of officer salaries include a paragraph making clear that the use of the title of Vice President in this case did not signify any change in the organizational alignment under which the General Auditor was responsible to the Board of Directors.

Discussion of the point raised by Mr. Solomon included comments on the trend in private industry, including some commercial banks, toward titles similar to that proposed for Mr. Metz. A consensus developed that no objection should be raised to the Philadelphia Reserve Bank's selection of a title, although some members of the Board expressed minor reservations. It was the general view that clear definition of the General Auditor's position in the organizational structure was more important than the question of his title.

At the conclusion of the discussion there was general agreement with the suggestion that a paragraph be included in the letter to the Philadelphia Bank approving salaries of all officers to make clear that
designation of Mr. Metz as Vice President as well as General Auditor did not place him in line of command from the President and that he would continue to be responsible to the Reserve Bank's Board of Directors.

All members of the staff then withdrew except Messrs. Sherman, Kenyon, Broida, Young, Holland, Solomon (Adviser to the Board), Hackley, and Brill.

Governor Daane joined the meeting at this point.

Money market developments and generally related matters. At the Board's request, Mr. Holland summarized initial money market reaction to the Board's actions taken on December 3 and announced yesterday approving an increase in the discount rate to 4-1/2 per cent and establishing a maximum rate of 5-1/2 per cent on time deposits other than savings accounts. His report indicated that the market was characterized by uncertainty, but that there was no evidence of disorderly conditions.

Mr. Young, as Secretary of the Federal Open Market Committee, noted that the Manager of the System Open Market Account had expressed the view that it would be desirable to increase from $1.5 billion to $2 billion the leeway provided by the Committee's continuing authority directive for net purchases or sales for the Account during the interval between Committee meetings. Mr. Young reported that steps were being taken through appropriate channels to present the Account Manager's recommendation to the members of the Committee for approval.
This led to discussion of the question whether sufficient reason existed for an early telephone conference meeting of the Open Market Committee. The Account Manager was reported to feel that he had sufficient authority under the terms of the Committee's current economic policy directive issued on November 23, 1965, to deal at least with immediate market developments, and it was pointed out that the Manager possessed adequate authorization from the Committee on a continuing basis to deal with a disorderly market situation. Some reasoning was advanced that a telephone conference meeting of the Committee might be helpful in clarifying instructions to the Manager in view of the changed conditions attributable to the discount rate and Regulation Q actions, since those actions had not, of course, yet been taken when the Committee's outstanding current economic policy directive was issued. On the other hand, question was raised whether a telephone meeting would be too productive at this early stage of developments. In the alternative, it was suggested that the members of the Open Market Committee be alerted to the possible need for a meeting of the Committee in Washington after market trends became clearer and the Account Manager had had an opportunity to determine what lines of action would seem appropriate.

The Secretary of the Board reported that the directors of the Federal Reserve Bank of Atlanta had acted Friday afternoon to establish a discount rate of 4-1/2 per cent, which raised the question whether the Board wished to approve that rate for the Atlanta Bank immediately.
and also whether the Board wished to authorize the Secretary, as it had done on previous occasions, to advise other Federal Reserve Banks that established a discount rate of 4-1/2 per cent, along with appropriate subsidiary rates on discounts and advances, of Board approval of such rates.

At this point the members of the Board participated in the usual morning telephone conference call concerning developments in the Government securities market, for which purpose additional members of the Board's staff entered the room.

After the money market report had been given by representatives of the New York Reserve Bank, there ensued a discussion via the telephone hook-up during which the Account Manager, in reply to a question, expressed the view that it would be well to defer a meeting of the Open Market Committee for at least a couple of days, during which time market developments could be watched closely and appraised. He described certain hypothetical circumstances in which he would want to come to the Committee for guidance but suggested that the market be allowed to react to the new environment before any determination was made as to what kind of changed approach, if any, might be required on the part of the Federal Reserve. The Manager was asked whether the Desk would not want to be quite liberal in providing reserves this week with a view to cushioning money market adjustments, and the Manager commented that the net free reserve figures now in prospect would be an indication of such a posture.
At the conclusion of the telephone conference call the meeting of the Board resumed.

Reference was made to a memorandum of yesterday's date from Messrs. Brill, Holland, and Solomon in which they reported a staff indication that the Chairman of the Home Loan Bank Board might request consideration of some modification of the newly-established ceiling rate on time deposits to moderate the impact on the savings and loan industry of more aggressive competition from banks for small time deposits. As a specific suggestion, the staff member had mentioned the possibility of establishing a ceiling rate lower than 5-1/2 per cent on time certificates below a certain size, say $5,000 or $10,000. It had been urged that considerable pressure on the savings and loan associations would come from the offering by banks of savings certificates, savings bonds, or other forms of time certificates in smaller denominations.

The Brill-Holland-Solomon memorandum noted that the Board's General Counsel had pointed to the long-standing view of the Legal Division that the law did not give the Board authority to fix different ceiling rates according to size of deposits. The memorandum also suggested that it might appear inequitable to discriminate against small savers who were willing to abide by the same time deposit terms as large savers.

Governor Balderston reported that Chairman Horne of the Home Loan Bank Board had been in touch with him this morning to express
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concern on the same subject. The concern appeared to be focused, as
the staff memorandum suggested, on the thought that the commercial
banks might offer high rates on small time deposits to avoid the 4 per
cent ceiling on savings accounts and thus make it extremely difficult
for the savings and loan associations to compete for funds. Chairman
Horne also urged that in such event the aggregate portfolio of mortgages
held by savings and loans would be in danger unless the commercial banks
wanted to pick up the mortgage burden. Governor Balderston said he had
told Chairman Horne that he would look into the matter and that the
Board's staff had not yet had a great deal of time to analyze the
problem.

Governor Daane, who had been called from the room a few minutes
earlier, returned at this point and said Under Secretary of the Treasury
Deming had conveyed a concern on the part of Chairman Randall of the
Federal Deposit Insurance Corporation that the larger banks would begin
sifting out poorer credits, with a resultant tendency to pass them down
the line, in effect, to the smaller banks. Chairman Randall reportedly
was worried about the competitive problem of the smaller banks and the
possibility of imprudence, and was giving some thought to various steps
that the Corporation might take in expression of this concern.

There followed further discussion of the reaction of the Home
Loan Bank Board during which the observation was made that there seemed
to be some apprehension that commercial banks would move promptly to
the 5-1/2 per cent time deposit ceiling. This did not seem to be a realistic assumption. Question was raised whether the savings and loan associations might not in fact be more vulnerable to the loss of larger accounts, presumably highly interest sensitive, than to the loss of smaller accounts, and comments also were made about the possibility of interregional shifts of funds. Governor Balderston reiterated that Chairman Horne had appeared to be particularly concerned about the small blocks of savings funds that might be attracted away from the savings and loans to the commercial banks through the payment of higher rates on savings certificates and savings bonds.

The discussion then turned to the question of reserve requirements, against the background of a distributed memorandum of today's date from Messrs. Young, Holland, Solomon, and Brill. This memorandum made the assumption that the discount rate increase might call for some cushioning action to facilitate an orderly adjustment of markets to a higher level of interest rates and, in the process, to inhibit the development of expectations that would make for a cumulative and excessive upward movement in market rates. The chief means of cushioning such pressures was through timely reserve additions by the System, which could be accomplished by somewhat more generous open market operations or, alternatively, a lowering of reserve requirements. The pros and cons of each method were reviewed. As to reserve requirements, two alternative proposals were considered. The first contemplated lowering
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the requirement on the first $2 million of net demand deposits of all
member banks to 7 per cent, which would release about $550 million of
reserves. The second alternative was to move to a schedule of graduated
reserve requirements, along lines generally indicated in a memorandum
from Governor Mitchell of October 29, 1965. Such a plan was analyzed
in Appendix H of a November 22 staff memorandum discussing a "package
of Federal Reserve proposals." The essence of this plan was to set
reserve requirements on net demand deposits at 8 per cent for the first
$5 million, at 12-1/2 per cent on deposits from $5 million to $50 million,
and at 17 per cent on deposits over $50 million. In no case would the
average requirement fall below the statutory 10 per cent minimum for
reserve city banks or exceed the 14 per cent statutory maximum for
country banks. A net release of about $470 million of reserves would
result from such action.

Governor Robertson commented, in this regard, that the Board's
December 3 actions had made it possible for the large banks to obtain
additional funds, at higher interest rates, and to make the situation
more difficult for the small banks. Therefore, he felt that the Board
should take advantage of the opportunity to move toward a graduated
scale of reserve requirements by lowering the requirements for the
small banks while increasing them for the city banks to whatever extent
might be necessary to maintain approximately the existing total volume
of required reserves for member banks as a whole. He felt also that
the Board should adopt an amendment that would bring unsecured promissory notes of banks within the definition of deposits. This latter step, he suggested, would become increasingly important if reserve requirements were raised for city banks, because it would otherwise be possible for them to circumvent Federal Reserve deposit regulations in a tightening period through the use of promissory notes.

The point was raised that a move in the direction of a graduated scale of reserve requirements would result in increased requirements for certain rather large banks that currently enjoyed country bank status. This matter was discussed in terms of the number of such banks that would be subject to higher reserve requirements under the plan outlined in Appendix H to the staff memorandum of November 22, 1965, and possible variations were suggested.

Governor Robertson indicated that his main objective would be to improve the competitive position of the small member banks, as contrasted with the large member banks, and to reduce their competitive disadvantage vis-a-vis small nonmember banks.

Governor Mitchell agreed that on December 3 the Board had taken action along lines that were favorable to the large banks and, among other things, had given them an opportunity to raise the prime rate. In the circumstances, he thought there was much to be said for an action on reserve requirements that would provide a definite advantage
for the small member banks, even at the expense of a small increase in reserve requirements for reserve city banks and the largest country banks. He pointed out that a portion of the reserves released to the small banks through such an action would probably remain with them for some time in the form of excess reserves, and that absorption of these reserves as necessary could be accomplished through open market operations. Such a move, he thought, would give an impression that the Federal Reserve was dealing equitably with the different categories of member banks. There would never be a completely satisfactory time for such an action, and strong objections doubtless would be received from the large country banks. However, those banks had enjoyed a competitive advantage for some time.

Governor Daane recalled that he had felt last Friday that something should be done along this line to redress the impact of the December 3 action on the smaller banks.

Governor Mitchell observed that he would also favor action to define promissory notes as deposits. Previously he had been inclined to feel that these notes should be available as a safety valve, but this safety valve no longer was needed.

Governor Daane said that he would endorse action on both the promissory notes and reserve requirements. But he would be satisfied with a move on reserve requirements that simply lowered the requirement for the first $2 million of demand deposits, which would release about
$550 million of reserves. It had been thought last Friday that such a move might be confusing. However, the Desk had already injected nearly $300 million of reserves into the market today, so the volume of reserves released through the reserve requirement mechanism would be within the general area of the volume of reserves that appeared likely to be made available in any event through the open market mechanism to cushion money market adjustments.

Governor Maisel indicated that he would be favorably inclined toward reserve requirement action along the lines that had been discussed in Appendix H to the November 22 memorandum.

Governor Balderston observed that such a move toward a graduated scale of reserve requirements would do a more thorough job of redressing the competitive balance between larger and smaller member banks. It would seem equitable in light of the Regulation Q action taken last week.

Governor Daane noted that the emphasis of the December 3 actions was on improving the flows of funds through the markets, and he had some question whether the more elaborate shift to a graduated scale of reserve requirements would be in complete harmony with that emphasis. Further, he had never been strongly in favor of a shift to a full-scale plan of graduated reserve requirements. He would have a slight preference for the less ambitious move at this time, although he would accept the other plan also.

Governor Robertson noted that it seemed obvious that the Board was not going to take any reserve requirement action today. Nevertheless,
several of the Board members present had expressed a general view in favor of moving in the direction of a graduated scale of reserve requirements. He would suggest, therefore, asking the staff to analyze the problem more fully, with the objective of defining the advantages and disadvantages of possible alternative plans so that the Board would be in a position to consider the matter further and take action promptly at such time as seemed appropriate.

Governor Shepardson said that he had not yet studied the problem as carefully as he would like. If the Board was going to make a move on reserve requirements—and he thought that might be desirable—it seemed to him at this point that the more effective move would be one toward a graduated scale of reserve requirements. The simpler move that Governor Daane had suggested might make it more difficult to go further at a later date.

Mr. Hackley indicated that the Legal Division would prepare Promptly for the Board's consideration an amendment relating to promissory notes, which he presumed would be published in the Federal Register for comments before being finally adopted. On the other hand, changes in reserve requirements had customarily been made by the Board without advance publication in the Register for comments. In any event, a draft of possible revision of the Supplement to Regulation D, Reserves of Member Banks, that would establish graduated reserve requirements against net demand deposits for all member banks also would be prepared for the Board's consideration.
There followed further discussion of possible alternative reserve requirement actions, and it was understood that the staff would prepare for the Board's consideration a memorandum setting forth the plan of action that would be most appropriate, in the staff's view, with perhaps one alternative.

Further reference was made to the discount rate action that had been taken by the Atlanta Bank, and after discussion it was decided to defer action with respect thereto at least until tomorrow.

The meeting then adjourned.

Secretary's Notes: Pursuant to the action taken by the Board at its meeting on November 24, 1965, it had been ascertained through the Chairman of the Federal Reserve Bank of Dallas that George T. Morse, Jr., would accept appointment, if tendered, as a director of the Houston Branch for the unexpired portion of the term ending December 31, 1966, and that Francis B. May would accept appointment, if tendered, as a director of the San Antonio Branch for the three-year term beginning January 1, 1966. Accordingly, appointment wires were sent today to Messrs. Morse and May.

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

Letter to the Federal Reserve Bank of New York (attached Item No. 9) approving the appointment of Donald E. Schmid as assistant examiner.

Letter to the Federal Reserve Bank of Chicago (attached Item No. 10) approving the appointment of Jacqueline E. Stasiak as assistant examiner.
December 6, 1965.

Mr. Everett Ware Smith, Vice Chairman,
New England Merchants National Bank,
Prudential Center,
Boston, Massachusetts. 02199

Dear Mr. Smith:

The Board of Governors has approved the Articles of Association and Organization Certificate dated October 21, 1965, of New England Merchants Bank International, Boston, Massachusetts, and there is enclosed a preliminary permit authorizing that Corporation to exercise such of the powers conferred by Section 25(a) of the Federal Reserve Act as are incidental and preliminary to its organization.

Except as provided in Section 211.3(a) of Regulation K, the Corporation may not exercise any of the other powers conferred by Section 25(a) until it has received a final permit from the Board authorizing it generally to commence business. Before the Board will issue its final permit to commence business, the president, treasurer, or secretary, together with at least three of the directors, must certify (1) that each director is a citizen of the United States; (2) that a majority of the shares of capital stock is held and owned by citizens of the United States, by corporations the controlling interest in which is owned by citizens of the United States, chartered under the laws of the United States or of a State of the United States, or by firms or companies the controlling interest in which is owned by citizens of the United States; and (3) that of the authorized capital stock specified in the Articles of Association at least 25 per cent has been paid in in cash and that each shareholder has individually paid in in cash at least 25 per cent of his stock subscription. Thereafter the treasurer or secretary shall certify to the payment of the remaining instalments as and when each is paid in, in accordance with law.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

Enclosure.
IT IS HEREBY CERTIFIED that the Board of Governors of the Federal Reserve System, pursuant to authority vested in it by Section 25(a) of the Federal Reserve Act, as amended, has this day approved the Articles of Association dated October 21, 1965, and the Organization Certificate dated October 21, 1965, of NEW ENGLAND MERCHANTS BANK INTERNATIONAL duly filed with said Board of Governors, and that NEW ENGLAND MERCHANTS BANK INTERNATIONAL is authorized to exercise such of the powers conferred upon it by said Section 25(a) as are incidental and preliminary to its organization pending the issuance by the Board of Governors of the Federal Reserve System of a final permit generally to commence business in accordance with the provisions of said Section 25(a) and the rules and regulations of the Board of Governors of the Federal Reserve System issued pursuant thereto.

(Seal)

By (Signed) Karl E. Bakke

Karl E. Bakke, Assistant Secretary.
Bankers International Corporation,
16 Wall Street,

Gentlemen:

In accordance with the request made on behalf of your Corporation in a letter dated November 8, 1965, the Board of Governors grants consent for Bankers International (Luxembourg), Societe Anonyme de Participations Financieres ("BILSA"), Luxembourg, to purchase and hold approximately 33 1/3 per cent of the shares of Banque G. & C. Kreglinger S.A. ("Belgian Bank"), Antwerp, Belgium, at a cost of approximately US$500,000 (equivalent), provided such stock is acquired within one year from the date of this letter.

It is noted that BILSA plans to pay for the shares of Belgian Bank from its present cash resources of US$125,000 (equivalent), the sale of investments now held totaling approximately US$200,000 (equivalent), and the balance to be borrowed in the local European market. Accordingly, the foregoing consent is given with the understanding that the total amount of foreign loans and investments of your Corporation, combined with those of Bankers Trust Company, for the purposes of the Voluntary Foreign Credit Restraint effort, will not be affected by this transaction.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.
Mr. M. H. Strothman, Jr.,  
First Vice President,  
Federal Reserve Bank of Minneapolis,  
Minneapolis, Minnesota.  55440.

Dear Mr. Strothman:

This refers to your letter of November 22, 1965, regarding a penalty of $387.75 incurred by the Dakota National Bank, Fargo, North Dakota, on a deficiency in its reserve account for the computation period ended September 15, 1965.

It is noted that (1) the deficiencies probably resulted from a misunderstanding concerning a new worksheet form suggested by one of the representatives of your Bank; (2) your Bank feels the errors were inadvertent; and (3) the bank has had a good record of maintaining adequate reserves.

In the circumstances, the Board authorizes your Bank to waive assessment of the penalty of $387.75 for the period ended September 15, 1965.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.
Board of Directors,
Republic National Bank of Miami,
Miami, Florida. 33126.

Gentlemen:

With reference to your request submitted through the Federal Reserve Bank of Atlanta, the Board of Governors, acting under the provisions of Section 19 of the Federal Reserve Act, grants permission to the Republic National Bank of Miami to maintain the same reserves against deposits as are required to be maintained by nonreserve city banks, effective as of the date it opened for business.

Your attention is called to the fact that such permission is subject to revocation by the Board of Governors.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.
December 6, 1965

Board of Directors,
Civic Plaza National Bank,
Kansas City, Missouri. 64106.

Gentlemen:

With reference to your request submitted through the Federal Reserve Bank of Kansas City, the Board of Governors, acting under the provisions of Section 19 of the Federal Reserve Act, grants permission to the Civic Plaza National Bank to maintain the same reserves against deposits as are required to be maintained by nonreserve city banks, effective with the first biweekly reserve computation period beginning after the date of this letter.

Your attention is called to the fact that such permission is subject to revocation by the Board of Governors.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.
Dear Sir:

Quoted below is the text of a letter received from President Ellis of the Federal Reserve Bank of Boston regarding the measures that the Bank proposes to take in complying with the Board's request (S-1970; F.R.L.S. #3352) to be kept informed as to apparently false or misleading advertising by member banks.

"This relates to S-1970, dated October 13, 1965, which states the Board's view that false or misleading advertising by member banks of the System constitutes an unsafe and unsound practice and is a proper subject of concern to the Board and to the Federal Reserve Banks from a bank supervisory standpoint. The purpose of this letter is to inform the Board of the measures that this bank proposes to use in complying with the Board's request that it keep itself informed with respect to any apparently false or misleading newspaper or other advertising by member banks in this district.

"The responsibility for the information gathering and reporting program in this regard will be lodged in the bank examination department of this bank. That department has continuing relations with the member banks, as does the bank relations department, and those two departments, together with the public information department, will maintain a surveillance of advertising media used by the member banks in the district. It would not seem feasible to expect a Federal Reserve Bank to be aware of each piece of newspaper advertising used by member banks in its district, which would be only one of several methods of advertising that might be used. Radio and television advertising would be more difficult to monitor, and yet more elusive would be the advertising material enclosed by banks when mailing out customers' statements. In short, it seems highly unlikely that a Reserve Bank would ever be in a position of knowing that it had surveyed any more than a portion of advertising carried on by the banks in its district."
"It also seems clear that reasonable men may differ concerning the alleged falsity or the misleading elements in any particular advertisement. Final decisions in disputed cases would seem to be judicial in nature and, for this reason, the legal department of the bank will be called upon to render an opinion in disputed cases. Such tasks of interpretation are not made any easier when one notes that the Congress, in recent sessions, has inconclusively grappled with truth in lending and truth in packaging proposals. We would also note that, at the present time, the Massachusetts House of Representatives is debating bill No. 4330, called "An Act Regulating Certain Installment Sales," which has as a central purpose the objective of specifying how interest charges will be stated in certain sales contracts. Pending further developments that might affect industry practices with respect to how interest charges may be advertised, we have no present intention of challenging the widespread installment lending practice of quoting interest charges without including the actual interest rate. With that exception, notwithstanding such potential problems of interpretation, it is this bank's intention of discussing questionable advertising with the state member bank concerned with a view of eliminating the misleading elements or falsity contained in such advertising. We will of course, as requested, report all such instances including national banks to the Board of Governors.

"We do not propose to make a general circularization among our member banks of the substance of S-1970 or of the measures that will be undertaken to implement that letter.

"The foregoing represents the manner in which this bank proposes to comply with the Board's request that it keep itself informed with respect to an apparently false or misleading advertising by member banks in this district. It would be appreciated if the Board would advise us if such measures appear to be adequate for the purpose of S-1970."

In responding to Mr. Ellis, the Board stated that the measures described in his letter would be in accord with the intent of the Board's letter and would fully serve to implement the Board's request.

Very truly yours,

Merritt Sherman,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.
Salary proposals for Reserve Bank officers for the calendar year 1966 include payments to 10 new officers and 19 officers whose titles are being changed. The Banks have indicated that they would appreciate early advice of Board approval of salary payments to these officers so that public announcements may be made as soon as possible.

<table>
<thead>
<tr>
<th>Bank</th>
<th>Officer</th>
<th>Title</th>
<th>Annual Salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Philadelphia</td>
<td>G. William Metz</td>
<td>Vice President and General Auditor</td>
<td>$20,000</td>
</tr>
<tr>
<td>Cleveland</td>
<td>Paul Breidenbach</td>
<td>Vice President and General Counsel</td>
<td>17,500</td>
</tr>
<tr>
<td>Richmond</td>
<td>C. B. Beavers</td>
<td>Asst. Vice President</td>
<td>15,000</td>
</tr>
<tr>
<td>Atlanta</td>
<td>Edgar M. Vallette</td>
<td>Vice President</td>
<td>16,000</td>
</tr>
<tr>
<td></td>
<td>Duane Hoover</td>
<td>Asst. Vice President</td>
<td>14,500</td>
</tr>
<tr>
<td></td>
<td>C. E. Bierbauer</td>
<td>Cashier</td>
<td>20,000</td>
</tr>
<tr>
<td></td>
<td>W. O. Hume</td>
<td>Asst. Vice President</td>
<td>15,000</td>
</tr>
<tr>
<td></td>
<td>W. J. Larson</td>
<td>Asst. General Counsel and Asst. Secretary</td>
<td>18,500</td>
</tr>
<tr>
<td>St. Louis</td>
<td>Rudolph W. Dybeck*</td>
<td>Vice President and Manager (Memphis)</td>
<td>18,000</td>
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<tr>
<td></td>
<td>John W. Menges</td>
<td>Cashier (Louisville)</td>
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<tr>
<td></td>
<td>James E. Conrad*</td>
<td>Vice President</td>
<td>16,500</td>
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<tr>
<td>Minneapolis</td>
<td>F. J. Cramer</td>
<td>Cashier</td>
<td>17,000</td>
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<tr>
<td></td>
<td>J. A. MacDonald</td>
<td>General Counsel and Asst. Secretary</td>
<td>15,000</td>
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<td></td>
<td>R. D. Graham</td>
<td>Asst. Vice President</td>
<td>14,500</td>
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<td>Kansas City</td>
<td>W. A. O'Brien</td>
<td>Assistant Cashier</td>
<td>11,000</td>
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<tr>
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<td>James D. Hamilton*</td>
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<td>Grady R. Hopper*</td>
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<tr>
<td></td>
<td>Emmett A. Thaxton</td>
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<td>E. W. Vorlop, Jr.</td>
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<td>T. J. Salvaggio</td>
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<td>Sydney J. Alexander*</td>
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<td>Robert A. Brown*</td>
<td>Assistant Counsel</td>
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<td>George C. Cochran, III*</td>
<td>Assistant Cashier</td>
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<td>Richard D. Ingram*</td>
<td>Assistant Cashier</td>
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<tr>
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<td>Harry E. Robinson*</td>
<td>Assistant Cashier</td>
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</tr>
<tr>
<td></td>
<td>Jesse D. Sanders*</td>
<td>Vice Pres. &amp; Cashier</td>
<td>18,000</td>
</tr>
<tr>
<td>San Francisco</td>
<td>E. J. Martens</td>
<td>Asst. Vice President</td>
<td>19,000</td>
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<tr>
<td></td>
<td>W. F. Scott</td>
<td>General Counsel</td>
<td></td>
</tr>
<tr>
<td></td>
<td>J. R. Robinson</td>
<td>Asst. Vice President (Los Angeles)</td>
<td>15,500</td>
</tr>
</tbody>
</table>

* New appointees
To: Board of Governors

Recommendation

Approval.

Comments

If approved, this Division would advise the Banks concerned of Board action by telephone. Formal approval would be included in the letter to the Banks approving salary payments to all officers.

[Signature]

[Handwritten note]
In the attached letter dated November 30, 1965, the Federal Reserve Bank of Minneapolis reports the following additional changes in its official staff effective January 1, 1966:

William C. Bronner - from Assistant Vice President, Group C at $14,000, to Vice President, Group B at $15,500.

Robert W. Worcester - from Assistant Cashier, Group D at $12,500, to Assistant Vice President, Group C at $14,500.

Richard C. Heiber - from Department Head of Personnel and Alternate Assistant Federal Reserve Agent, Grade 14 at $11,200, to Assistant Cashier, Group D at $12,500.

Board approval is requested for the payment of salaries as stated. All proposed salaries are within the limits of the salary groups in which the positions are assigned.

Recommendation

Approval.

Comments

These additional changes are occasioned by the unexpected retirement of Mr. Melvin B. Holmgren, Vice President in charge of Fiscal Agency activities.

If approved, this Division would notify the Bank by telephone of the Board action. Formal advice would be included in the letter approving salaries of all officials of the Federal Reserve Bank of Minneapolis, effective January 1, 1966.

Comment regarding new appointee

Mr. Heiber (44) has supplemented his high school education with AIB courses, extension courses at the University of Minnesota, and at the Central School of Banking from which he graduated in 1962. Mr. Heiber's Reserve Bank service began in 1940 as a messenger in the Mail Department. His work experience includes service in the Mail, Transit, Collection, Currency, and Personnel Functions. As previously indicated, Mr. Heiber is presently the Department Head and Alternate Assistant Federal Reserve Agent.
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 November 30, 1965, the Board approves the appointment of Donald E. Schmid as an assistant examiner for the Federal Reserve Bank of New York. Please advise the effective date of the appointment.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
Mr. Leland M. Ross, Vice President,
Federal Reserve Bank of Chicago,
Chicago, Illinois. 60690

Dear Mr. Ross:

In accordance with the request contained in your letter of November 29, 1965, the Board approves the appointment of Miss Jacqueline E. Stasiak as an assistant examiner for the Federal Reserve Bank of Chicago. Please advise the effective date of the appointment.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.