

Minutes for January 18, 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

WM

Gov. Robertson

RR

Gov. Balderston

CCB

Gov. Shepardson

SS

Gov. Mitchell

MM

Gov. Daane

DD

Gov. Maisel

BM

Minutes of the Board of Governors of the Federal Reserve
System on Tuesday, January 18, 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. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Brill, Director, Division of Research
and Statistics
Mr. Solomon, Director, Division of Examinations
Mr. Hexter, Associate General Counsel
Messrs. O'Connell, Shay, and Hooff, Assistant
General Counsel
Mr. Koch, Deputy Director, Division of Research
and Statistics
Mr. Smith, Associate Adviser, Division of
Research and Statistics
Mr. Sammons, Associate Director, Division of
International Finance
Messrs. Daniels and Kiley, Assistant Directors,
Division of Bank Operations
Messrs. Goodman, Leavitt, and Thompson, Assistant
Directors, Division of Examinations
Miss Eaton, General Assistant, Office of the
Secretary
Messrs. Forrestal and Sanders and Miss Hart,
Senior Attorneys, Legal Division
Mr. Smith, Legal Assistant, Legal Division
Messrs. Lawrence and Wiles, Economists, Division
of Research and Statistics
Messrs. Egertson and Maguire, Supervisory Review
Examiners, Division of Examinations
Messrs. Burton, Donovan, Lyon, and Sanford, Review
Examiners, Division of Examinations
Messrs. Kline and Noory and Miss Greene, Assistant
Review Examiners, Division of Examinations

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Discount rates. The establishment without change by the Federal Reserve Bank of Boston on January 17, 1966, of the rates on discounts and advances in its existing schedule was approved unanimously, with the understanding that appropriate advice would be sent to the Bank.

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

Item No.

Letter to The Bank of Virginia, Richmond, Virginia, approving the establishment of a branch at 6922 Lakeside Avenue, Henrico County. (By agreement at this meeting, the letter included a reference to the Board's understanding that plans to strengthen the bank's capital position were being formulated.)

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Letter to Peoples Trust Company of Bergen County, Hackensack, New Jersey, approving the establishment of a branch at or near the intersection of Summit Avenue and Essex Street.

2

Letter to Morgan Guaranty International Banking Corporation, New York, granting permission to purchase shares of Bankierscompagnie, N.V., The Hague, The Netherlands.

3

Letter to The Company for Investing Abroad, Philadelphia, Pennsylvania, granting permission to purchase shares of European Enterprises Development Company S.A., Luxembourg.

4

Letter to the Federal Reserve Bank of Cleveland waiving the assessment of penalties incurred by Farmers Citizens Bank, Bucyrus, Ohio, because of deficiencies in its required reserves.

5

Letter to Georgia Railroad Bank & Trust Company, Augusta, Georgia, approving an investment in bank premises and urging continuing attention to the bank's capital needs.

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Mr. Goodman then withdrew from the meeting.

New York bank holding company cases. A memorandum from the Examinations, Legal, and Research Divisions dated January 17, 1966, had been distributed regarding the question of ordering public oral presentation before the Board on the bank holding company applications of Charter New York Corporation (involving Irving Trust Company, New York City), BT New York Corporation (involving Bankers Trust Company, New York City), and possibly Security New York State Corporation (involving Security Trust Company of Rochester, Rochester, New York). The memorandum had been prepared in response to the request at last Friday's meeting of the Board. As indicated in the memorandum, the staff thought that there might be some advantages in an oral presentation, but that the disadvantages would outweigh them. Therefore, the recommendation was against ordering such a presentation.

In commenting on the subject, Governor Mitchell expressed the view that in the cases of Charter New York Corporation and BT New York Corporation there was the problem, whichever way the decision went, of spelling out an answer to the desire of New York City banks to extend their operations throughout the State. If the Board approved those cases, there was reason to expect that other large banks would come in with similar applications to begin the process of establishing outposts. If the Board denied the applications, that meant that the New York City banks would have to give up this particular method of expansion and

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perhaps seek a change in the branch banking law. All of these banks were now doing a great deal of business throughout New York State as well as throughout the United States, and in some cases throughout the world. He did not think the record adequately disclosed the amounts of business the banks did in upstate New York, and there was no indication in the applications about intentions with respect to the scope of future operations. The proponents might not have completely worked out their plans, but it was unlikely that either of these banks would simply pick one location and expect to stop there. They undoubtedly knew something about their future intentions. He would feel more comfortable if he had a chance to question them about the prospect of extending their operations further, preferably before a decision was reached in either case. The Board really had to face the problem of what it would do if Chase Manhattan or National City came in with a similar application. At present he did not feel that he had all the information and background to enable him to say that he wanted to see the New York City banks open offices all over New York State. These were precedent cases, and there should be some further examination of the issues involved.

Mr. Solomon commented that it might be difficult to get the kind of information in which Governor Mitchell was interested through an oral presentation. He doubted whether the applicants would be prepared to spell out exactly what they planned to do, or whether such plans had in fact been completely formulated. The main disadvantage in oral presentation

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would be the delay involved. The delay would be something like 30 to 45 days at the minimum, and it could easily be more.

Mr. O'Connell cited holding company hearings in which witnesses had been asked questions similar to those in which Governor Mitchell was interested. The witnesses had simply indicated, in essence, that at the time they did not know the answers, and that would probably be the case here also.

Governor Daane commented that he was not sure whether oral presentation would be helpful in deciding whether a distinction could be drawn among New York holding company applications on the basis of size of the acquiring corporation and the competitive position of the banks proposed to be acquired.

Governor Maisel suggested that a hearing directed specifically to the applications at hand might not be too helpful in resolving the broad policy problems. He proposed, therefore, the possibility of a policy-type hearing, such as a Congressional Committee might hold, at which any interested party could file a brief and appear on the general question of the New York State banking structure. He was concerned whether, without that type of hearing, the Board could draw up a report that would emphasize the broader policy implications of its decision and show what guidelines it was adopting. Guidelines had to be adopted for New York State, in his opinion, and then the Board could decide the cases before it in terms of those guidelines.

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Governor Daane asked whether it seemed clear that the Charter and BT cases automatically raised the issue of general policy or whether there might not be a clear enough distinction to move forward on them without prejudging other cases involving the largest New York City banks.

Governor Maisel replied that he thought the Board would come to a better decision if it realized that everything it did would be looked at in terms of the Chase Manhattan matter. He believed it would be difficult to draw lines of distinction by moving forward in steps from one case to another.

Mr. Solomon pointed out that the Chase matter was in a somewhat different posture from the Charter and BT applications because it came up under different statutes. In the Chase matter, there were two questions before the Board. The section 301 determination and voting permit requests did not really get into competitive considerations. However, the Board did have the question of competition to deal with in connection with the competitive factor report to the Comptroller of the Currency, which would have to be rendered on a 30-day basis.

Governor Maisel commented that if Chase were blocked in its present venture on legal grounds and if the Board then opened New York State to holding companies centered around certain New York City banks, Chase no doubt would ask how it could be refused the same privilege.

Governor Mitchell agreed that it would be difficult to change course once a decision was reached on the initial case. Irving Trust

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Company was a large bank. If the Board allowed it to establish a State-wide system, he did not see how the Board could refuse a bank such as Chase. Governor Maisel's hearing proposal was similar to what he had had in mind. He would invite bankers and other interested parties to come down and testify on the Charter and BT applications, because it seemed to him there were basic issues underlying those cases that should be settled before the cases were decided.

Chairman Martin then remarked that Superintendent of Banks Wille would like to come down and talk to the Board on a variety of questions relating to the banking structure in New York State, and that it might be helpful for the Board to hear what he had to say.

After some further discussion, it was agreed to invite Mr. Wille to meet with the Board on a mutually convenient date.

Application of Mid-Continent Bancorporation. An application had been submitted by Mid-Continent Bancorporation, Leadville, Colorado, to become a bank holding company through the merger and consolidation into itself of Mid-Continent Financial Corporation, which owned 91.6 per cent of the shares of Commercial Bank of Leadville, Leadville, Colorado, and Plains States Financial Corporation, which owned 92.5 per cent of the shares of First National Bank in Walsenburg, Walsenburg, Colorado. In a memorandum dated October 15, 1965, the Division of Examinations recommended that the application be denied, on the grounds of financial condition, prospects, to some extent management, and the public

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interest. At its meeting on November 1, 1965, the Board deferred action on the application and requested the staff to assemble for its consideration figures comparing the debt-equity structure of Mid-Continent with other holding company situations.

There had now been distributed a memorandum from the Division of Examinations dated January 11, 1966, reviewing the debt position of bank holding companies and the history of applications where debt was relatively large. Included also were (1) comments relating to the proposed transaction--as it related to management--as compared with other cases where insiders would apparently have benefited through sale of holding company shares to the public or in a transfer of bank shares to a holding company in exchange for holding company stock; and (2) general comments on the history of the Board's policy that holding companies should state investments in subsidiaries at no greater amount than net asset value in reports to the Board and in published financial statements.

The memorandum noted that of the bank holding companies, the one with the largest ratio of debt to net worth was First Virginia Corporation, with debt equal to 58 per cent of net worth. In early 1965 the Board, in a statement on the denial of an application from First Virginia, referred to its debt ratio (then 60 per cent) as "relatively heavy." Mid-Continent Bancorporation's proposed debt of \$865 million would represent a ratio of about 211 per cent of June 30, 1965, pro forma net worth. The debt of Bancorporation was far in excess of debt in relation to net worth in any holding company application processed by the Board.

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Should the Board approve Bancorporation's application, it was difficult to see how, in larger groups with banks with much greater growth prospects, the Board could raise an objection to debt being increased well above 200 per cent of net worth. Further, in view of the close similarity of banks to bank holding companies, if the Board approved the application it would seem to be giving its endorsement to debt ratios of banks far higher than any heretofore countenanced. It was difficult to see, if the Board approved the application, what would remain of any Board policy with reference to limitation on the proportion of debt to capital structure of a bank holding company--or a bank. The Division of Examinations again recommended that the application be denied.

Mr. Solomon commented that he thought the importance of this case went beyond the circumstances of the particular application. A matter of principle was involved that seemed to him fundamental. There were two rather serious difficulties in the application, and the Division felt that either one of them--particularly the debt structure of the applicant--ought to bar approval of the application. Perhaps the Division was analogizing too closely between banks and bank holding companies, but this application involved a debt structure without parallel in any other holding company or any bank. If the Board approved the application, he did not see how it could turn down any comparable debt structure in a holding company, or in fact resist very large debt in banks themselves. The debt structure was not related to any proposed expansion or improvement

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in the operations of the banks concerned. This was simply a financial operation in which debt was substituted for equity.

Governor Mitchell asked how one could distinguish between this situation and a bank financed 100 per cent by a loan. Mr. Solomon replied that the Board had never approved a loan of that kind, since its approval was not required by law. In this case, however, the Board was called upon to approve a specific application.

Governor Mitchell agreed that there was too much debt involved in this case for a holding company to take on. He was equally concerned about implicit sanction of 100 per cent loans to acquire bank stock. He would be disposed to deny this application provided the denial was based solely on the question of debt structure and not on other grounds. If the debt handicap did not exist, this probably would be a fairly close case, and one that he thought he could approve.

Governor Shepardson indicated that his views were much like those expressed by Governor Mitchell.

Governor Daane commented that he saw no problem in resting denial on the debt structure.

Governor Robertson said that to him it was a clear case on the debt issue, but the Board should be careful in wording its statement. The Board should not preclude itself from considering other aspects of the case if the debt structure should be adjusted and the case came before the Board again.

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The application was then denied by unanimous vote, with the understanding that drafts of an order and statement reflecting this decision would be prepared for the Board's consideration.

Messrs. O'Connell, Thompson, Smith (Legal), Burton, Lyon, Kline, Donovan, and Noory, and Miss Greene withdrew from the meeting at this point.

Application of Reading Trust Company. There had been distributed a memorandum from the Division of Examinations dated January 14, 1966, and other pertinent papers regarding the application of The Reading Trust Company, Reading, Pennsylvania, to merge with The National Bank of Hamburg, Hamburg, Pennsylvania.

Mr. Egertson commented on the application and reviewed reasons for the Division's conclusion that on balance the proposed merger would be in the public interest.

After discussion the application of Reading Trust Company was approved unanimously. It was understood that an order and statement reflecting this decision would be prepared for the Board's consideration.

Messrs. Smith (Research), Egertson, Maguire, Sanford, Lawrence, and Wiles, and Miss Hart withdrew from the meeting at this point.

Promissory notes. In light of the discussion at the meeting on January 13, 1966, there had been distributed under that date a further revised draft of notice of proposed rule making regarding an amendment to Regulation Q, Payment of Interest on Deposits, (and to Regulation D,

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Reserves of Member Banks), relating to the definition of promissory notes as deposits.

Pursuant to the understanding at the January 13 meeting, copies of the notice of proposed rule making had been sent to the Federal Reserve Banks for comment. There had now been distributed a memorandum from the Legal Division dated January 17 summarizing the replies received from several of the Reserve Banks. Among the comments was a notation by the Boston Bank that the draft amendment did not exclude from "deposits" any indebtedness of a member bank to a nonbank Government securities dealer arising from transactions in Federal funds. Similarly, Richmond had suggested that one of the exceptions in the proposed amendment be broadened to include Federal funds transactions with nonbank dealers. New York had recommended exclusion from "deposits" of indebtedness subordinated to the claims of depositors and general creditors only if it had an original maturity of five years or more (rather than the one year provided in the draft). New York stated that the exclusion of subordinated indebtedness having an original maturity of one year or more went beyond the purpose for which the exception presumably was inserted, namely, to recognize that subordinated capital indebtedness should not be classified as a deposit. New York observed that such indebtedness characteristically had a term of at least five years. The Reserve Bank also pointed out that since there existed in the market certificates of deposit having maturities up to 18 months, the effect of the exception in its present

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form might be to invite competition between subordinated debt instruments having maturities of more than one year and certificates of deposit having comparable maturities. The Richmond Bank, in addition to making various technical suggestions, expressed the general opinion that unsecured notes should not be classified as deposits.

In discussion Governor Daane recalled that he had supported in principle publishing a notice of this kind. However, he was rather concerned about the publication of a notice at this time in view of the sensitive state of the money market and the rapid rise recently in short-term rates, particularly the three-month bill rate. In these circumstances, he had some question whether this was the best time to introduce the promissory note question. The current draft of amendment took care of the problem of repurchase agreements, but it did not take care of transactions such as indebtedness of member banks to nonbank dealers arising from transactions in Federal funds. The amendment therefore would necessitate some adjustments in the conduct of business in the money market, even though the magnitude of those adjustments had been reduced in the process of redrafting the amendment.

Governor Balderston pointed out that an earlier version of the rule-making notice had already been distributed to a number of national banks by the Comptroller of the Currency. He had the feeling that publication of the presently proposed notice would allay a lot of fears on the part of banks because the earlier version had been modified in a number of respects.

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Mr. Sanders then reviewed the comments received from the Reserve Banks, beginning with the point raised by the Boston Bank.

This point was discussed rather extensively in the light of potential money market impact, and problems involved in a further redrafting of the proposed amendment at this stage were explained. Mr. Holland reported during the discussion that officers of the New York Reserve Bank had expressed to him the view that, while something might need to be done eventually on this score by way of further revision of the proposed amendment, affected parties could be expected to submit comments on any important difficulties they foresaw. Governor Daane suggested that the Board's press release pertaining to the notice of proposed rule making might indicate that special attention would be paid to money market problems before any amendment was finally adopted. Further comments by Board members were in general agreement with the view that if, upon publication of the notice, market participants advised of the difficulties they anticipated, the Board would then be in a better position to determine what, if any, modifications in the proposed amendment would be appropriate. Governor Maisel suggested that the New York Reserve Bank could make a special effort to see that the notice of proposed rule making was placed in the hands of interested money market participants, with indication that their comments would be welcome.

Mr. Sanders then turned to the comments of the New York Bank concerning subordinated notes. During a discussion of these comments,

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Mr. Holland said that officers of the Bank with whom he had talked would be satisfied if the amendment excluded subordinated notes having an original maturity of two years or more. He understood that the Reserve Bank mainly wanted to go beyond one year. The discussion resulted in a consensus favoring the exclusion of subordinated notes having an original maturity of two years or more.

After consideration of other comments that had been received from Reserve Banks, there was agreement with a suggestion by Chairman Martin that the proposed amendment be given further study by the Board members and that on Thursday the Board determine whether to publish the notice of proposed rule making in the Federal Register.

Unfit \$1 Federal Reserve notes. There had been distributed a memorandum from Mr. Farrell dated January 14, 1966, in which he reported that the Deputy Treasurer of the United States had received and referred to the Board a letter dated January 7, 1966, in which the Comptroller of the Currency stated that the facilities at his disposal would not permit him to receive, until further notice, any additional shipments of upper halves of unfit \$1 Federal Reserve notes after January 19, 1966. The Comptroller indicated that the Currency Issue and Redemption Division was now receiving such notes at the rate of 75-80 bags per day and was able to process them only at the rate of four bags per day.

Mr. Farrell submitted with his memorandum a draft of letter that might be sent to the Secretary of the Treasury or used for purposes of

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discussion with the Secretary. The draft referred to the circumstances under which it had become necessary for the Reserve Banks to return unfit \$1 notes to Washington for destruction, and to correspondence in which the Board had authorized a procedure whereby the verification of lower halves by the Treasurer of the United States would be on a 5 per cent basis, with a package count of upper halves by the Comptroller of the Currency. In a letter of December 10, 1965, the Secretary had indicated that such procedures would be satisfactory to the Treasury. The draft letter would express the hope that any misunderstanding could be clarified and that the handling of unfit \$1 notes in the Treasury could proceed along the lines previously agreed upon. The draft also contained certain paragraphs, for use if considered appropriate, relating to informal discussions between staff members of the Board and the Comptroller's Office. From these discussions it was understood that the Comptroller was reluctant to accept the upper halves without making a complete verification count thereof, or in lieu of such count receiving from the Reserve Banks a certification as to the contents of each shipment. A form of possible certification had been suggested by the Board's staff, but no further word had been received from the Comptroller's Office.

Chairman Martin reported that he had talked with the Secretary of the Treasury about the matter and that, if the Board agreed, he would propose to send the draft letter informally to Under Secretary of the Treasury Barr for the latter's use in exploring with the Comptroller or with others at the Treasury the best solution to the problem.

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It was agreed to proceed in the manner suggested by Chairman Martin.

Asian Development Bank (Item No. 7). A memorandum from the Legal Division dated January 17, 1966, concerning the request of the Budget Bureau for a report on a Treasury draft bill "To provide for the participation of the United States in the Asian Development Bank" had been distributed.

The Asian Development Bank was a proposed new financial institution, patterned after the World Bank, which would have as its principal objective fostering economic growth and cooperation in Asia and the Far East and contributing to the economic development of member countries in the region. The Bank would make loans for economic development in Asia, and its lending would thus complement the economic assistance that the United States and others were now supplying to that area. The authorized capital stock of the proposed Bank would be \$1 billion, and a substantial amount had already been pledged by prospective members.

After discussion, approval was given to a letter to the Bureau of the Budget in the form attached as Item No. 7.

Citizens Bank of Pottsville, Arkansas. Mr. Solomon reported that the Board would probably receive an emergency application from a State member bank to absorb Citizens Bank, Pottsville, Arkansas, an insured nonmember bank with about \$700,000 to \$750,000 of deposits. This bank had recently lost its executive officer through death, and

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the situation was made more critical by the discovery of a defalcation by that officer. It was understood that the State Banking Department had taken possession of the bank and placed a sign on the door saying it was closed for examination. The Bank Examination Department of the Federal Reserve Bank of St. Louis felt that either of two State member banks in Russellville could satisfactorily absorb the small nonmember bank, and the matter reportedly was being discussed with those banks.

It was understood that staff work would proceed so that the Board could consider the case expeditiously if a merger application was received.

All members of the staff then withdrew and the Board went into executive session.

Authorization to present paper. The Secretary was informed later that during the executive session the Board authorized Mr. Brill, Director, Division of Research and Statistics, to accept an invitation to present a paper on the role of financial institutions in the U.S. capital markets at a meeting sponsored by the Caisse des Depots et Consignations (the French National Savings Bank and Insurance System) to be held in Paris in September or October 1966.

Travel regulations (Item No. 8). The Secretary was also informed that during the executive session the Board approved the sending of a letter to the Federal Reserve Banks (copy attached as Item No. 8), stating that the Board was considering revising its travel regulations, that it

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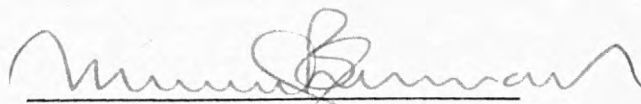
was also considering the feasibility and desirability of developing a set of regulations that could be used by the Board and the Federal Reserve Banks alike, and that it would be helpful to have from each Reserve Bank two copies of its current travel regulations along with any comments the Bank might care to make on the general subject.

The meeting then adjourned.

Secretary's Notes: The requirements contemplated by the Board's action on December 6, 1965, in approving the issuance of a preliminary permit to New England Merchants Bank International, Boston, Massachusetts, having been completed, a letter was sent today to that corporation transmitting a final permit to commence business.

Governor Shepardson approved on behalf of the Board on January 17, 1966, the recommendations contained in a memorandum dated January 14, 1966 (copy attached as Item No. 9), from Governor Mitchell as Chairman of the Steering Committee for the Fundamental Reappraisal of the Discount Mechanism. This action included authorization for any resulting overexpenditures in the appropriate accounts of the 1966 budget of the Division of Research and Statistics.

Governor Shepardson today approved on behalf of the Board a memorandum from Napoleon H. Marrow, Jr., Messenger, Division of Administrative Services, requesting permission to engage in custodial work on a part-time basis.


Secretary

Item No. 1

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 18, 1966.

Board of Directors,
The Bank of Virginia,
Richmond, Virginia.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by The Bank of Virginia, Richmond, Virginia, of a branch at 6922 Lakeside Avenue in Henrico County, Virginia, provided the branch is established within one year from the date of this letter.

It is the Board's understanding that plans to strengthen your bank's somewhat less than satisfactory capital position are being formulated.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 2
1/18/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 18, 1966



Board of Directors,
Peoples Trust Company of
Bergen County,
Hackensack, New Jersey.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Peoples Trust Company of Bergen County, Hackensack, New Jersey, of a branch at or near the intersection of Summit Avenue and Essex Street, Hackensack, New Jersey, provided the branch is established within one-year from the date of this letter.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)



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

Item No. 3
1/18/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 18, 1966.

Morgan Guaranty International
Banking Corporation,
23 Wall Street,
New York, New York. 10015

Gentlemen:

As requested in your letter of December 17, 1965, the Board of Governors grants consent for your Corporation to purchase and hold 300 additional shares of Bankierscompagnie, N.V., The Hague, The Netherlands, at a cost of approximately US\$100,000, provided such stock is acquired within one year from the date of this letter. In this connection, the Board also approves the purchase and holding of such shares in excess of 10 per cent of your Corporation's capital and surplus.

The foregoing consent is given with the understanding that the investment now being approved, combined with other foreign loans and investments of your Corporation, Morgan Guaranty Trust Company of New York, and Morgan Guaranty International Finance Corporation, will not cause the total of such loans and investments to exceed the guidelines established under the voluntary foreign credit restraint effort now in effect and that due consideration is being given to the priorities contained therein. The Board considers that compliance with the priorities expressed in Guideline 4 would require that total nonexport credits to developed countries in Continental Western Europe not exceed the amount of such loans and investments as of the end of 1965, unless this can be done without inhibiting the bank's ability to meet all reasonable requests for priority credits within the over-all target.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 4
1/18/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 18, 1966.

The Company for Investing Abroad,
Fidelity Philadelphia Trust Building,
Philadelphia, Pennsylvania. 19109

Gentlemen:

As requested in your letter of December 22, 1965, the Board of Governors grants consent for your Corporation to purchase and hold 1,250 shares of European Enterprises Development Company S.A., Luxembourg, at a cost of approximately US\$250,000, provided such stock is acquired within one year from the date of this letter.

The foregoing consent is given with the understanding that the investment now being approved, combined with other foreign loans and investments of your Corporation and Fidelity-Philadelphia Trust Company, will not cause the total of such loans and investments to exceed the guidelines established under the voluntary foreign credit restraint effort now in effect and that due consideration is being given to the priorities contained therein. The Board considers that compliance with the priorities expressed in Guideline 4 would require that total nonexport credits to developed countries in Continental Western Europe not exceed the amount of such loans and investments as of the end of 1965, unless this can be done without inhibiting the bank's ability to meet all reasonable requests for priority credits within the over-all target.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 5
1/18/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD.

January 18, 1966

Mr. John J. Hoy, Vice President,
Federal Reserve Bank of Cleveland,
Cleveland, Ohio. 44101.

Dear Mr. Hoy:

This refers to your letter of December 31, 1965, regarding penalties totaling \$203.73 incurred by the Farmers Citizens Bank, Bucyrus, Ohio, on deficiencies in its required reserves for the biweekly computation periods ended December 8 and December 22, 1965.

It is noted that (1) on December 2, your Bank paid a draft for \$85,930.61 drawn on the subject bank's reserve account but debited the account of another bank in error; (2) the bank did not detect the error because it reconciles its reserve account only at the end of the month and relies upon your daily statement in computing its requirements; and (3) since 1963, the bank has had only four deficiencies for which penalties were waived by your Bank.

In the circumstances, the Board authorizes your Bank to waive the assessment of the penalties totaling \$203.73 for the reserve computation periods ended December 8 and December 22, 1965.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 6
1/18/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 18, 1966



Board of Directors,
Georgia Railroad Bank & Trust Company,
Augusta, Georgia.

Gentlemen:

The Board of Governors of the Federal Reserve System approves, under the provisions of Section 24A of the Federal Reserve Act, an investment in bank premises by Georgia Railroad Bank & Trust Company, Augusta, Georgia, of \$70,000 for expansion of facilities at the Gwinnett Street and Walton Way branches.

The aforementioned statute requires a State member bank to obtain prior approval from the Board of Governors for expenditures representing investments in bank premises (including amounts not capitalized), which, when added to the carrying value of existing investments in such premises, will aggregate an amount in excess of the bank's capital stock. The Board understands that construction has started on projects at the head office, Fort Gordon Branch, and Daniel Village Branch which will increase the investment, direct and indirect, in bank premises by \$5,905,000. Since such projects are under construction, the prior approval contemplated by Section 24A of the Federal Reserve Act cannot be given.

The Board notes that your bank is in the process of issuing \$2.5 million in long-term capital notes, which will strengthen your bank's somewhat less than satisfactory capital position. In view of the substantial building program in process, the Board urges that the bank's capital needs have the continuing attention of the directors.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

Item No. 7
1/18/66

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 18, 1966.



**Mr. Phillip S. Hughes,
Assistant Director for Legislative Reference,
Bureau of the Budget,
Washington, D. C. 20503**

Dear Mr. Hughes:

This is in reply to the Budget Bureau's Legislative Referral Memorandum dated January 17, 1966, in which the views of the Board of Governors are requested on a Treasury draft bill, "To provide for the participation of the United States in the Asian Development Bank".

The Board is in favor of the objectives of the Asian Development Bank Act and recommends that the draft bill be transmitted to the Congress for consideration.

Very truly yours,

(Signed) Merritt Sherman

**Merritt Sherman,
Secretary.**



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

Item No. 8
1/18/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 18, 1966.

Dear Sir:

The Board is considering revising its travel regulations, and is also considering the feasibility and desirability of developing a set of regulations that could be used by the Board and the Federal Reserve Banks alike. It would be helpful in this regard to have from each Reserve Bank two copies of its current travel regulations along with any comments the Bank may care to make on the general subject.

For your information and convenient reference, two copies of the Board's current travel regulations are enclosed, along with copies of the Standardized Government Travel Regulations referred to therein.

Very truly yours,

A large, stylized handwritten signature of Merritt Sherman is written over the typed name.

Merritt Sherman,
Secretary.

Enclosures

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

January 14, 1966.

Item No. 9

1/18/66

TO: Board of Governors
(Through the Office of the Controller and
Division of Personnel Administration)

FROM: Steering Committee for the
Fundamental Reappraisal of
the Discount Mechanism

SUBJECT: Consultant Appointment--

Professor Lester V. Chandler

It is recommended that Professor Lester V. Chandler, Department of Economics, Princeton University, be appointed as a Consultant effective to December 31, 1966, to assist in the conduct of the discount study.

The appointment would be on a temporary contractual basis with compensation of \$2,400 for all pertinent work done during the tenure of the appointment. Any necessary transportation and per diem for time spent in travel status would be paid in accordance with the Board's travel regulations. The \$2,400 compensation would be paid in monthly installments of \$200 beginning with the first payment about January 31, 1966.

In addition, authorization is requested for payment of such expenses for telephone, secretarial service, postage, duplicating, stationery and supplies, as Professor Chandler may incur for benefit of the project.

Professor Chandler's main responsibility would be to organize the presentation of academic views on discount policy and related matters. In addition, he may be called upon to review the ideas and research papers generated by individuals and working groups within the System. He would also counsel the System as to which (if any) and how Federal Reserve research efforts and thinking on the discount mechanism might be best transmitted to the academic community.

While the form and extent of academic presentations to the Federal Reserve on this matter is a subject on which Professor Chandler himself will be making recommendations, these may include written comments invited from a number of academic authors of articles on member bank borrowing, one or several commissioned research papers, and one or more panel discussions organized and chaired by Professor Chandler. With respect to such academic economists as are invited to participate in these presentations, it is recommended that authorization be given, subject to prior approval by the Steering Committee, of up to \$75 per day and that the economists be allowed travel expenses in accordance with the Board's travel regulations.

Since no provision was made for this project in the 1966 budget, it is requested that its approval carry with it authorization for any resulting overexpenditures in the appropriate accounts of the Division of Research and Statistics.

George W. Mitchell