

Minutes for January 5, 1966.

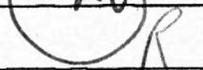
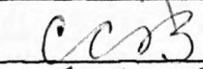
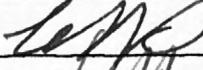
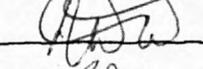
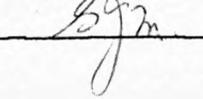
To: Members of the Board

From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

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

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

Minutes of the Board of Governors of the Federal Reserve System  
on Wednesday, January 5, 1966. The Board met in the Board Room at  
10:00 a.m.

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

Mr. 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. 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. Johnson, Director, Division of Personnel  
Administration  
Mr. Hexter, Associate General Counsel  
Mr. O'Connell, Assistant General Counsel  
Mr. Hooff, Assistant General Counsel  
Mr. Koch, Deputy Director, Division of Research  
and Statistics  
Mr. Partee, Associate Director, Division of  
Research and Statistics  
Mr. Leavitt, Assistant Director, Division of  
Examinations  
Miss Eaton, General Assistant, Office of the  
Secretary  
Messrs. Forrestal and Sanders, Senior Attorneys,  
Legal Division  
Mr. Eckert, Chief, Banking Section, Division of  
Research and Statistics

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

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Item No.

Letter to the Federal Deposit Insurance Corporation regarding the application of Farmers State Bank of Illiopolis, Illiopolis, Illinois, for continuation of deposit insurance after withdrawal from membership in the Federal Reserve System.

1

Telegram to the Presidents of all Federal Reserve Banks and Vice Presidents in charge of branches regarding rebagging of quarters.

2

Transit strike in New York City. Mr. Holland reported on difficulties being experienced in functioning transactions in the Government securities market due to the transit strike in New York City, and there ensued a discussion of several possible measures that might be considered for dealing with the problem if it should become more aggravated. It was understood that the staff would continue to study the possible alternatives.

Matters relating to Regulations Q and D (Item No. 3). Governor Balderston reported on the meeting of the Interagency Coordinating Committee he had attended yesterday afternoon, with representatives present from the Treasury, the Federal Deposit Insurance Corporation, the Comptroller's Office, and the Home Loan Bank Board.

During his report Governor Balderston related that there had been some discussion at the meeting of the problem created by the Iowa law prohibiting State banks from paying more than 4 per cent on time and savings deposits but providing that funds on which a higher rate was paid must be reported as borrowed money. The Federal Deposit Insurance

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Corporation had taken the position that no bank in Iowa should advertise deposit insurance on funds on which a higher rate was paid "until further announcement is made by the FDIC Board of Directors." The Comptroller of the Currency had ruled that national banks in Iowa could pay more than 4 per cent on time deposits and need not report such deposits as borrowed money. Governor Balderston said that the discussion at yesterday's meeting had not resolved the problem.

In this connection there had been distributed to the Board a memorandum from Mr. Hackley dated January 5, 1966, concerning a request by the Iowa State Banking Department, through the Chicago Reserve Bank, for an opinion as to whether national banks in Iowa must report as "borrowed money" deposits on which they paid more than 4 per cent interest. The attached draft of proposed reply took the position that the manner in which such funds were reported by national banks was a matter primarily for determination by the Comptroller of the Currency. The draft also took the position that if such funds fell within the definitions of time and savings deposits contained in Regulation D, Reserves of Member Banks, and Regulation Q, Payment of Interest on Deposits, they would constitute deposits for purposes of reserves and payment of interest even though they must be reported by State banks as borrowed money. The Legal Division believed this position was clearly correct; otherwise State laws could effectively nullify requirements of Federal law.

The draft reply was discussed by the Board at some length, with various suggestions being made for possible changes in the draft. The

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desirability was noted of sending a reply fairly quickly. However, it was concluded that the Board's legal staff should first consult further with the staff of the Federal Deposit Insurance Corporation.

Secretary's Note: It was subsequently ascertained that Chairman Randall would have no objection to the Board's sending a reply to the Federal Reserve Bank of Chicago essentially along the lines of the draft that had been considered at this meeting. Attached as Item No. 3 is a copy of the letter thereafter sent to the Reserve Bank.

Governor Balderston also commented in some detail on the discussion at yesterday's meeting with respect to the proposed publication in the Federal Register of a notice of proposed rule making regarding amendments to Regulations Q and D that would have the effect of bringing within their purview, as deposits, promissory notes issued by member banks.

Governor Balderston reported that Treasury representatives at yesterday's meeting had called attention particularly to the indication in the notice of proposed rule making that if a member bank and an industrial corporation entered into an agreement under which the bank "sold" securities to the corporation and was obligated to "repurchase" them on a given date for a specified amount, the member bank would be indebted to the corporation for the "funds received" and the indebtedness would constitute a deposit. The Treasury representatives joined the Open Market Trading Desk in expressing concern about the effect of the proposed amendment on dealer financing in the Government securities

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market. (Similar questions had been raised in a letter to the Board from the Federal Reserve Bank of New York dated December 31, 1965, copies of which were distributed to the members of the Board subsequent to this meeting.)

At Governor Balderston's request, Mr. Holland presented estimates of the volume of bank liabilities, including liabilities not only in the form of promissory notes but repurchase agreements and other short-term instruments, that would be thrown into the category of deposits if the proposed amendment were adopted.

Governor Balderston then commented on objections that had been raised by the Comptroller of the Currency at yesterday's meeting concerning the proposed amendment, with indication by the Comptroller that if it were published in the Federal Register he would issue a pronouncement to national banks and that if the amendment were challenged in court by national banks he would propose to join with them. However, Governor Balderston continued, it was indicated that the legal staff of the Federal Deposit Insurance Corporation agreed with the legal staff of the Federal Reserve. After the meeting Chairman Randall had indicated that he would ask his staff to continue to collaborate with the Board's staff looking toward the possibility that at an appropriate time the Corporation would issue a regulation similar to the Federal Reserve proposal. The favorable reaction of the Chairman of the Home Loan Bank Board had been expressed in a letter to Governor Balderston dated December 30, 1965, copies of which were distributed to the other members

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of the Board. In this letter Chairman Horne stated, however, that he was more concerned about the issuance of certificates of deposit by banks in smaller denominations and "either for short maturities with automatic renewal provisions or for longer maturities coupled with alternate withdrawal privileges."

Governor Balderston said he had left the meeting yesterday afternoon with three principal conclusions: First, Chairman Horne had kept down the protests of the savings and loan industry by indicating that the Federal Reserve was working actively to find a solution that would be helpful in protecting savings and loan associations against undue competition by banks for savings funds. Second, Under Secretary of the Treasury Deming was concerned about the possible repercussions in the money market of publication in the Federal Register of the proposed amendment relating to promissory notes. Third, when this proposed amendment was published in the Federal Register, the Board should make sure that the wording was tight enough that a sound legal defense could be presented.

In the discussion that followed Governor Balderston's remarks, Chairman Martin asked Mr. Hackley for the latter's view on the legal soundness of the proposed amendment. Mr. Hackley cited the provisions of the law on which the proposed amendment would be based and said he did not think any member of the legal staff had reservations regarding the legal authority of the Board to adopt such an amendment.

During his remarks Governor Balderston had indicated that the Comptroller had said that he foresaw 15 or 20 problems with respect to

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the proposed amendment. In response to a question, Governor Balderston said the Comptroller had not appeared disposed to indicate the nature of those problems. A suggestion was made, however, that some attempt might be made to obtain a description of the problems in order that they might be studied. (Subsequent to this meeting Governor Balderston sent a letter to the Comptroller stating that it would be helpful if the Comptroller would indicate the nature of the problems so that account might be taken of them.)

There followed a general discussion of the question that had been raised about the proposed amendment in terms of the effect on dealer financing in the Government securities market, and two points of view were expressed. One favored publication of the proposed amendment in its present form with the thought that comments and suggestions from all interested parties could then be considered and evaluated. The other point of view was that it would be inadvisable to publish the proposed amendment, even for comments, in view of the psychological impact that this might create and the possibility of resultant money market disturbances. At the conclusion of the discussion it was agreed to defer a decision on the publication of the proposed amendment for the time being in order that the subject might be considered further by members of the Board.

All members of the staff except Messrs. Sherman, Kenyon, and Johnson then withdrew from the meeting.

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Service of Presidents and First Vice Presidents (Item No. 4).

Reference was made to the discussion at the meeting on December 1, 1965, concerning the position that should be expressed by the Board regarding the appointment or reappointment of a Reserve Bank President or First Vice President who would reach age 65 prior to the expiration of the statutory five-year term of office. Pursuant to the understanding at that meeting there had been prepared a draft of letter to the Chairmen of all Federal Reserve Banks on the subject; copies were distributed at this time. The position taken in the draft was that when an appointment or reappointment was under consideration there should be an understanding that the proposed appointee would retire not more than 90 days after reaching age 65; and that if unusual circumstances should arise later, causing the Board of Directors of a Bank to wish to retain a President or First Vice President beyond age 65, the advance approval of the Board of Governors should be obtained.

After a discussion during which certain clarifying changes in the draft were suggested, unanimous approval was given to a letter to the Chairmen of all Federal Reserve Banks in the form attached as Item No. 4, with copies to the Presidents.

The meeting then adjourned.

Secretary's Notes: Letters were sent today to First National City Bank, New York, New York, acknowledging receipt of notice of its intent to establish an additional branch in India, to be located in Bombay, and an additional branch in Pakistan, to be located in

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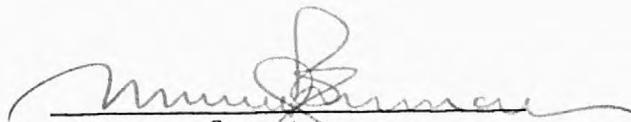
Lahore. Both letters contained the following paragraph: "As you are aware, with respect to the establishment of foreign branches, funds provided by home office (whether in the form of allocated capital, advances, or otherwise) should be regarded as foreign assets for purposes of the voluntary foreign credit restraint effort."

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

Letter to the Department of Justice (attached Item No. 5) in regard to the matter of United States v. Wegematic Corp.

Letter to the Federal Reserve Bank of Chicago (attached Item No. 6) approving the appointment of Thomas J. Brannan as assistant examiner.

Memorandum from the Division of Administrative Services recommending the appointment of Michael W. Estes as Electrician-Operating Engineer in that Division, with basic annual salary at the rate of \$6,718, effective the date of entrance upon duty.

  
Secretary

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 1  
1/5/66

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

January 5, 1966.



The Honorable K. A. Randall, Chairman,  
Federal Deposit Insurance Corporation,  
Washington, D. C. 20429

Dear Mr. Randall:

Reference is made to your letter of December 20, 1965, concerning the application of Farmers State Bank of Illiopolis, Illiopolis, Illinois, for continuance of deposit insurance after withdrawal from membership in the Federal Reserve System.

There have been no corrective programs urged upon the bank, or agreed to by it, which have not been fully consummated, and there are no such programs that the Board would advise be incorporated as conditions of admitting the bank to membership in the Corporation as a nonmember of the Federal Reserve System.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.

TELEGRAM  
LEASED WIRE SERVICEItem No. 2  
1/5/66BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTON

January 5, 1966

TO THE PRESIDENTS OF ALL  
FEDERAL RESERVE BANKS AND  
VICE PRESIDENTS IN CHARGE  
OF BRANCHES:

Referring Board's August 16, 1965, letter  
(F.R.L.S. #3049) concerning procedures to alleviate  
coin shortage, Board has concluded, with concurrence  
of Mint, that rebagging of quarters may be discontinued.

(Signed) Merritt Sherman

SHERMAN

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

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Item No. 3  
1/5/66

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

January 5, 1966.



Mr. Paul C. Hodge, Vice President,  
General Counsel, and Secretary,  
Federal Reserve Bank of Chicago,  
Chicago, Illinois. 60690

Dear Mr. Hodge:

This is in response to your letter of January 3, 1966, with enclosures, regarding the request of the Department of Banking of the State of Iowa for an opinion with respect to certain questions raised by Section 528.11 of the Iowa Code that provides that "Any savings accounts or time deposits bearing interest at a rate greater than four percent per annum shall be considered borrowed money and shall be so reported to the superintendent of banking".

The Board of Governors is expressly authorized by law (12 U.S.C. 461) to define the terms "time deposits" and "savings deposits" for purposes of provisions of section 19 of the Federal Reserve Act relating to reserves of member banks and payment of interest by member banks on time and savings deposits. Pursuant to that authority, the Board has defined the terms "time deposit" and "savings deposit" in its Regulation D, relating to reserve requirements, and Regulation Q, relating to interest on deposits.

Moneys received by member banks in Iowa, both State and national, that are evidenced by time certificates of deposit or otherwise fall within the definitions of time or savings deposits contained in Regulations D and Q, must be treated as deposits for reserve purposes under Regulation D, and as subject to the limitations of Regulation Q relating to payment of interest on time and savings deposits and the payment of time deposits before maturity, notwithstanding the fact that, because of the rate of interest paid, they are required by State law to be reported by State banks to the State superintendent of banking as borrowed money.

You are authorized to transmit a copy of this letter to the Iowa Banking Department. You may also, in response to inquiries, advise member banks in Iowa of the views of the Board as herein expressed.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 4  
1/5/66

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

January 6, 1966.



Dear Sir:

At the recent meeting of the Conference of Chairmen, questions were raised informally with the Board regarding the appointment or reappointment of a Reserve Bank President or First Vice President who would reach age 65 prior to the expiration of the statutory five-year term.

The Board, in the past, has reviewed such appointments or reappointments as they occurred, taking into consideration the circumstances surrounding the particular case. However, the Board has taken the general position that officers and employees, other than Presidents and First Vice Presidents, should retire upon attainment of age 65 in the absence of exceptional circumstances which, in the judgment of the Board of Directors of the Bank, justify retention in service beyond that age.

The Board believes that this principle should be extended to Presidents and First Vice Presidents. Therefore, if an appointment for the statutory term is under consideration, there should be an understanding that the President or First Vice President will retire at age 65, or not more than 90 days following the date that age is attained, as permitted under the Rules and Regulations of the Retirement System. Should unusual circumstances arise later, causing the Board of Directors of a Reserve Bank to wish to retain the services of a President or First Vice President beyond age 65, the advance approval of the Board of Governors should be obtained.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

TO THE CHAIRMEN OF ALL FEDERAL RESERVE BANKS.



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

Item No. 5  
1/5/66

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ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

January 5, 1966.

Mr. Russell Chapin, Chief,  
General Claims Section,  
Civil Division,  
United States Department of Justice,  
Washington, D. C. 20530

Re: United States v. Wegematic Corp.

Dear Mr. Chapin:

This is in response to your letter of December 29, 1965, to the Board of Governors, requesting a "reasoned recommendation for or against" acceptance of an offer by the defendant to settle this matter for \$117,903, which you describe as equaling 50 per cent of the amount of the Government's judgment.

Whether it is appropriate to accept this offer of settlement depends principally, it is assumed, on the probabilities of a larger amount being collected in the event the offer is refused, the probable additional costs of collection by other means, and possible other effects, beneficial or detrimental, of acceptance or rejection of the instant offer. The Department of Justice has had these aspects of the matter under consideration for many months, whereas the Board of Governors has not studied the problems involved in collection of the judgment that has been obtained against Wegematic Corporation. In view of these circumstances, it appears that the Board of Governors is not in a position to furnish to your Department a "reasoned recommendation" as to acceptance or rejection of the proffered settlement.

As your records will show, by a letter dated December 13, 1962, from the Board, your Department was informed that the Board felt that the Wegematic matter "should be brought to a conclusion as promptly as possible, with due regard for the interest of the United States, and it would not disagree with any settlement that the Department of Justice may believe to be appropriate."

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 6  
1/5/66

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

January 5, 1966.

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 December 30, 1965, the Board approves the appointment of Thomas J. Brannan as an assistant examiner for the Federal Reserve Bank of Chicago. Please advise the effective date of the appointment.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.

