

Minutes for January 27, 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

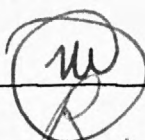



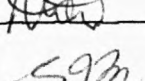
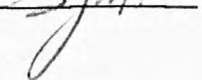
Gov. Balderston

Gov. Shepardson

Gov. Mitchell

Gov. Daane

Gov. Maisel

Minutes of the Board of Governors of the Federal Reserve System on Thursday, January 27, 1966. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary  
 Mr. Kenyon, Assistant Secretary  
 Mr. Holland, Adviser to the Board  
 Mr. Hackley, General Counsel  
 Mr. Solomon, Director, Division of Examinations

Mr. Frank Wille, Superintendent of Banks, New York State  
 Mr. John K. Lundberg, Deputy Superintendent and Counsel, State Banking Department, New York State

Meeting with Mr. Wille. Pursuant to previous arrangements, this meeting was held with Mr. Wille for discussion of the New York State banking structure and legislation suggested by Mr. Wille that would reduce the disparities between national and State banks in conducting interstate business. A memorandum of the meeting has been placed in the Board's files.

Chairman Martin and Messrs. Wille, Lundberg, and Solomon then withdrew from the meeting and the following entered the room:

Mr. Molony, Assistant to the Board  
 Mr. Cardon, Legislative Counsel  
 Mr. Fauver, Assistant to the Board  
 Mr. Brill, Director, Division of Research and Statistics  
 Mr. Hooff, Assistant General Counsel  
 Mr. Koch, Deputy Director, Division of Research and Statistics

1/ Withdrew at point indicated in minutes.

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Mr. Sammons, Associate Director, Division of International Finance

Messrs. Goodman and Leavitt, Assistant Directors, Division of Examinations

Mrs. Semia, Technical Assistant, Office of the Secretary

Messrs. Eckert and Fry of the Division of Research and Statistics

Mr. Poundstone, Review Examiner, Division of Examinations

Approved letters. Appropriate background material, including staff recommendations, had been submitted to the Board regarding the following matters. The letters were approved unanimously after discussion of various questions raised by members of the Board. Copies are attached under the indicated item numbers.

Item No.

- |                                                                                                                                                                                                                                             |   |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|
| Letter to Citizens Bank, Smithville, Tennessee, approving an investment in bank premises.                                                                                                                                                   | 1 |
| Letter to Chemical International Finance, Ltd., New York, New York, granting permission to purchase stock of Northwest Iron Co., Ltd., Cleveland, Ohio.                                                                                     | 2 |
| Letter to The National Shawmut Bank of Boston, Boston, Massachusetts, granting permission to organize a corporation under section 25(a) of the Federal Reserve Act to be known as Shawmut International Corporation, Boston, Massachusetts. | 3 |
| Letter to Peoples Bank and Trust Company, Russellville, Arkansas, approving the establishment of a branch in Pottsville and an investment in bank premises.                                                                                 | 4 |

Item No. 3, in the form approved, included a paragraph suggested by Governor Robertson regarding compliance with the guidelines of the voluntary program for foreign credit restraint. Inclusion of approval

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of an investment in bank premises in Item No. 4 reflected a report by the staff that information obtained after the memorandum on the branch application had been distributed indicated that approval was required also for the investment.

Report on competitive factors. A report to the Federal Deposit Insurance Corporation on the competitive factors involved in the proposal by First State Bank, Armour, South Dakota, to acquire the assets of and assume liability to pay deposits made in Delmont State Bank, Delmont, South Dakota, was approved unanimously for transmittal to the Corporation. The conclusion read as follows:

The proposed acquisition of Delmont State Bank, Delmont, South Dakota, by First State Bank, Armour, South Dakota, would eliminate some competition between the two banks; however, in view of the relatively small size of Delmont State Bank as well as the existence of other banking alternatives, the overall effect on competition should not be adverse.

Unattended facilities with TV communication (Item No. 5). There had been distributed a memorandum dated January 24, 1966, from the Legal Division regarding two instances, described in the memorandum, in which State member banks had opened nearby drive-up facilities unoccupied by bank personnel and not connected to bank property except by closed circuit TV and pneumatic tubes. The Board had notified the two banks in October 1964 that it did not object to the operation of such facilities but that the question whether a branch, requiring Board approval, would be thus established was being studied and, if it should be decided in the future

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that the facilities did constitute branches, specific approvals would be issued for the locations.

The memorandum proposed that unattended TV facilities situated within close proximity to an existing office not be regarded as separate branches requiring Board approval. The recommended position was based primarily on the fact that the facility was unmanned and constituted only a remote-control operation by a teller in the bank building rather than a separate "place of business." Attached to the memorandum was a draft of letter that would inform the Federal Reserve Banks that the Board had taken such a position. It was not contemplated that the letter would be published in the Federal Register or the Federal Reserve Bulletin, but it was suggested that copies be sent to the Comptroller of the Currency and to the Federal Deposit Insurance Corporation.

During discussion the view was expressed that the proposed letter might be read as allowing more latitude than would seem desirable in applying the general position to varying situations, and Governor Robertson suggested that the letter be rephrased to tie the ruling more specifically to the circumstances of the two cases considered in 1964.

There being agreement with Governor Robertson's suggestion, unanimous approval was given to a letter in the form attached as Item No. 5.

Reserve requirements against time deposits. There had been distributed a memorandum dated January 26, 1966, from the Division of



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Research and Statistics regarding the question of raising reserve requirements against negotiable certificates of deposit from 4 per cent to the statutory maximum of 6 per cent. It was the conclusion of the Division that the case for such an increase was not sufficiently strong to offset the negative considerations.

It was brought out during discussion that the memorandum was not intended as a document for transmission to the Joint Economic Committee. Rather, it had been submitted as a basis for discussion by the Board of its position on the issue involved, preliminary to determining what response should be made to two requests by Congressman Reuss during hearings held by the Committee in December 1965. Mr. Reuss had asked, in essence, whether reserve requirements on time deposits were meaningless and why the Board did not raise the current requirement as an anti-inflation measure.

Comments indicated that the immediate problem was to have a response to Mr. Reuss' requests in the hands of the Committee in time for inclusion in the record of the December hearings, which was soon to be printed. Also, it was expected that next week the Committee would begin its hearings on the President's Economic Report.

It was noted that the Board had not arrived at a conclusion on the question whether or not reserve requirements on time deposits should be increased, and that it would not be desirable to submit any material to the Committee containing such an indication.

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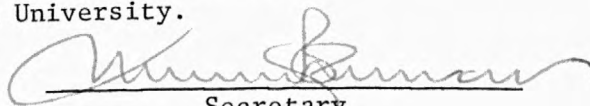
Governor Maisel expressed strong reservations concerning the memorandum, and Governor Daane said that he had not yet had an opportunity to study it.

At the conclusion of the discussion it was understood that the response to be made to Congressman Reuss' questions would be considered further at tomorrow's meeting of the Board.

The meeting then adjourned.

Secretary's Notes: A letter was sent today to First National City Bank, New York, New York, acknowledging receipt of notice of its intent to establish an additional branch in Greece, to be located in Piraeus. The letter 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. However, it is understood that no additional capital investment abroad is required for the proposed branch."

Acting in the absence of Governor Shepardson, Governor Robertson today approved on behalf of the Board a memorandum from Helmut F. Wendel, Economist, Division of Research and Statistics, requesting permission to teach a course in Economics at American University.



Secretary

Item No. 1  
1/27/66

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

January 27, 1966



Board of Directors,  
Citizens Bank,  
Smithville, Tennessee.

Gentlemen:

Pursuant to the provisions of Section 24A of the Federal Reserve Act, the Board of Governors of the Federal Reserve System approves an investment in bank premises of not to exceed \$105,000 by Citizens Bank, Smithville, Tennessee, for the purchase of land and construction of new banking quarters.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,  
Assistant Secretary.



Item No. 2  
1/27/66

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



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

January 27, 1966.

Chemical International Finance, Ltd.,  
20 Pine Street,  
New York, New York. 10015

Gentlemen:

As requested in your letter of December 7, 1965, the Board of Governors grants consent for your Corporation to purchase and hold 80,000 shares of common stock, par value \$1 each, and 4,000 shares of 6 per cent cumulative preferred stock, no par value, of Northwest Iron Co. Ltd., Cleveland, Ohio, at an aggregate cost of approximately \$480,000, 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, Chemical Bank New York Trust Company, and Chemical International Banking 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.

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. 3  
1/27/66

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

January 27, 1966.



Mr. Nigel R. Godwin, Vice President,  
The National Shawmut Bank of Boston,  
Boston, Massachusetts.

Dear Mr. Godwin:

The Board of Governors has approved the Articles of Association and Organization Certificate dated December 16, 1965, of Shawmut International Corporation, Boston, Massachusetts, and there is enclosed a preliminary permit authorizing that Corporation to exercise such of the powers conferred by Section 25(a) of the Federal Reserve Act as are incidental and preliminary to its organization.

Except as provided in Section 211.3(a) of Regulation K, the Corporation may not exercise any of the other powers conferred by Section 25(a) until it has received a final permit from the Board authorizing it generally to commence business. Before the Board will issue its final permit to commence business, the president, treasurer, or secretary, together with at least three of the directors, must certify (1) that each director is a citizen of the United States; (2) that a majority of the shares of capital stock is held and owned by citizens of the United States, by corporations the controlling interest in which is owned by citizens of the United States, chartered under the laws of the United States or of a State of the United States, or by firms or companies the controlling interest in which is owned by citizens of the United States; and (3) that of the authorized capital stock specified in the Articles of Association at least 25 per cent has been paid in in cash and that each shareholder has individually paid in in cash at least 25 per cent of his stock subscription. Thereafter the treasurer or secretary shall certify to the payment of the remaining instalments as and when each is paid in, in accordance with law.

Vice President Hoyle of the Federal Reserve Bank of Boston has advised that you are aware that Shawmut International Corporation will have no separate base under the voluntary foreign credit restraint effort and that any foreign loans or investments would

Mr. Nigel R. Godwin

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need to be made under the ceiling of your bank. Accordingly, the foregoing approval is given with the understanding that any foreign loans and investments of the Corporation, combined with The National Shawmut Bank of Boston, 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 will be given to the priorities contained therein.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,  
Assistant Secretary.

Enclosure

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

January 27, 1966

Preliminary Permit

IT IS HEREBY CERTIFIED that the Board of Governors of the Federal Reserve System, pursuant to authority vested in it by Section 25(a) of the Federal Reserve Act, as amended, has this day approved the Articles of Association dated December 16, 1965, and the Organization Certificate dated December 16, 1965, of SHAWMUT INTERNATIONAL CORPORATION duly filed with said Board of Governors, and that SHAWMUT INTERNATIONAL CORPORATION is authorized to exercise such of the powers conferred upon it by said Section 25(a) as are incidental and preliminary to its organization pending the issuance by the Board of Governors of the Federal Reserve System of a final permit generally to commence business in accordance with the provisions of said Section 25(a) and the rules and regulations of the Board of Governors of the Federal Reserve System issued pursuant thereto.

BOARD OF GOVERNORS OF THE  
FEDERAL RESERVE SYSTEM

(Seal)

By (Signed) Karl E. Bakke

Karl E. Bakke,  
Assistant Secretary.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 4  
1/27/66

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

January 27, 1966.



Board of Directors,  
Peoples Bank and Trust Company,  
Russellville, Arkansas.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by Peoples Bank and Trust Company, Russellville, Arkansas, in Pottsville, Arkansas, provided the branch is established within six months.

Pursuant to the provisions of Section 24A of the Federal Reserve Act, the Board of Governors of the Federal Reserve System approves an investment in bank premises of not to exceed \$15,000 by Peoples Bank and Trust Company, for purchase of land and construction of new banking quarters in Pottsville.

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

1/27/66

S-1982

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

February 1, 1966.



Dear Sir:

The Board's opinion has been requested as to whether the operation by State member banks of nearby facilities, unoccupied by bank personnel and not connected to bank property except by closed circuit TV and pneumatic tube, requires Board approval for the establishment of branches. In one case, a branch was located in a large shopping center and the bank wished to open a TV facility about 200 feet from the existing branch on the parking area. In another case, the bank wished to open a TV facility approximately 150 feet from the bank building on a parking lot diagonally across from the bank at a street intersection. In neither case was competition with other banks a matter of importance.

Federal statutes define a branch to include any "place of business. . .at which deposits are received, or checks paid, or money lent." The answer, therefore, depends upon whether such a TV facility is a place of business at which deposits are received or checks are paid.

A typical unit consists of a two-way screen and sound system. The customer presses a button to signal the teller who then appears on the TV screen. The customer's image also appears on a screen in the teller's booth. The door of the cash tray is opened by the teller through remote control and the customer places his deposit or withdrawal slip therein. A pneumatic tube system sends the carrier to the teller's station inside the bank. The teller's actions may be watched by the customer. The teller places the pass book, receipt, or cash in the carrier and sends it back to the customer. There are no mechanical controls by the customer, the entire operation being performed by the teller inside the bank. However, the customer and the teller see each other during the entire transaction and may converse freely at all times.

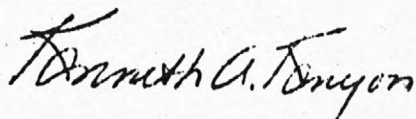
The Board has consistently taken the position that any facility at which a teller is stationed and which is separated from the bank's building by property not owned or controlled by the bank is a "branch", unless the facility is connected to the bank building by a bank-controlled passage through which people may pass. Thus, in several cases where the facilities were located only across a street or alley and there was no

connecting passage (bridge or tunnel) over which the bank had exclusive control, Board permissions were given for the establishment of branches.

However, in the facilities under consideration, the funds would pass immediately through a tube to or from an employee in the bank building and the facilities would not be occupied by an employee of the bank who even temporarily held funds in his custody. This fact differentiates such facilities from those considered in the past at which a teller is stationed.

Accordingly, the Board has concluded that the operation of the TV facilities described above would not constitute the establishment of branches. In cases arising in the future under similar conditions the Board's permission to establish a branch would not be necessary. If the conditions are substantially dissimilar, the matter should be submitted to the Board for its consideration.

Very truly yours,



Kenneth A. Kenyon,  
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS