

Minutes for January 13, 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



Gov. Robertson

Gov. Balderston

ccb

Gov. Shepardson

MS

Gov. Mitchell

MM

Gov. Daane

DD

Gov. Maisel

SM

Minutes of the Board of Governors of the Federal Reserve System on Thursday, January 13, 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 1/
 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. Solomon, Director, Division of Examinations
 Mr. Hexter, Associate General Counsel
 Mr. Shay, 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
 Messrs. Heyde, Sanders, and Via of the Legal Division
 Mr. Eckert, Chief, Banking Section, Division of Research and Statistics
 Messrs. Achor, Egertson, and Maguire of the Division of Examinations

Applications of County Trust Company. The County Trust Company, White Plains, New York, had applied for permission to merge with The Goshen National Bank, Goshen, New York, and with Intercounty Trust Company, Monticello, New York. The material on these applications that had been distributed to the Board included the following:

1/ Withdrew from meeting at point indicated in minutes.

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Memorandum from the Division of Examinations dated December 20, 1965, submitting the Division's analysis of the applications, the analysis of the Federal Reserve Bank of New York, letters from banks protesting approval of the applications, and competitive factor reports. The recommendations of the Division and the Reserve Bank were favorable.

Memorandum from the Division of Examinations dated January 5, 1966, attaching a memorandum from County Trust Company dated December 22, 1965, concerning the competitive factor reports and expressing the views of the Division of Examinations in light of the trust company's comments.

Memorandum from the Banking Markets Section of the Division of Research and Statistics dated January 7, 1966, commenting favorably on the proposed mergers.

Memorandum from the Legal Division and the Division of Examinations dated January 11, 1966, discussing the question whether it would be desirable to order a public oral presentation regarding the applications.

At the meeting today consideration was given first to the question whether an oral presentation should be ordered. Factors cited as favoring an oral presentation included the number of objections received, the adverse nature of the competitive factor reports, and the possibility that the Board's position would be strengthened from a public relations viewpoint. On the other hand, it was pointed out that the objections to the mergers had come entirely from bankers operating in the areas involved, that none of the objectors had requested an oral presentation, that it seemed doubtful whether any significant additional information would be developed, and that the holding of an oral presentation would result in a fairly substantial further delay in Board action.

Following the discussion it was decided to proceed with consideration of the applications. Accordingly, Mr. Egertson summarized the salient

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points of the applications, his presentation being based essentially on the memoranda from the Division of Examinations.

Governor Robertson stated that he would disapprove both applications. As to the Goshen case, he noted that County Trust Company had assets three times as large as those of all the banks in Orange County combined and that it was ten times the size of the largest bank in the county. He felt that the effect of the merger on the smaller institutions in this area could be disastrous. It had been said that County Trust Company was not a predatory competitor, but it was certainly an aggressive institution, as indicated by the premium it was offering in this case--a premium that smaller banks would not be in a position to pay. Its entrance into this area could be justified, in his opinion, only on the basis of a strong showing of area need for such a large institution. While there was a management problem at the Goshen bank, adequate management could be provided through a merger of that bank with one of the local institutions, and such a merger would not result in domination of the area by the second largest bank in the State outside of New York City.

As to the Monticello application, Governor Robertson noted that the premium being offered by County Trust Company again was of a size that could hardly be offered by a smaller bank. County Trust could, if it wished, enter Sullivan County through de novo branching, even though it could not establish itself in the prime locations due to the head

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office protection feature of New York State law. The county was primarily a resort area, and its needs were not such as to warrant expansion by merger into that area of a bank the size of County Trust; the entrance of that bank could result in domination of the local banking situation. The Monticello bank was a sound institution, one that was able to take care of all but the largest credit needs of its area, and those could be taken care of by ready access to New York City banks as well as County Trust Company. The merger would give no assurance of promoting the local economy.

Other members of the Board expressed themselves as favoring approval of the proposed mergers on the basis of the analyses that had been submitted by the Division of Examinations and the Banking Markets Section. They felt that the counties involved should have, and would obtain, the benefit of more adequate and more resourceful banking services.

The applications were thereupon approved, Governor Robertson dissenting, with the understanding that drafts of an order and statement reflecting approval of the applications would be prepared for the Board's consideration along with a dissenting statement by Governor Robertson.

Governor Daane withdrew from the meeting at this point, along with Messrs. Young, Solomon (Adviser to the Board), Heyde, Via, Achor, Egertson, and Maguire.

Bank merger legislation. With a distributed memorandum dated January 10, 1966, Mr. Cardon submitted a draft of letter to the Chairman

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of the House Banking and Currency Committee that would express the Board's support for the substitute version of S. 1698 reported to the House (the Ashley-Ottinger bill), but with an amendment that would retain the existing standards of the Bank Merger Act of 1960 as guides for the banking agencies, the Attorney General, and the courts. In a distributed memorandum of January 12, however, Mr. Cardon reported that still another compromise bank merger bill had now been produced, causing him to withdraw his recommendation as to the Board's position. It appeared that Congressman Reuss had now come to terms with supporters of the Ashley-Ottinger bill, all of whom were now apparently supporting an amendment to the Ashley-Ottinger bill in form attached to Mr. Cardon's memorandum. Mr. Cardon now recommended that the Board support this latest version of proposed legislation if asked for its views.

In discussion Mr. Cardon recounted developments that had occurred recently within the ranks of the House Banking and Currency Committee and indicated that the Board's views on the latest form of proposed legislation probably would be requested by Congressman Ashley. He expressed the view that the latest compromise, while it might not be perfect from the Board's standpoint, was better than the earlier proposals that had seemed to have any chance of passage. It was a version with which he thought the Board could live without great trouble, although it would admittedly raise a number of questions.

Upon request of the Board, Mr. Cardon compared the latest proposal with several others that had previously been advanced. He observed that

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all of these legislative proposals contained ambiguities, but it seemed to him that the latest proposal offered the best chance for the Board to operate with the leeway that he understood the Board would like to have in considering merger applications.

There followed a general discussion of the proposed legislation during which mixed views were expressed. Governor Robertson said that as he read the proposal it would appear to him that if there was no competition between a large national bank in a branch-banking State and another bank located in some other part of the State, the bank supervisory agency could not take into account the convenience and needs factor in making a decision. It could look only at the financial and managerial resources and future prospects of the existing and proposed institutions. In such circumstances, it would appear that many proposed mergers would have to be approved almost automatically. Governor Maisel expressed himself more favorably with respect to the proposed legislation, although he felt it would be improved by including a requirement for a finding that a contemplated merger would be in the public interest. Governor Mitchell suggested that the Board, if called upon for its views, might offer--at least for purposes of the record--certain suggestions along lines he described that would tend to improve the draft legislation.

Mr. Hexter felt that the draft legislation was so ambiguous and illogical that the administrative agencies probably could follow any interpretation of the language they desired, and he questioned whether

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the Board would want to endorse legislation of that character. He foresaw substantial administrative difficulties in some of the provisions. Mr. Hackley said he recognized the difficulty in attempting to find some mutually acceptable compromise. However, he felt the currently proposed version of legislation was so confusing that it would give rise to more difficulties than the standards now in the law. The present draft could be read in different ways by different people. He would not like to see the Board endorse any legislation, in spite of the legislative situation, if it was apparent that the language would be illogical, inconsistent, and difficult to administer. Mr. Shay, on the other hand, suggested that there might be a tendency to read the draft legislation too much in the light of the Bank Merger Act of 1960 and the standards contained therein.

At the conclusion of the discussion Chairman Martin observed that the Board appeared to be sufficiently divided on the matter that it might be best simply to await any request from Congressman Ashley for the Board's views and then decide what, if any, answer would seem appropriate.

Promissory notes. In light of the discussion at the meeting between the Board and the Reserve Bank Presidents on January 11, 1966, there had been distributed a memorandum from Mr. Hackley dated January 12 submitting for consideration a revised draft of notice of proposed rule making concerning an amendment to Regulation Q, Payment of Interest on

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Deposits (and to Regulation D, Reserves of Member Banks) regarding the coverage of promissory notes. The revised draft would exclude repurchase agreements with respect to U.S. obligations from the definition of deposits, exclude subordinated notes only if they had a maturity of more than five years, apply to notes covered by the amendment that were outstanding on the effective date only if issued after the date of announcement of the proposed amendment, indicate that the amendment would not be effective until 60 days after adoption by the Board, and indicate that while the amendment was designed primarily to cover promissory notes, the Board would scrutinize the use of other types of instruments, including repurchase agreements, as a means of evading Regulations Q and D.

The discussion that followed related principally to the treatment of subordinated notes. After lengthy consideration of that point, a consensus developed in favor of excluding subordinated notes if they had a maturity of more than one year. However, it was understood that some members of the Board wished to give further thought to that particular question. There were also some suggestions for additional changes in parts of the explanatory portion of the notice of proposed rule making as it would be published in the Federal Register. There was likewise some further consideration of the effects of the proposed amendment on certain kinds of money market transactions and the degree of difficulty that would be involved for market participants in making the necessary adjustments.

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At the conclusion of the discussion there was agreement with a suggestion by Chairman Martin that the notice of proposed rule making, modified in certain respects in the light of today's discussion, be sent to the Federal Reserve Bank Presidents for any comments that they might have prior to further consideration of the matter by the Board next week.

Definition of time deposits. Governor Maisel inquired whether it was correct to assume that the meeting with the Presidents on Tuesday had had the effect of rendering unnecessary further consideration by the Board, at least at this time, of the proposals that had been under study designed to sharpen the distinctions between savings and other time deposits. Chairman Martin replied that this was his view, although the subject could, of course, be reintroduced.

All of the members of the staff except Mr. Sherman then withdrew from the meeting.

Appointment of President at St. Louis (Item No. 1). Chairman Martin stated that Chairman Rebsamen of the Federal Reserve Bank of St. Louis had informed him this morning by telephone that the Bank's Board of Directors, at a meeting today, probably would appoint Darryl R. Francis, currently First Vice President, as President of the Bank effective January 17, 1966, for the unexpired portion of the five-year term ending February 28, 1966, and for a term of five years beginning March 1, 1966, with salary at the rate of \$35,000 per annum. Mr. Francis would succeed Harry A. Shuford, who was submitting his resignation as President effective

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January 16, 1966, in order to take a position with a commercial bank in Dallas, Texas.

Chairman Martin recalled that the members of the Board of Governors had indicated several days ago, in response to an informal inquiry from Chairman Rebsamen, that they would be favorably inclined toward the appointment of Mr. Francis, and this information had been relayed to Chairman Rebsamen. Chairman Martin also said that Chairman Rebsamen would appreciate early advice of approval of the appointment of Mr. Francis so that the Reserve Bank could make an announcement today.

The Board approved the appointment of Mr. Francis as President effective January 17, 1966, assuming the appointment was made by the St. Louis Board of Directors, for the unexpired portion of the five-year term ending February 28 and for the term of five years beginning March 1, 1966, with payment of salary to Mr. Francis as President for the period January 17 through December 31, 1966, at the rate of \$35,000 per annum.

Secretary's Note: Advice of the action taken by the Board of Governors was conveyed to Chairman Rebsamen by telephone. Formal advice of the action taken by the St. Louis Bank's Board of Directors was reported by Chairman Rebsamen in a letter dated January 13, 1966, and a copy of the letter sent to him in reply is attached as Item No. 1.

Appointment of First Vice President at Cleveland (Item No. 2).

By letter dated December 23, 1965, Chairman Hall of the Federal Reserve Bank of Cleveland advised that the Board of Directors of the Bank recommended the appointment of Walter H. MacDonald, currently Cashier at the

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Cincinnati Branch, as First Vice President of the Bank for the five-year term beginning March 1, 1966, to succeed Edward A. Fink, with salary at the annual rate of \$22,000, and with provision for annual salary increases until the minimum (\$27,500) of the range established by the Board's guidelines for this position was attained. This letter had been supplemented by additional correspondence, and the matter had been discussed by the Board with President Hickman on January 11, 1966.

The Board approved the appointment of Mr. MacDonald as First Vice President for the term of five years beginning March 1, 1966, with payment of salary to him at the rate of \$22,000 per annum for the period March 1 through December 31, 1966. A copy of the letter sent to Chairman Hall pursuant to this action is attached as Item No. 2.

Salary of Cleveland officer (Item No. 3). By letter dated January 3, 1966, President Hickman of the Federal Reserve Bank of Cleveland had advised the Board of a proposed salary adjustment for Vice President and General Economist Maurice Mann. The matter was discussed in a distributed memorandum from the Division of Personnel Administration dated January 7, 1966, and was among the matters discussed by the Board with President Hickman on January 11, 1966.

The Board concluded that consideration of an increase in salary for Mr. Mann should be deferred until changes in salaries for other officers of the Reserve Bank, effective January 1, 1967, were under consideration. A copy of the letter sent to President Hickman pursuant to this action is attached as Item No. 3.

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Appointment of President and First Vice President at Kansas City (Item No. 4). During this meeting advice was received by telephone from Deputy Chairman Simons of the Federal Reserve Bank of Kansas City that the Board of Directors of that Bank had acted, subject to the approval of the Board of Governors, to reappoint George H. Clay as President of the Bank for the five-year term beginning March 1, 1966, and to appoint John T. Boysen, currently Vice President, as First Vice President of the Bank (to succeed Henry O. Koppang) for the five-year term beginning March 1, 1966, with annual salary at the rate of \$27,500.

The Board approved the appointment of Mr. Clay as President and of Mr. Boysen as First Vice President, each for a five-year term beginning March 1, 1966, and also approved the payment of salary to Messrs. Clay and Boysen at rates of \$42,500 and \$27,500 per annum, respectively, for the period March 1 through December 31, 1966. A copy of the letter sent to Deputy Chairman Simons pursuant to this action is attached as Item No. 4.

Travel regulations. The Board discussed certain aspects of its travel regulations as issued effective January 1, 1966, pursuant to action of the Board on December 15, 1965, particularly as they related to arrangements for air transportation. In the light of comments made at today's meeting it was understood that the current travel regulations would be given further study.

The meeting then adjourned.

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

Letter to the Federal Reserve Bank of Richmond (attached Item No. 5) approving the designation of three employees as special assistant examiners.

Letter to the Federal Reserve Bank of San Francisco (attached Item No. 6) approving the designation of 14 employees as special assistant examiners.

Memorandum from the Office of the Controller dated January 13, 1966, recommending that the present rate (7.5 cents per mile) allowed members of the field examining staff of the Division of Examinations for official travel performed by privately owned automobile be continued for the year 1966.

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

Appointment

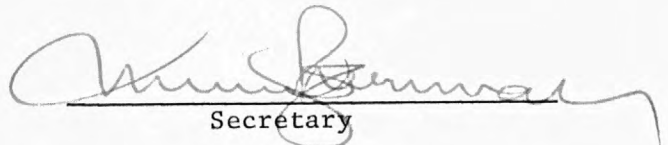
James Kichline as Economist, Division of Research and Statistics, with basic annual salary at the rate of \$8,961, effective the date of entrance upon duty.

Salary increases

Caroline M. Burgess, Assistant Chief Librarian, Division of Research and Statistics, from \$10,797 to \$11,723 per annum, with a change in title to Chief Librarian, effective January 16, 1966.

Marguerite Renucci, Statistical Clerk, Division of Data Processing, from \$5,577 to \$6,036 per annum, with a change in title to Statistical Assistant, effective January 16, 1966.

Virginia M. Spivey, Assistant Supervisor, Secretarial Section, Office of the Secretary, from \$5,894 to \$6,470 per annum, effective January 16, 1966.


Secretary



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 1
1/13/66

OFFICE OF THE CHAIRMAN

January 14, 1966.

CONFIDENTIAL (FR)

Mr. Raymond Rebsamen, Chairman,
Federal Reserve Bank of St. Louis,
P. O. Box 442,
St. Louis, Missouri. 63166

Dear Ray:

The Board of Governors has approved the appointment of Mr. Darryl R. Francis as President of the Federal Reserve Bank of St. Louis, effective January 17, 1966, for the unexpired portion of the five-year term ending February 28, and for a term of five years beginning March 1, 1966, in concurrence with the actions taken by your Board of Directors, as reported in your letter of January 13.

The Board of Governors has also approved the payment of salary to Mr. Francis as President, for the period January 17 through December 31, 1966, at the rate of \$35,000 per annum.

Sincerely yours,

(Signed) Bill

Wm. McC. Martin, Jr.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 2
1/13/66

OFFICE OF THE CHAIRMAN

January 14, 1966.

CONFIDENTIAL (FR)

Mr. Joseph B. Hall, Chairman,
Federal Reserve Bank of Cleveland,
Cleveland, Ohio. 44101

Dear Joe:

The Board of Governors has approved the appointment of Mr. Walter H. MacDonald as First Vice President of the Federal Reserve Bank of Cleveland for the term of five years beginning March 1, 1966, in concurrence with the action taken by your Board of Directors, as reported in your letter of December 23, 1965.

The Board also approved the payment of salary to Mr. MacDonald as First Vice President at the rate of \$22,000 per annum for the period March 1 through December 31, 1966.

Sincerely yours,

(Signed) Bill

Wm. McC. Martin, Jr.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 3

1/13/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 20, 1966.



CONFIDENTIAL (FR)

Mr. W. Braddock Hickman, President,
Federal Reserve Bank of Cleveland,
Cleveland, Ohio 44101.

Dear Mr. Hickman:

Reference is made to your letter of January 3 concerning a proposed salary adjustment for Vice President and General Economist Maurice Mann.

In considering your request, the Board noted that Mr. Mann had received two salary increases totaling \$5,000 during 1965, and that his present salary is in good relationship to officers in charge of Research at the other Reserve Banks with more experience within the System and as the officer in charge of the Research function.

Therefore, the Board believes that consideration of an increase in salary for Mr. Mann should be deferred until January 1, 1967, at the time that changes in salaries for other officials of your Bank are considered.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Merritt Sherman".

Merritt Sherman,
Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 4
1/13/66

OFFICE OF THE CHAIRMAN

January 19, 1966.

CONFIDENTIAL (FR)

Mr. Dolph Simons, Deputy Chairman,
Federal Reserve Bank of Kansas City,
Kansas City, Missouri. 64106

Dear Dolph:

The Board of Governors has approved the appointment of Mr. George H. Clay as President and Mr. John T. Boysen as First Vice President of the Federal Reserve Bank of Kansas City, each for a term of five years beginning March 1, 1966, in accordance with the action taken by your Board of Directors as reported in your letter of January 14, 1966.

The Board of Governors has also approved the payment of salaries to Messrs. Clay and Boysen at the rates of \$42,500 and \$27,500 per annum, respectively, for the period March 1 through December 31, 1966.

Sincerely yours,

A handwritten signature in cursive script that reads "Wm. McC. Martin, Jr." with a stylized flourish at the end.

Wm. McC. Martin, Jr.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 5
1/13/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 13, 1966

Mr. John L. Nosker, Vice President,
Federal Reserve Bank of Richmond,
Richmond, Virginia. 23213

Dear Mr. Nosker:

In accordance with the request contained in your letter of January 10, 1966, the Board approves the designation of each of the following employees as a special assistant examiner for the Federal Reserve Bank of Richmond.

Paul E. Dietz

David C. Dudley

Thomas J. Sporney

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 6

1/13/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 13, 1966

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

Dear Mr. Galvin:

In accordance with the request contained in your letter of January 6, 1966, the Board approves the designation of each of the following employees as a special assistant examiner for the Federal Reserve Bank of San Francisco.

E. Goeking, Jr.	T. H. Parsons
C. D. Layne	F. C. Standring
W. C. Howe	G. R. Dalling
T. J. McQuade	G. L. Sagers
J. W. Williams, Jr.	W. V. Calkins, Jr.
W. W. Woodward	G. R. Stone
D. J. Gass	G. L. Tuininga

Appropriate notations have been made on our records of the names to be deleted from the list of special assistant examiners.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.