

Minutes for February 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 _____
- Gov. Robertson _____
- Gov. Balderston _____
- Gov. Shepardson _____
- Gov. Mitchell _____
- Gov. Daane _____
- Gov. Maisel _____

(Handwritten initials: M, R, [unclear], [unclear], [unclear], [unclear])

(Checkmark)

Minutes of the Board of Governors of the Federal Reserve System on Friday, February 18, 1966. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Young, Senior Adviser to the Board and
Director, Division of International Finance
Mr. Holland, Adviser to the Board
Mr. Solomon, Adviser to the Board
Mr. Molony, Assistant to the Board
Mr. Cardon, Legislative Counsel
Mr. Fauver, Assistant to the Board
Mr. Solomon, Director, Division of Examinations
Miss Eaton, General Assistant, Office of the
Secretary
Mr. Morgan, Staff Assistant, Board Members'
Offices
Mr. Furth, Consultant

Messrs. Brill, Koch, Partee, Axilrod, Bernard,
Eckert, Ettin, and Keir of the Division of
Research and Statistics

Messrs. Sammons, Hersey, Katz, Reynolds, Baker,
and Hayes of the Division of International
Finance

Money market review. Mr. Bernard presented a review of Govern-
ment securities market developments, referring in his comments to tables
that had been distributed on money and capital market perspective and
on dealer positions and transactions in key short-term debt securities,
along with a related chart on dealer positions and transactions in nego-
tiable certificates of deposit. The staff responded to questions asked

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by members of the Board, after which Mr. Katz commented on foreign exchange market developments and, with the aid of distributed charts, discussed international interest rate developments since the date of the Board's discount rate action last December. Mr. Koch then commented with respect to a distributed table affording perspective on bank reserve utilization.

All members of the staff except Messrs. Sherman, Kenyon, Young, Holland, Solomon (Adviser), Molony, Cardon, Fauver, Brill, Solomon (Examinations), Koch, and Sammons, and Miss Eaton then withdrew and the following entered the room:

Mr. Johnson, Director, Division of Personnel Administration
Mr. Hexter, Associate General Counsel
Mr. O'Connell, Assistant General Counsel
Mr. Shay, Assistant General Counsel
Mr. Smith, Associate Adviser, Division of Research and Statistics
Mr. Daniels, Assistant Director, Division of Bank Operations
Mr. Kiley, Assistant Director, Division of Bank Operations
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Sprecher, Assistant Director, Division of Personnel Administration
Messrs. Heyde and Sanders of the Legal Division
Messrs. Paul Smith and Greenspun of the Division of Research and Statistics
Messrs. Egertson, Lyon, Maguire, McClintock, Poundstone, and Noory, and Miss McShane of the Division of Examinations

Discount rates. The establishment without change by the Federal Reserve Banks of New York, Philadelphia, and San Francisco on February 17, 1966, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

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Approved items. The following items were approved unanimously after consideration of background material that had been made available regarding them and clarification of particular points about which members of the Board inquired. Copies are attached to these minutes under the respective numbers indicated.

	<u>Item No.</u>
Letter to Manufacturers Hanover Trust Company, New York, New York, granting an extension of time to establish a branch at 446-48 McDonald Avenue, Borough of Brooklyn.	1
Letter to Upper Main Line Bank, Paoli, Pennsylvania, approving the establishment of a branch in Berwyn in connection with the relocation of the bank's main office.	2
Letter to Marine Midland Trust Company of Western New York, Buffalo, New York, approving the establishment of a branch in Wanakah.	3
Letter to Bordentown Banking Company, Bordentown, New Jersey, approving the establishment of a branch in Chesterfield.	4
Letter to Union Bank, Los Angeles, California, approving the establishment of a branch in Torrance.	5
Letter to Bank of America National Trust and Savings Association, San Francisco, California, approving the establishment of a branch in Zurich, Switzerland.	6
Letter to the Federal Reserve Bank of Dallas regarding the legal authority of a Reserve Bank to discount, for a national bank, a note evidencing a loan made by the national bank in excess of the limitations prescribed in section 5200 of the Revised Statutes.	7

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	<u>Item No.</u>
Telegram to the Federal Reserve Bank of San Francisco interposing no objection to the Bank's engaging an engineering consultant in connection with certain building alterations.	8
Letter to the Federal Reserve Bank of Minneapolis concerning a possible supplemental retirement allowance for President Galusha.	9
Letter to Chairman Patman of the House Committee on Banking and Currency recommending approval of bill H.R. 5305, to authorize revised procedures for destruction of unfit Federal Reserve notes.	10

Proposed amendment re promissory notes (Item No. 11). There had been distributed a memorandum from Mr. Holland dated February 17, 1966, presenting a possible revision of the recently proposed amendment to Regulations Q, Payment of Interest on Deposits, and D, Reserves of Member Banks. This proposed amendment, which had been published in the Federal Register for comment, would in effect define "deposits" to include promissory notes and other forms of indebtedness of member banks, with certain exceptions. Mr. Holland's memorandum raised for consideration an addition to the kinds of bank indebtedness exempted from the proposed definition of deposits. This addition would exempt indebtedness to Government securities dealers arising incident to bona fide transactions in direct obligations of the United States.

Attached to the memorandum were a letter and memorandum from the Federal Reserve Bank of New York dated February 16, 1966, reviewing the chief kinds of dealer transactions affected by the proposed redefinition

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of deposits, weighing possibilities for reducing or avoiding adverse effects, and recommending substantially the amendment proposed by Mr. Holland as the most practical way of holding adverse money market impact to reasonable dimensions.

Mr. Holland recommended that, if the Board approved the revision, the general substance be relayed to dealers informally to quiet their growing concern. His memorandum stated that the qualitative and quantitative evidence assembled on the various transactions of Government securities dealers seemed to be sufficient to permit a reasonable judgment to be reached on the question of excluding certain such transactions from the force of the proposed amendment. Should the Board be of like mind, there were pragmatic reasons for reaching at least a tentative decision now and communicating it informally to the dealers directly affected. As the New York Bank's letter indicated, the Government securities market was in a disheartened state. A variety of factors were contributing to this attitude and to the accompanying erosion of securities prices, but it was believed that the situation was being marginally aggravated by growing dealer concern over the anticipated adverse effects of the proposed amendment. Representatives of the dealer firms were becoming more restive and were asking if they should prepare formal written statements or come down to call on the Board personally in order to be as sure as possible that their situation was understood and appreciated.

The Board might or might not regard such pilgrimages as a good thing, Mr. Holland continued. However, this was not a judgment the staff

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wished to make by failing to present a memorandum on the subject in time for an early decision if the Board was so inclined. He personally concurred in the recommendation for an early affirmative decision, to be conveyed informally to the dealers in rather general terms as a position the Board was inclined to favor but on which it was still open to further suggestions. Hopefully, this would calm most of the dealer concern, and it would still leave the Board an opportunity to announce a final decision following the end of the 30-day period allowed for comments, taking into account all suggestions received.

In another distributed memorandum of February 17, Mr. Hexter cautioned against hasty action. He suggested, in effect, waiting until the expiration of the period allowed for comments and analyzing thoroughly the proposal presented by the New York Reserve Bank in the light of all comments received.

Following remarks by Mr. Holland in supplementation of his memorandum, Governor Daane expressed the view that there was a clear need not to interfere unduly with the trading arrangements of the dealers. They evidently had taken a close look at possible alternative ways of trying to operate if the proposed amendment was made effective, but none of the possibilities seemed very satisfactory. On the procedural side, in view of the nervous market there was much to be said for at least giving the dealers assurance that the Board was thinking of revising the proposed amendment. He did not see any reason for extending the deadline for submission of comments, but he favored giving the dealers assurance informally.

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Mr. Hexter said he saw no objection to assuring the dealers that the Board was aware of their problem and was considering it carefully. However, he would assume this did not mean an assurance that the Board would take care of the situation. As between an actual amendment to the proposed amendment and an assurance of that sort, he thought the first alternative would be preferable because it would not involve giving a "blank check."

Governor Daane said his thinking would be simply to advise the dealers that a certain revision of the proposed amendment was being contemplated and to ask their reaction.

Governor Mitchell expressed the view that the dealers should be given some assurance of a hearing before the Board came to a final decision, but he was not sure that the public interest had been adequately considered in drawing up the suggested revision. He doubted whether it represented the best possible solution. It might be difficult to find a solution that was satisfactory from the standpoint of public policy as well as from the standpoint of the dealers.

Governor Robertson commented that what had been done, in effect, was to put the staff in the role of representing the dealers. He was not inclined to agree with the particular suggestion that had been made, and he felt that the problem deserved more detailed analysis. Like Governor Mitchell, he would display sympathy for the position of the dealers and for the proper functioning of the market. The dealers should be told to put their views down in black and white, and then they should be allowed

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to come down and discuss the matter with the Board. Thus the Board would have the possibility of interrogating them and considering various possible solutions; otherwise, the Board could be embarrassed by a charge that it was trying to protect a specific group of people rather than the public interest.

Governor Daane observed that the Board had a strong interest in the maintenance of a viable Government securities market. He would be agreeable to listening to the dealers, but he doubted whether anything new would be brought out. He then asked Mr. Holland if the latter thought that a general assurance to the dealers and an opening of the way for an appearance before the Board would be sufficient.

Mr. Holland replied that the dealers might feel that what they had said up to now had not been persuasive enough for the Board to reach a conclusion.

In further discussion, Chairman Martin observed that the Government securities market was one for which the System had a responsibility and that the market was presently in a disheartened state. Any move carrying implications that might stir up the market further should be avoided if possible.

Governor Maisel commented it seemed to be a question principally of how the issue was put. It would be proper, he thought, to make known to the dealers that there was a great deal of sympathy with their situation, but the question of appropriate procedures also had to be considered. The problems involved having been explored, it would seem desirable to

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have the dealers down for an informal hearing as one of the groups that had responded to the Federal Register notice. The Board, of course, would retain the right to work out what it considered to be the best possible solution to the problem.

After further discussion, Chairman Martin suggested that the replies received thus far in response to the Federal Register notice be circulated to the members of the Board. Then a decision could be made on whether to have a hearing, and if so in what manner this could be done with least disruption to the market. He asked Mr. Holland if the latter thought the dealers could be advised that the Board was going to consider the matter and give them a chance to be heard, without disrupting the market unduly.

Mr. Holland responded that it might be helpful if the dealers could be allowed to comment on some alternative proposal.

Governor Shepardson addressed himself to the question of procedure at this point and brought out that the Board had published a notice indicating that it would receive comments until a certain date. Therefore, it would seem appropriate to tell the dealers that the Board would not make a final decision until all the comments had been received and fully analyzed; and at that point, if there were questions that needed consideration, the dealers would be given an opportunity to be heard. As he saw it, there was no reason to extend the date for submission of comments. The dealers would be given assurance, however, that following analysis of

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the comments received, they would have an opportunity to express themselves on any proposal the Board might then have in mind.

Mr. Holland expressed the view that such an approach would take care of the major part of the dealers' concern. The dealers would be assured of an opportunity to comment on any changes in the published proposed amendment before final action was taken by the Board. Such an assurance should reduce the current state of nervousness.

Mr. Molony then suggested also authorizing Mr. Holland and the Open Market Account Manager to discuss with the dealers the proposal described in Mr. Holland's memorandum as something that had been developed at staff level as a result of previous conversations with the dealers. Mr. Hexter indicated that he could see no objection to proceeding on such a basis, and Mr. Holland said he thought it would be helpful.

After further discussion, during which it was pointed out that the staff should be careful to avoid implying that the Board would necessarily go along with the proposal, it was agreed that the suggested procedure would be followed.

Secretary's Note: Attached as Item No. 11 is a copy of a wire sent later in the day to President Hayes of the New York Reserve Bank.

Record of Board policy actions. There had been distributed a memorandum from Mr. Sherman dated January 31, 1966, transmitting a draft of the record of Board policy actions for 1965 proposed for inclusion in the Annual Report. There had also been distributed, with a memorandum

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from Governor Maisel dated February 15, a revision of the explanatory statement concerning the dissenting votes on the December 3 discount rate action.

Governor Daane requested an opportunity to study the December 3 entry further, and consideration of the policy record therefore was deferred.

Application of Virginia Commonwealth Corporation. A memorandum from the Division of Examinations dated February 4, 1966, had been distributed, along with other pertinent papers, regarding the application of Virginia Commonwealth Corporation, Richmond, Virginia, to acquire shares of The Bank of Central Virginia, Lynchburg, Virginia.

Mr. Lyon commented in support of the Division's recommendation for approval, his summarization being based on the material submitted, and after discussion the application was approved unanimously, with the understanding that an order and statement reflecting this decision would be prepared for the Board's consideration.

Application of Wells Fargo Bank. There had been distributed a memorandum from the Division of Examinations dated December 1, 1965, regarding the application of Wells Fargo Bank, San Francisco, California, to merge with Bank of Sonoma County, Sebastopol, California. The Division recommended denial, whereas the Federal Reserve Bank of San Francisco had recommended approval. There had also been distributed a memorandum from the Division dated February 14, 1966, attaching supplemental data submitted by the banks involved in the proposed merger following a meeting

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with members of the Board's staff. This meeting occurred after the report on competitive factors by the Department of Justice had been supplied to the banks. The Division did not feel that the supplemental information was such as to warrant a change in its original adverse recommendation.

Further, there had been distributed a memorandum from the Legal Division dated December 13, 1965, concluding that the convenience and needs factor lent virtually no support for approval of the merger and that the net effect on banking competition would be significantly adverse.

Mr. Shay pointed out that legislation establishing new standards for the approval of bank mergers was presently awaiting the President's signature, thus raising the question whether the Board would wish to defer action on the Wells Fargo application. If the Board were to act today, the order and statement would so indicate, but the order and statement could hardly be prepared and issued until after the new legislation was in effect.

Governor Robertson suggested putting the matter over for consideration after the new legislation was signed by the President. In the meantime, the staff could furnish the Board a memorandum analyzing the application in the light of the standards contained in the new law.

In further discussion, reference was made to the recommendation for denial by the Division of Examinations and question was raised whether there would be some advantage, if the Board agreed with that recommendation, in acting under the present law, thus making it clear that the

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change in the law was not responsible for denial of the application. Governor Shepardson remarked, however, that he had some question about the adequacy of the documentation on this case. He had found the supplemental data supplied by the banks quite interesting and thought it reflected local factors not fully apparent from the staff analysis, which stressed statistical evidence. He also noted that there apparently had been no effort to check back with the Reserve Bank to see whether it wished to submit further views in support of its recommendation for approval. In this connection he observed that the Reserve Bank's analysis had not been included with the papers distributed to the Board.

After further discussion, it was agreed to defer consideration of the application until after the pending legislation had been signed.

Directors Day. Reference was made to the question of arranging the program for Directors Day (March 24, 1966), and after discussion it was agreed that Governors Shepardson and Daane would work with appropriate members of the staff in developing a tentative program.

Proposed bill to amend Federal Deposit Insurance Act (Item No. 12). There had been distributed a memorandum from the Legal Division dated February 17, 1966, transmitting a draft of report to the Bureau of the Budget on a proposed bill to amend the Federal Deposit Insurance Act to authorize issuance of cease and desist orders, and for other purposes. The Bureau's February 15 letter had requested the Board's views no later than today.

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The principal effect of the proposed bill would be to give the Federal Deposit Insurance Corporation authority to issue orders requiring any insured bank to cease and desist from various specified actions, and also to suspend or remove officers or directors of insured banks. It was the Board's view, however, that any such authority should be given to each of the three Federal bank supervisory agencies, for application in dealing with the category of banks under its supervisory jurisdiction, and that the reply to the Budget Bureau should so state. As to the specific provisions of the draft bill, it was the Board's view that the letter to the Bureau should indicate that insufficient time had been provided for their evaluation.

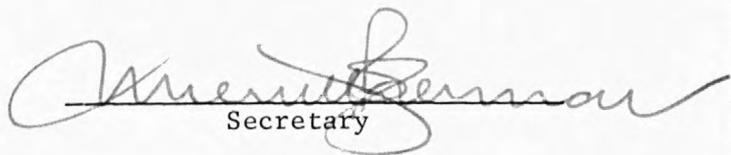
Accordingly, unanimous approval was given to a letter in the form attached as Item No. 12.

The meeting then adjourned.

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

Letter to the Federal Reserve Bank of San Francisco (attached Item No. 13) approving the appointment of Robert Joseph Sullivan as assistant examiner.

Memorandum from the Division of Data Processing recommending the appointment of Isaac Vandorer Banks, Jr., as Digital Computer Programmer (Trainee) in that Division, with basic annual salary at the rate of \$5,523, effective the date of entrance upon duty.


Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 1
2/18/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 18, 1966



Board of Directors,
Manufacturers Hanover Trust Company,
New York, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System extends to February 20, 1967, the time within which Manufacturers Hanover Trust Company, New York, New York, may establish a branch at 446-48 McDonald Avenue, Borough of Brooklyn, New York, New York.

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. 2
2/18/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 18, 1966



Board of Directors,
Upper Main Line Bank,
Paoli, Pennsylvania.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Upper Main Line Bank, Paoli, Pennsylvania, of a branch at 650 Lancaster Avenue, Berwyn, Pennsylvania, in connection with the relocation of the bank's main office from that location to 24 East Lancaster Avenue, Paoli, Pennsylvania.

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
2/18/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 18, 1966

Board of Directors,
Marine Midland Trust Company
of Western New York,
Buffalo, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Marine Midland Trust Company of Western New York, Buffalo, New York, of a branch (mobile banking facility) at 5582 Lake Shore Road, Wanakah (unincorporated area), Town of Hamburg, Erie County, New York, provided the branch is established within six months 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. 4
2/18/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 18, 1966

Board of Directors,
Bordentown Banking Company,
Bordentown, New Jersey.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Bordentown Banking Company, Bordentown, New Jersey, of a branch on Route 528, in the Community of Chesterfield, Chesterfield Township, Burlington County, 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. 5
2/18/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 18, 1966

Board of Directors,
Union Bank,
Los Angeles, California.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Union Bank, Los Angeles, California, of a branch in the vicinity of the intersection of Hawthorne Boulevard and Carson Street, Torrance, California, provided the branch is established within six months 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. 6
2/18/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 18, 1966.

Bank of America National Trust
and Savings Association,
300 Montgomery Street,
San Francisco, California. 94120

Gentlemen:

The Board of Governors of the Federal Reserve System grants its permission to Bank of America National Trust and Savings Association, San Francisco, California, pursuant to the provisions of Section 25 of the Federal Reserve Act, to establish a branch in the City of Zurich, Switzerland, and to operate and maintain such branch subject to the provisions of such Section and of Regulation M.

Unless the branch is actually established and opened for business on or before February 1, 1967, all rights granted hereby shall be deemed to have been abandoned and the authority hereby granted will automatically terminate on that date.

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.

Please inform the Board of Governors, through the Federal Reserve Bank of San Francisco, when the branch is opened for business, furnishing information as to the exact location of the branch. The Board should also be promptly informed of any future change in location of the branch within the City of Zurich.

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. 7
2/18/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 18, 1966

Mr. Philip E. Coldwell,
First Vice President,
Federal Reserve Bank of Dallas,
Station K,
Dallas, Texas. 75222

Dear Mr. Coldwell:

This is in response to your letter of February 3 with respect to the legal authority of a Reserve Bank to discount, for a national bank, a note evidencing a loan made by the national bank in excess of the limitations prescribed in section 5200 of the Revised Statutes (12 U.S.C. 84). In the circumstances of this case, the applicable "legal limit" of the national bank is \$125,000, and the current balance on the note is \$128,700.

Your letter refers to the fifth paragraph of section 13 of the Federal Reserve Act (12 U.S.C. 345), relating to the discounting powers of the Reserve Banks, which provides that

"The aggregate of notes . . . upon which any person . . . is liable . . . , rediscounted for any member bank, shall at no time exceed the amount for which such person . . . may lawfully become liable to a national banking association under the terms of section 5200"

In view of the quoted provision, it is clear, as you imply, that the Reserve Bank could not in any event discount the note in question to the extent of the entire remaining balance of \$128,700. The question you present is "whether a single note which is above the legal limit can be rediscounted to the extent of the legal limit [in this case, \$125,000] or must be rejected."

In the opinion of the Board, the above-quoted provision of section 13 must be interpreted in the light of a related provision of the thirteenth paragraph of section 9 (12 U.S.C. 330):

Mr. Philip E. Coldwell

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" . . . no Federal reserve bank shall be permitted to discount for any State bank . . . notes . . . of any one borrower who is liable for borrowed money to such State bank . . . in an amount greater than that which could be borrowed lawfully from such State bank . . . were it a national banking association. The Federal reserve bank, as a condition of the discount of notes . . . for such State bank . . . , shall require a certificate or guaranty to the effect that the borrower is not liable to such bank in excess of the amount provided by this section, and will not be permitted to become liable in excess of this amount while such notes . . . are under discount with the Federal reserve bank."

The purpose and effect of this statutory provision (see also section 201.4(a)(3) of Regulation A) is to assure that member State banks shall not extend credit to any borrower beyond the limits prescribed by the National Bank Act while paper of such borrower is held by a Reserve Bank in a rediscount status. Presumably the provision was made applicable only to State member banks because it was assumed that national banks would comply with the statutory lending limits applicable to them.

If the fifth paragraph of section 13 of the Federal Reserve Act, which is the only statutory provision applicable to national banks in this connection, were interpreted to permit rediscount of the note referred to in your inquiry, an anomalous situation would exist. A State member bank would be legally barred from discount privileges by the thirteenth paragraph of section 9, even though it was conducting its business in entire compliance with applicable laws; whereas a national bank that had made a loan in violation of the National Bank Act would be in a better position--that is, it could discount the "illegal" note to the amount of its applicable loan limit.

A fundamental principle of statutory construction is that the legislative purpose shall be effected, if possible, and absurd and incongruous results shall be avoided. For this reason, it might be concluded, as a matter of law, that the fifth paragraph of section 13 (and section 201.3(j)(1) of Regulation A) should be interpreted as prohibiting Federal Reserve rediscounting of notes such as that described in your inquiry.

However, it does not appear to be necessary to resolve the matter on the basis of legal eligibility under the applicable law and

Mr. Philip E. Coldwell

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regulations. The above-quoted provision of the thirteenth paragraph of section 9 evidences a legislative attitude that the Reserve Banks should not discount notes of a borrower whose obligations to the member bank exceed the limitations prescribed in R. S. 5200. Even though, for the reason previously mentioned, the Federal banking laws do not explicitly prohibit extension of discount privileges to national banks in such circumstances, the Reserve Banks would not be warranted in extending such accommodation to national banks, thereby granting them benefits that must be denied to member State banks whose position in this respect is, if anything, more meritorious.

The Board concludes that, as a matter of policy, the Reserve Banks should not discount for any member bank, national or State, any obligation of a borrower who is liable to such member bank in an amount greater than that which could be borrowed lawfully from a national bank in the circumstances of the particular case.

The Board assumes that your inquiry refers to rediscounting (or an advance) under section 13 of the Federal Reserve Act--that is, at the "ordinary" discount rate. The Board has expressed the opinion that the above-quoted provisions of section 13 and section 9, and the provisions of Regulation A pursuant thereto, "are not applicable to advances made under the provisions of section 10(b)." (1938 Federal Reserve Bulletin 571; Federal Reserve Loose-Leaf Service #4842; Interpretations ¶910.)

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

TELEGRAM
LEASED WIRE SERVICEItem No. 8
2/18/66**BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM**
WASHINGTON

February 18, 1966

Swan - San Francisco

Board will interpose no objection to your Bank's
engaging engineering consultant in connection with
project for improving emergency electrical capacity
in the San Francisco Bank building, as described in
your letter of February 4, 1966.

(Signed) Kenneth A. Kenyon

KENYON

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 9
2/18/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 18, 1966

CONFIDENTIAL (FR)

Mr. Judson Bemis,
Chairman of the Board,
Federal Reserve Bank of Minneapolis,
Minneapolis, Minnesota. 55440

Dear Mr. Bemis:

Mr. Strothman has recently inquired concerning arrangements that might be made to guarantee short-term Presidents minimum retirement allowances.

The Board, at a meeting of the Conference of Chairmen on December 4, 1959, discussed this subject and since that time has approved such arrangements entered into by several Federal Reserve Banks wherein the particular Bank guarantees to a recipient a minimum retirement allowance of 40 per cent of final salary after attainment of age 65 provided the recipient has not less than ten years' service creditable under the Federal Reserve Retirement System and is serving as President of that Bank at the time of retirement.

The Board is prepared to give consideration to a similar agreement in the case of Mr. Galusha if recommended by your Board of Directors. For the purpose of placing such a proposal in effect there are enclosed three copies of an Agreement, which has been used with certain other Reserve Banks, which may be executed by Mr. Galusha and the Federal Reserve Bank of Minneapolis. If you and Mr. Galusha will execute such an Agreement in triplicate, the Secretary of the Board of Governors will affix his signature and will return the original and one copy to you for your records and that of Mr. Galusha.

To illustrate some of the provisions of the agreement should Mr. Galusha retire as President on April 1, 1984, on reaching age 65 assuming his present salary rate, he would be guaranteed a total minimum allowance of \$15,000. His retirement allowance from the Retirement System of the Federal Reserve Banks (pension and annuity) would approximate \$14,315 on this basis and about \$685 would be payable by the

Mr. Judson Bemis

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Federal Reserve Bank of Minneapolis to make up the \$15,000 figure. This, of course, has assumed the present salary rate only for example purposes. With a higher final salary Mr. Galusha's differential between the guaranteed minimum allowance and the total of his pension and annuity received from the Retirement System will increase.

This guaranteed minimum allowance would be adjusted downward for retirement at any age earlier than 65 by the pension reduction formula applicable to the Retirement System at the time of his earlier retirement. The post-retirement payments by the Bank would cease at his death, with no provision for payments to his wife. Mr. Galusha would not contribute to the supplemental allowance, which would be paid from Bank funds.

In addition to the benefits he would receive under the guaranteed minimum allowance agreement, Mr. Galusha would also be entitled to Social Security benefits at age 65.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

Enclosure.

For and in consideration of the mutual promises of each party hereto, this Agreement is entered into between HUGH D. GALUSHA, JR. and the FEDERAL RESERVE BANK OF MINNEAPOLIS, MINNEAPOLIS, MINNESOTA.

Subject to all of the applicable provisions of law, HUGH D. GALUSHA, JR. agrees to serve as an officer of the said FEDERAL RESERVE BANK as long as such service shall be mutually agreeable to the parties hereto.

For and on account of such service, said FEDERAL RESERVE BANK shall pay said HUGH D. GALUSHA, JR. as follows:

- (1) Said FEDERAL RESERVE BANK shall pay to said HUGH D. GALUSHA, JR. a salary at the rate of \$37,500 per annum during the period ending December 31, 1966, and thereafter during his service as an officer of said FEDERAL RESERVE BANK and prior to his retirement his salary shall be as determined from time to time in accordance with applicable provisions of law;
- (2) If, having attained the age of 65, said HUGH D. GALUSHA, JR. shall retire with not less than 10 years of service creditable under the Retirement System of the Federal Reserve Banks, and if he is President of said FEDERAL RESERVE BANK at the time of his retirement, said FEDERAL RESERVE BANK shall pay to said HUGH D. GALUSHA, JR. after such retirement and during the remainder of his lifetime an amount per annum which, together with his regular retirement

allowance under the Retirement System of the Federal Reserve Banks (without regard to optional benefits or conversion, or additional voluntary contributions), will aggregate a sum equal to 40 per cent of the annual salary being paid to him at the time of his retirement; and

- (3) If, without having attained the age of 65, said HUGH D. GALUSHA, JR. shall retire with not less than 10 years of service creditable under the Retirement System of the Federal Reserve Banks, and if he is President of said FEDERAL RESERVE BANK at the time of his retirement, the aggregate sum equal to 40 per cent of salary referred to in the preceding paragraph (2) shall be reduced by the application of the then current table of pension reduction factors of the Bank Plan of the Retirement System of the Federal Reserve Banks, and the portion of the aggregate that is payable by said FEDERAL RESERVE BANK shall be the difference between the dollar amount represented by such lesser percentage of salary and the regular retirement allowance payable at the attained age by said Retirement System.

This Agreement does not obligate the said HUGH D. GALUSHA, JR. to remain as an officer of the said FEDERAL RESERVE BANK, and does not constitute an Agreement by the said FEDERAL RESERVE BANK or the Board

of Governors of the Federal Reserve System that he will continue in such capacity; it does not obligate the said FEDERAL RESERVE BANK to appoint, reappoint, or continue him as an officer, nor does it obligate the Board of Governors of the Federal Reserve System to approve his appointment or reappointment or his compensation.

Witness our hands and seals this _____ day of _____,

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HUGH D. GALUSHA, JR.

FEDERAL RESERVE BANK OF MINNEAPOLIS

By _____
Chairman of Board of Directors

Attest:

Secretary, Board of Directors

The above Agreement has been approved by the Board of Governors of the Federal Reserve System and in witness thereof, the seal of the said Board is attached and its Secretary has affixed his signature.

(Date)

Secretary



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 10
2/18/66

OFFICE OF THE CHAIRMAN

February 18, 1966

The Honorable Wright Patman,
Chairman, Committee on Banking and Currency,
House of Representatives,
Washington, D. C. 20515

Dear Mr. Chairman:

This is in response to your letter of February 15, 1966, in which you asked for a report on H. R. 5305, to authorize revised procedures for destruction of unfit Federal Reserve notes.

The Board urges prompt approval of the bill. It is needed not simply because it will save money but also because the day is fast approaching when the Federal Reserve Banks will not have room in their vaults to store the ever-increasing number of unfit Federal Reserve notes on hand.

The Board concurs in the opinion expressed in the letter sent to your Committee on January 21, 1966 by Mr. Carlock, Fiscal Assistant Secretary of the Treasury, that the General Accounting Office would be authorized to audit the cancellation and destruction of unfit Federal Reserve notes under the bill and the accounting therefor. GAO will be given access to records and procedures in the Reserve Banks to the extent necessary to carry out these responsibilities.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

T E L E G R A M
LEASED WIRE SERVICEItem No. 11
2/18/66BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

February 18, 1966

HAYES - NEW YORK

REURLET and accompanying memorandum dated February 16, 1966, regarding Board's proposed amendment to Regulations Q and D published in Federal Register January 26, Board is not prepared to adopt a different definition of deposits than that contained in proposal before having received and fully considered all comments that may be submitted pursuant to notice published in Federal Register. It is, however, apprised of the problems that you cite regarding Government security dealers (some dealers have submitted views directly to Board) and it is sympathetic to the need for careful consideration of those views. Board will, of course, be glad to receive further comments that any dealers may wish to submit along with any specific proposals for solution to the problem they visualize.

Promptly after February 25, Board will begin full review of all comments received regarding all aspects of proposed amendments to Regulations Q and D. Before adoption and promulgation of such amendments, interested parties who have expressed concern regarding matter you discuss will have a further opportunity to comment on the problem and any modifications Board may conclude would be appropriate.

In the meantime, there is no objection to your informing dealers of the gist of this wire, nor is there objection to staff discussing with dealers specific suggestions as to how the problem they visualize might be alleviated without

Hayes - New York

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seriously compromising purpose of proposed amendments. It is understood that Mr. Holland of Board's staff is keeping in touch with Mr. Holmes regarding informal discussions that may be held with such dealers.

(Signed) Sherman

SHERMAN

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 12
2/18/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 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 your letter of February 15, 1966, requesting that there be submitted to the Bureau of the Budget by February 18, 1966, the Board's views on the Federal Deposit Insurance Corporation's draft bill, "To amend the Federal Deposit Insurance Act to authorize the issuance of cease-and-desist orders, and for other purposes."

The Corporation's bill would amend sections 8 and 10 of the Federal Deposit Insurance Act so as to authorize the Corporation, if and when certain circumstances are found by the Corporation to exist, to issue against any insured bank cease and desist orders, either "permanent" or "temporary" in effect, and to suspend and remove officers or directors of insured banks. The Board has been advised by the Corporation of a proposal to add a further section to its draft bill that would amend section 9 of the Act so as to grant to U. S. District Courts original jurisdiction of all civil suits at law or in equity to which the Corporation shall be a party, without regard to the amount in controversy, and to give to the Corporation the right to remove any proceeding from a State court to a U. S. District Court.

The Board concurs in the Corporation's opinion that the banking industry and the public would be benefited by legislation that would permit prompt remedial action by a Federal bank supervisory authority when a determination is made that a particular bank or its officers or directors are engaged in actions or practices constituting or threatening violations of law, rule, or regulation, or are engaged in any unsafe or unsound banking practice. The clearest

Mr. Phillip S. Hughes

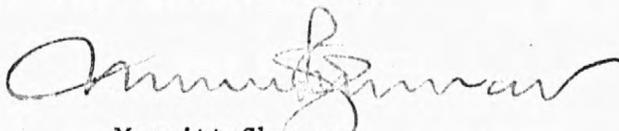
-2-

example of a circumstance giving rise to the need for the remedial action proposed by the bill is the case of actions or practices in a particular bank which, if not promptly discontinued and corrected, could result in the closing of the bank.

Accordingly, the Board favors enactment of legislation that would confer on the three Federal bank supervisory authorities, with regard to banks under their respective regulatory and supervisory jurisdictions, the general powers of prohibition and enforcement reflected in the Corporation's proposed bill. The Board believes that the interests of the public, State member banks, and their officers and directors require that, with respect to State member banks, the cease and desist, suspension, and removal powers enumerated in the Corporation's bill be vested in the Board. In the Board's judgment, these interests have been served by the Board's exercise of numerous other regulatory and supervisory responsibilities with respect to State member banks.

In view of the limited time afforded the Board to study the draft bill and submit its views, the Board is unable at this time to express an opinion on specific provisions of the bill.

Very truly yours,



Merritt Sherman,
Secretary.

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

Item No. 13
2/18/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 21, 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 February 14, 1966, the Board
approves the appointment of Robert Joseph Sullivan
as an assistant examiner for the Federal Reserve
Bank of San Francisco, effective today.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

