FR 609

Minutes for December 10, 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 WM

Gov. Robertson R

Gov. Balderston

Gov. Shepardson COS

Gov. Mitchell M

Gov. Daane

Gov. Maisel SJM

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

PRESENT: Mr. Balderston, Vice Chairman 1/
Mr. Robertson
Mr. Shepardson
Mr. Mitchell
Mr. Daane
Mr. Maisel

Mr. Sherman, Secretary
Mr. Kenyon, 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. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Brill, Director, Division of Research and Statistics
Mr. Hexter, Associate General Counsel
Mr. Hooff, Assistant General Counsel
Mr. Partee, Associate Director, Division of Research and Statistics
Mr. Axilrod, Associate Adviser, Division of Research and Statistics
Miss Eaton, General Assistant, Office of the Secretary
Mr. Forrestal, Senior Attorney, Legal Division
Mr. Furth, Consultant

Messrs. Bernard, Eckert, Ettin, and Keir of the Division of Research and Statistics

Messrs. Baker and Gemmill of the Division of International Finance

Money market review. Mr. Bernard commented on the Government securities market, Mr. Eckert reviewed bank credit developments, and

1/ Withdrew at point indicated in minutes.

Mr. Baker summarized foreign exchange market developments. Distributed materials included tables affording perspective on the money and capital markets and on bank reserve utilization, along with a table on recent interest rate developments.

Messrs. Axilrod, Bernard, Ettin, Baker, and Gemmill then withdrew, as did Miss Eaton.

Time and savings deposits. Attention was directed to the following distributed memoranda:

> Memorandum from Messrs. Brill and Eckert dated December 9, 1965, presenting data concerning the competitive position of banks vis-a-vis other savings institutions. The memorandum presented several arguments for and against limiting the issuance by banks of savings "bonds" and "certificates."
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> Memorandum from the Legal Division (Mr. Hackley) dated December 9, 1965, presenting possible alternative measures the Board might take to prevent avoidance of the 4 per cent maximum rate on savings deposits by a shift into instruments that met the regulatory definition of a time deposit. The alternatives discussed were (1) to establish different ceiling rates for certificates of deposit according to amounts; (2) to define time deposits to exclude deposits below a specified amount; (3) to establish different ceiling rates according to whether a deposit had a single maturity or multiple maturities; (4) to redefine time deposits to exclude deposits with multiple maturities. The Legal Division believed that the fourth alternative would be the most understandable, and it would avoid the need for any change in the Board's recent rate ceiling action. However, it might not provide a complete solution of the problem because it would be possible for a bank and a depositor to set up a routine arrangement under which the latter would request the bank at the time of each maturity of a deposit to renew the deposit for another similar period.

In summarizing the data developed in the Brill-Eckert memorandum, Mr. Brill said there did not seem to be any economic need for giving banks greater latitude to compete for the savings of individuals. On the other hand, there seemed to be no economic reason to hamper banks from obtaining more savings through use of the savings "bond" or "certificate." Much could be said for giving the banks freedom to pay the same rates to small savers as to corporations and wealthy individuals. There was latitude on the part of competitors, to the extent that it seemed to them prudent, to meet bank competition.

Governor Balderston called particular attention to the final paragraph of the Brill-Eckert memorandum, in which it was pointed out that flexibility existed among banks' competitors to meet the situation if they found it desirable and prudent to do so. Rates on U.S. Savings Bonds had been raised in the past; a new bond with a "catchy" title and a higher rate might be successful in attracting additional funds. And the savings and loan regulatory agency apparently had authority to permit savings and loan associations to issue instruments with terms competitive to those available on savings instruments offered by banks. If the inflationary threat was real, all instruments of Government policy should be marshalled to encourage saving rather than to preserve competitive positions.

Governor Balderston then turned to Mr. Hackley and inquired whether, of the possible alternative measures presented by the Legal Division, the fourth alternative was considered preferable.

Mr. Hackley replied that he was not sure; the third alternative also had certain advantages. After comparing the third and fourth alternatives in more detail, he observed that either of them could give rise to evasive techniques. Asked whether he felt that the fourth alternative would be enforceable, Mr. Hackley pointed out that the banks could set up arrangements with depositors whereby the latter would be supplied with post cards to be sent in if they wanted deposits renewed. He was not sure how well the fourth alternative could be enforced.

There followed a general review of available evidence on the degree of aggressiveness with which banks appeared to be offering time certificates in smaller denominations, and the discussion then touched upon the first alternative cited in Mr. Hackley's memorandum, which was to establish different ceiling rates according to amounts of certificates of deposit. This alternative reflected a suggestion by staff of the Home Loan Bank Board that the Board of Governors might prescribe a maximum rate of less than 5-1/2 per cent for certificates of less than a specified amount, such as $5,000 or $10,000. Mr. Hackley said the Legal Division had serious doubt whether it was within the Board's statutory power to fix different maximum rates according to amounts of deposits. Even the second alternative discussed in his memorandum might be subject to some question from the standpoint of statutory authority.

An observation was made that while some banks undoubtedly were trying to attract fairly substantial blocks of money from individuals, in certain sections of the country the certificate of deposit had been the traditional method of saving, even in small amounts. A $5,000 or $10,000 minimum therefore might cause some disruption of traditional trade practices.

Governor Balderston then suggested that the discussion might be divided into two parts: first, what could be done, if the Board at some point considered it prudent to take action; second, the policy considerations involved in taking any action.

Governor Maisel suggested taking up the second question first, and Governor Mitchell commented that he did not think the Board should do anything. Governor Daane said he had reached the same conclusion, based on study of the two December 9 memoranda. The Brill-Eckert memorandum seemed to present a fairly compelling case for a hands-off attitude, and the Hackley memorandum led him to believe that the Board would be faced with all kinds of administrative problems.

Governor Robertson commented that the matter of permitting an easy means of circumventing the rate ceiling on savings deposits merely by calling such deposits something else was an important one. He saw considerable merit in Mr. Hackley's fourth alternative. While he was not satisfied that it was necessarily the best solution, an over-all conclusion should not be reached on the basis of short study. The problem should be explored fully to see what could be done and whether the Board should take action. He was far from reaching a conclusion that the Board should simply do nothing.

Governor Shepardson questioned whether the proposals thus far presented offered a solution that would be workable over time. He recalled having objected on various occasions to taking actions that were unenforceable. It would be unfortunate to make a move, however meritorious the objective, that could not be enforced effectively. A majority of the banks probably would follow the Board's ruling at the beginning, but there were always some banks that would find loopholes, and this would create inequities. As to the general economic question, he was not sure there was good evidence that the small banks were going to be seriously injured, and this appeared to be one of the arguments for taking action. If the Board could find a type of action that would be effective, he would be willing to consider it. Otherwise, it would seem best to do nothing.

Governor Maisel said that on economic grounds he would not even bother looking into the effectiveness of possible alternative actions. If it became necessary to make a move, he would prefer to raise the ceiling rate on savings deposits.

Governor Balderston inquired about the position of Chairman Randall of the Federal Deposit Insurance Corporation, and Governor Daane said he appeared to be concerned that the large banks would begin to weed out their poorer credits, with the result that these credits would trickle down to the smaller banks, thus increasing their risk exposure.

In further discussion of this point, the thought was expressed that essentially a problem of bank supervision appeared to be involved.

Mr. Brill noted that his memorandum had been addressed primarily to the matter of banks competing with other savings institutions. He raised the question whether a hazard would not exist if money was allowed to flow freely into the savings and loans to finance an industry where the demand had not been particularly strong.

Governor Maisel commented that the argument of the savings and loan industry was premised on interest paid being a cost of doing business. When there was a lesser supply of funds, the savings and loans had to go out and reach a different type of demand, thus creating concern about a deterioration of their assets in order to offset the higher cost of doing business.

Governor Balderston said Chairman Horne of the Home Loan Bank Board pressed the point that his Board had been trying to encourage restraint by fixing price limits, and that unless the Board of Governors changed what it had done the banks would sell so many small-denomination certificates as to evade the 4 per cent limit on passbook savings and thereby put the savings and loans in jeopardy. The Home Loan Bank Board then would have to reverse what it had thought was sound policy; and it would have to raise money in the market to bolster the savings and loans if they got into trouble.

Following further discussion along these lines, Governor Robertson said he saw little, if anything, to justify the position that a mere switching of the form of instruments warranted a differential in rates paid to savers by banks. He felt that the fourth alternative mentioned in Mr. Hackley's memorandum was legal and that it might be a good step to take, but he was not entirely satisfied that the Board had come up with the best solution on such short consideration.

After additional discussion of the fourth alternative, Governors Daane and Maisel reiterated that they would not want to take any action at this juncture. Governor Mitchell commented that the ultimate goal presumably was to remove the interest rate ceilings entirely. Still, he felt that the Board probably should ask the staff to consider the possibilities further.

Accordingly, it was understood that the staff would give further consideration to the matter.

Governor Balderston withdrew from the meeting at this point along with Messrs. Young and Furth. Mr. Farrell, Director, Division of Bank Operations, entered the room, along with Messrs. Daniels, Assistant Director of that Division; Smith, Assistant Director, Division of Examinations; and Sprecher, Assistant Director, Division of Personnel Administration.

Distributed items. The following items were approved unanimously:

Letter to the Presidents of all Federal Reserve Banks (copy attached as Item No. 1) regarding plans for automating the L.5.3 and L.5.4 reports, relating to borrowings from Reserve Banks.

Request of the Federal Reserve Bank of Boston for approval of payment of salary to Assistant Vice President Tangney at the rate of $17,500 effective January 1, 1966. (Indication of approval contained in letter to Boston Bank dated December 10, 1965; copy attached to minutes of December 9.)

Communications and Records Center (Item No. 2). Pursuant to the understanding at yesterday's meeting, there had been distributed under today's date a revised draft of letter to the Federal Reserve Bank of Richmond relating to plans and specifications for a structure proposed to be erected at Culpeper, Virginia. This installation, which would be shared by personnel of the Board and the Richmond Bank as an emergency facility, also would be operated on a continuing basis as a communications and records center.

The revised draft letter indicated that before authorizing the Richmond Bank to proceed with final plans and specifications the Board would like to have further consideration given to the desirability of eliminating or modifying the window areas to provide added security and protection, the desirability of extending the mezzanine floor, and the desirability of providing structural supports and additional ceiling height that would permit covering over the open spaces on the mezzanine floor in the future.

Mr. Farrell commented that the situation involved pitting the judgment of the Division of Bank Operations and the Board's Consulting Architect against that of the architectural firm engaged by the Reserve Bank in respect to certain aspects of the preliminary plans and specifications. If a letter simply requesting further study was sent to the Richmond Bank, the results might be inconclusive, so it seemed that there was need for additional guidance from the Board.

Governor Shepardson pointed out that at the meeting at which the preliminary plans were presented to the Board, four questions had been raised. These related to (1) provision for a continuous row of glass windows in the general office area and the computer room space; (2) provision for cast stone and granite facing on the exterior underneath and between the windows; (3) provision for a solid masonry wall separating the office areas tentatively allocated to the Board of Governors and to the Richmond Bank; and (4) extension of the mezzanine floor. Based on the discussion yesterday, it appeared that the Board was inclined to accept the proposal for the exterior facing, and this could be stated in the letter. Two of the other matters (the windows and the mezzanine floor) were touched upon in the draft letter, but without recommendation, and the matter of the masonry wall was not mentioned. As to the extension of the mezzanine floor, if the Board wanted that done the architect should also be asked to consider what additional service facilities would be necessary incident to increased dormitory capacity. In essence, it seemed best for the Board to take a rather clear-cut stand at this stage since the proposal had been under study for months.

Governor Mitchell said he was satisfied with the recommendation for the facing of the exterior, but he felt that the architect should be asked to restudy two features; namely, the treatment of the window area and the question of emergency housing for dependents. Finally, he thought it was generally agreed that the allocation of space for the Board's staff was unsatisfactory.

Governor Daane said that he would be willing to go along with the architect's treatment of the window area if additional security could be worked out at reasonable cost. As to the mezzanine, he was rather attracted to the idea of providing structural supports to permit covering over open spaces on the mezzanine floor in the future.

Governor Maisel indicated that he agreed generally with the views that had been stated, including the alternative of providing structural supports for the mezzanine floor.

After further discussion of the problems involved in blending the needs envisaged for emergency facilities and alternatively for continuing operations, Governor Robertson outlined the type of letter that would seem appropriate for transmittal to the Richmond Bank in light of the views expressed at today's meeting, and it was understood that such a letter would be sent. Attached as Item No. 2 is a copy of the letter sent to the Richmond Bank pursuant to this understanding.

Appointment of Deputy Chairman at Dallas. The Board appointed Max Levine, Chairman of the Board of Foley's, Houston, Texas, as Deputy Chairman of the Federal Reserve Bank of Dallas for the year 1966.

The meeting then adjourned.

Secretary's Notes: Governor Shepardson today approved on behalf of the Board the following items:

Memorandum from the Office of the Controller dated December 9, 1965, recommending approval of specified overexpenditures in various accounts of the 1965 budgets for certain divisions and offices of the Board's staff, these representing overexpenditures incurred during 1965 that had not had prior approval by the Board; and requesting approval of any other overexpenditures in the "Salaries" account that might be occasioned because of the general pay increase.

Memorandum from the Division of Administrative Services recommending rescission of the resignation of James H. Lowden, Messenger in that Division, whose resignation had previously been accepted effective the close of business December 10, 1965.

Governor Shepardson today noted on behalf of the Board memoranda advising that applications for retirement had been filed by the following persons on the Board's staff, effective the dates indicated:

Division of Research and Statistics	Effective date
Alvern H. Sutherland, Chief Librarian	December 31, 1965
Division of Administrative Services	
Nelson Dyson, Photographer (Offset)	December 31, 1965
Catherine L. Schmidt, Secretary	December 21, 1965
Karl J. Steger, Steamfitter-Operating Engineer	December 31, 1965

Secretary

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

Item No. 1
12/10/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 10, 1965.

Dear Sir:

As you know, System personnel are now intensively engaged in a fundamental reappraisal of the Federal Reserve discount mechanism. The Board is also undertaking a more detailed and continuing review of on-going discount operations as indicated in the Board's letter of June 29, 1965, initiating new quarterly reports in this area.

As a part of both these programs and the current program for automating as many regular statistical series as feasible, plans have now been completed for the automating of the L.5.3.and L.5.4 reports, "Borrowings from Reserve Banks." This change will need the cooperation of the Reserve Banks as indicated in the enclosed technical memorandum outlining the necessary procedures. Current reporting of these data should eventually reduce somewhat the work at the Reserve Banks since a number of computational and total items have been eliminated.

The projects cited at the outset of this letter also create a need for centralized individual bank borrowings data in machine language form back to the first reserve period in 1960, and the Board is asking your Bank to prepare such data. It is recognized that the keypunching of these retrospective records will constitute a major data processing task that may need to be fitted in with other demands on resources in the months ahead, but present planning contemplates that the reporting of current borrowings data in the new format will commence with the week ending January 12, 1966. It is hoped that back data might be prepared and forwarded to arrive by March 31. If the latter date will put your Bank under too much pressure, please let us know.

Subsequent correspondence relating to any technical questions on the enclosed material may be directed to the Board's Division of Data Processing. In this connection, please furnish the name of the representative of your Bank to whom future correspondence regarding operating procedures on this series should be addressed.

Very truly yours,

Merritt Sherman,
Secretary.

Enclosure.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

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

Item No. 2
12/10/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 10, 1965.

Mr. Edward A. Wayne, President,
Federal Reserve Bank of Richmond,
Richmond, Virginia. 23213.

Dear Mr. Wayne:

This refers (a) to Mr. Heflin's letter of October 22, 1965, submitting preliminary plans and specifications for the proposed Federal Reserve Communications and Records Center, and requesting that your Bank be authorized to proceed with the preparation of detailed plans and specifications; and (b) to the oral presentation of the plans that was made to members of the Board of Governors on November 24 by Messrs. Dickerson and Strange-Boston.

As was indicated at the time of the oral presentation, the Board favors in general the structure as proposed and believes that its size is adequate for the needs as now known. However, the Board believes it would be desirable at this time to consider the possibilities for providing extra space to permit greater use of the building during peace time or under attack conditions. Since this would mean utilization of the building by a greater number of people--ranging from 50 to perhaps 150 more than now contemplated--consideration should also be given to the need for additional sanitation and other such facilities. In this light the Board would like to have the written views of the Bank's architect with respect to the advantages and disadvantages and the cost of--

(1) Providing structural supports and additional ceiling height which would permit covering over the open spaces on the mezzanine floor in the future.

(2) Extending the mezzanine floor across the open spaces above the second floor during the original construction so as immediately to provide uniform ceilings and privacy for all office areas and additional floor space for future use as needed.

Please include in these comments any views the architect may have as to the additional number of toilets and other facilities that would be needed. In addition it would like to have an estimate of the amount of costs to be saved if the additional space were to be added in the course of construction rather than later.

The Board is also concerned about the proposal to achieve adequate fallout protection by the temporary placement of concrete blocks behind the windows, and it would also like to have the architect's written views with respect to the advantages and disadvantages and costs of possible alternatives to provide added security and fallout protection in the window area.

During the oral presentation on November 24 questions were also raised as to whether (1) the additional cost of the proposed stone facing on the front of the building was a justifiable expense, and (2) the masonry wall running lengthwise through the main working area might hinder flexible space assignments. Upon further consideration of these matters, the Board concluded that the estimated additional cost of the stone facing is unobjectionable, and that satisfactory space arrangements can be worked out between the management of your Bank and a representative of the Board even if the masonry wall is retained.

The Board would like to have the additional information requested in this letter as soon as possible and will give immediate attention to it.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.