

Minutes for January 6, 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

RM

Gov. Robertson

CCRB

Gov. Balderston

SPD

Gov. Shepardson

MM

Gov. Mitchell

da

Gov. Daane

gm

Gov. Maisel

Minutes of the Board of Governors of the Federal Reserve System on Thursday, January 6, 1966. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Balderston, Vice Chairman
 Mr. Robertson
 Mr. Shepardson
 Mr. Mitchell
 Mr. Daane
 Mr. 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. Solomon, Director, Division of Examinations
 Mr. Kakalec, Controller
 Mr. Partee, Associate Director, Division of
 Research and Statistics
 Mr. Smith, Associate Adviser, Division of
 Research and Statistics
 Mr. Leavitt, Assistant Director, Division of
 Examinations
 Mr. Langham, Assistant Director, Division of
 Data Processing
 Mr. Osborne, Chief, Consumer Credit and Finances
 Section, Division of Research and Statistics
 Messrs. Egertson and Maguire, Supervisory Review
 Examiners, Division of Examinations

Report on competitive factors. After discussion, unanimous approval was given to the transmittal of a report to the Comptroller of the Currency regarding the competitive factors involved in the proposed consolidation of Third National Bank of Hampden County, Springfield,

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Massachusetts, and The Palmer National Bank, Palmer, Massachusetts. In the form in which the report was approved the conclusion read as follows:

Consummation of the proposed consolidation of Third National Bank of Hampden County, Springfield, and The Palmer National Bank, Palmer, would eliminate a fairly considerable amount of competition which exists between the two banks in the community of Wilbraham, which lies directly between Springfield and Palmer. In the Palmer-Wilbraham area, the competitive effect of the proposed transaction would be significantly adverse.

Bank examiners conference (Item No. 1). Unanimous approval was given to a letter to the Presidents of all Federal Reserve Banks (copy attached as Item No. 1) proposing that a conference of representatives of bank examination departments of the Federal Reserve Banks with members of the Board's staff be held in Washington on March 21 - 22, 1966. In this connection the Board also approved a dinner at a local hotel for Reserve Bank representatives and designated Board personnel, it being understood that a list of those invited to attend the dinner would be submitted at a later date for advance approval.

There followed a discussion during which Governor Shepardson outlined certain procedures being considered by the Division of Examinations for the purpose of helping to expedite and improve the quality of work done at the Federal Reserve Banks in submitting material relating to matters in the bank supervisory area such as bank merger and holding company applications. Other members of the Board concurred generally in the objective of the program described by Governor Shepardson.

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As to the nature of the steps that might be taken, several alternative approaches were suggested. One observation made was that it should be impressed upon the Vice Presidents in charge of examinations at the respective Reserve Banks that they had a continuing responsibility for improving the quality of work performance in the area under their supervision.

Study of quality of consumer instalment loans. There had been distributed a memorandum from the Division of Research and Statistics and the Division of Data Processing dated January 4, 1966, recommending that a contract be entered into with the Risk Evaluation Corporation, San Rafael, California, to perform certain operations, as described in the memorandum, in connection with the Board's continuing study of the quality of consumer instalment loans. It was understood that the work outlined in the memorandum would be performed at a cost of \$15,000 and that the cost would be charged to the All Other account in the budget of the Division of Data Processing. Since no specific provision had been made in the Division's budget for this work, approval of any resulting overexpenditure due to payments under the contract was requested.

After a general discussion, during which the staff responded to a number of questions by members of the Board concerning the objectives of the project and the nature of the services to be performed under the contract, unanimous approval was given to the execution of the recommended contract along with any resulting overexpenditure in the All Other account of the Division of Data Processing.

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Assessment to cover Board expenses. As recommended in a memorandum from the Office of the Controller dated January 5, 1966, an assessment of .00445 of the total paid-in capital and surplus of the Federal Reserve Banks as of December 31, 1965, was levied upon the Banks to cover estimated expenses of the Board of Governors for the first half of 1966. This assessment would produce \$4,903,400.

All members of the staff then withdrew except Messrs. Sherman, Kenyon, Holland, Hackley, Solomon (Examinations), and Leavitt.

17th Street National Bank. Reference was made to an exchange of telegrams yesterday between the Comptroller of the Currency and the President of the Federal Reserve Bank of Kansas City concerning the 17th Street National Bank, Denver, Colorado.

The Comptroller stated in his first telegram that he could not understand why the Reserve Bank required that proceeds of loans held as collateral by the Reserve Bank be fully applied to repayment of the national bank's borrowing from the Reserve Bank, since this resulted in a drain on the bank's liquidity at a critical time. He maintained that the Reserve Bank was requiring excessive collateral against its advances to the national bank.

President Clay's reply wire pointed out that the national bank had the right of substitution of collateral pledged against its note with the Reserve Bank and that it was difficult, therefore, to understand why this would necessarily result in a drain on liquidity. The

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wire cited information contained in the report of examination of the national bank as of November 16, 1965, with respect to classified loans and similar matters, following which it stated that the condition of the bank's note case, as confirmed by the examiner's comments, and the difficulty of appraising the loans had caused the Reserve Bank to require a margin of additional collateral. The Reserve Bank's appraisal indicated that the actual potential value of the collateral was no more than adequate to secure the advance currently outstanding. The report of examination had reflected classified losses in excess of the total capital structure of the bank, resulting in an insolvent condition. The Reserve Bank urged, therefore, that prompt action be taken to obtain new capital funds for the protection of depositors or other action taken promptly for their protection.

A subsequent telegram from the Comptroller to President Clay stated that the national bank had the right of substitution only if the Reserve Bank permitted; that it was understood all loans pledged were in current condition; that the Reserve Bank apparently was requiring at least a three-to-one ratio; and that loans paid which were held as collateral were not prorated to assist the national bank to strengthen its liquid position. The wire stated that there was a plan to restore solvency but assistance was needed to improve liquidity and that the Comptroller would hold the Reserve Bank responsible if solvency could not be restored because of the Federal Reserve's failure to provide

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liquidity due to stringent lending standards. The remainder of the wire consisted of an expression by the Comptroller that banks would do better to rely on their commercial bank correspondents rather than the Federal Reserve, particularly in critical times, and that the great majority of recent conversions from national to insured State nonmember bank status had been due to the extremely doctrinaire and unhelpful attitude of the Federal Reserve Banks and the Board of Governors, a judgment with which he would not disagree.

There followed comments by Mr. Solomon on difficulties currently involved in clearing checks drawn upon 17th Street National Bank, as well as on the status of the borrowing by the national bank from the Federal Reserve Bank. He indicated that word was still being awaited from Denver U.S. Bancorporation as to whether it would be interested in acquiring the national bank.

Question was raised whether the Federal Reserve Bank would not be justified in permitting the reserve account of 17th Street National Bank to be drawn down as necessary for the purpose of day-to-day check clearing operations, and it was understood that this question would be explored.

Certain suggestions were made that might be transmitted to the Kansas City Reserve Bank for its consideration in replying to the second wire from the Comptroller, it being felt that such a reply should be sent for purposes of the record.

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Secretary's Note: At the Board meeting on January 7, Mr. Solomon reported that he had discussed by phone with the Kansas City Reserve Bank a draft of reply proposed to be sent by the Reserve Bank to the Comptroller, that he had offered some suggestions, and that he believed the reply would be adequate. He also reported that the Reserve Bank was following the practice of allowing the national bank's reserve account to be pulled down as necessary rather than insisting on the maintenance of a reserve balance sufficient to cover the bank's reserve requirement. In other words, the Reserve Bank would pay checks drawn on the reserve account as long as there was any balance in the account. There had been enough funds in the reserve account to clear checks yesterday. Mr. Solomon also said the Regional Comptroller of the Currency reportedly had visited the Denver Federal Reserve Branch and said the Comptroller thought that since the national bank no longer had any capital, its stock in the Federal Reserve Bank should be canceled and the funds turned over to the national bank. The Denver Branch had indicated that the request would be taken under advisement.

The text of the second wire sent by the Reserve Bank to the Comptroller follows:

Your two telegrams re Colorado situation apparently written more in interest of future public record than in interest of bank and depositors. Responsibility for condition of bank cannot in this way be shifted from your supervisory shoulders. Bank always has had and continues to have the right of substitution of collateral pledged against the bank's note with us, and you are mistaken if you believe any further permission is needed. Fed would be happy to transfer loan and collateral to any other bank.

Record will show Fed has been loaning this bank funds almost continuously since May 1964 in effort to be helpful in spite of progressive deterioration. Your letter of January 26, 1965, was one of helpful attitude by Fed in Brighton situation.

Reason for conversion from national to insured State nonmember banks invariably stated to us is the high cost of required reserves.

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In spite of tone of your telegram, will do all legally possible to assist in improving liquidity relying on your statement "There is a plan to restore solvency." Would appreciate any information on plan and time required for implementation.

The meeting then adjourned.

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

Memorandum dated January 5, 1966, from Mr. Sherman, Secretary of the Board, recommending that the name of the Stenographic Section in the Office of the Secretary be changed to Secretarial Section.

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

Appointment

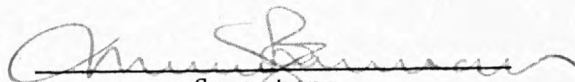
Clifford H. Wallace as Guard, Division of Administrative Services, with basic annual salary at the rate of \$4,149, effective the date of entrance upon duty.

Salary increase

Maureen E. Giordano, Stenographer, Division of Research and Statistics, from \$4,641 to \$5,181 per annum, with a change in title to Secretary, effective January 16, 1966.

Acceptance of resignation

Charles Bryson, Economist, Division of Research and Statistics, effective at the close of business February 19, 1966.


Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 1
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ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 6, 1966.

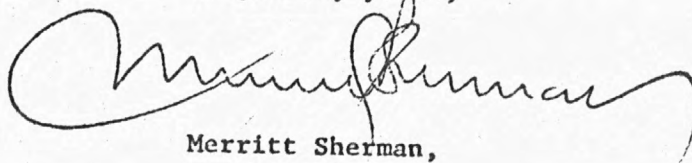
Dear Sir:

It is proposed to hold a conference at which representatives of Bank Examination Departments of Federal Reserve Banks would meet with members of the Board's staff on March 21 and 22. A meeting at this time, to be held in the Board's offices in Washington, has been approved by the Board.

It is expected that each Reserve Bank will be represented by the Vice President in Charge of Examinations and the next senior officer of the department. In some instances, other officers of the Reserve Bank Examinations Departments may attend.

The Director of the Board's Division of Examinations is asking the Vice Presidents in Charge of Examinations to suggest topics for discussion, and copies of the agenda will be sent to you as soon as it has been completed.

Very truly yours,



Merritt Sherman,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.