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. Shepardson
Gov. Mitchell
Gov. Daane
Gov. Maisel
Minutes of the Board of Governors of the Federal Reserve System on Friday, March 4, 1966. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Robertson, Vice Chairman
Mr. Mitchell
Mr. Maisel

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Young, Senior Adviser to the Board and Director, Division of International Finance
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Morgan, Staff Assistant, Board Members' Offices


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

Money market review. Mrs. Peskin presented a report on developments in the Government securities market, and this report was followed by a general discussion of the subject. In connection with the report, there were distributed materials affording perspective on the money market, capital market, and bank reserve utilization.

All members of the research staff except Messrs. Brill, Koch, Sammons, and Reynolds then withdrew from the meeting and the following entered the room:

Mr. Hackley, General Counsel
Mr. Solomon, Director, Division of Examinations
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Forrestal, Senior Attorney, Legal Division
Mr. Egertson, Supervisory Review Examiner, Division of Examinations
Discount rates. The establishment without change by the Federal Reserve Banks of New York, Philadelphia, and San Francisco on March 3, 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.

Approved items. The following items were approved unanimously after discussion of questions on several of the items that were raised by members of the Board. Copies are attached under the respective numbers indicated.


Letter to Bank of Warren, Front Royal, Virginia, approving the establishment of a branch at 610 North Royal Avenue.


Letter to the Federal Reserve Bank of Kansas City waiving the assessment of a penalty incurred by Citizens State Bank, El Dorado, Kansas, because of a deficiency in its required reserves.

Letter to American Bank and Trust Company, Racine, Wisconsin, approving an investment in bank premises.

Letter to the Bureau of the Budget regarding enrolled bill H.R. 12563, to provide for the participation of the United States in the Asian Development Bank.
Letter to the Small Business Administration regarding the eligibility of notes guaranteed by the Administration under its small business investment company program for purchase by Federal Reserve Banks and as security for advances. (With the understanding that an interpretation based on this letter would be published in the Federal Register.)

Report on competitive factors. Unanimous approval was given to the transmittal to the Federal Deposit Insurance Corporation of a report on the competitive factors involved in the proposed merger of The Northwestern Bank, North Wilkesboro, North Carolina, with Citizens Bank, Charlotte, North Carolina. The conclusion read as follows:

There is little, if any, competition existing between The Northwestern Bank, North Wilkesboro, and Citizens Bank, Charlotte.

Consummation of the proposed transaction would constitute another step in North Carolina toward the grouping of commercial banks into large aggregations and the consequent decline of locally headquartered banking outlets, and in this respect the competitive effect of the transaction appears adverse.

Exhibit on credit controls. There had been circulated a memorandum from Governor Mitchell dated February 18, 1966, relating to an offer by First National City Bank of New York to present to the Board as a gift an exhibit on the use of credit controls that had been on display in one of the bank's offices. Governor Mitchell concurred in a staff consensus that the exhibit, after some modifications for the sake of greater accuracy, could be useful as a display in the Federal Reserve Building for the information of visitors.
After discussion it was agreed to accept the offer, and the Board authorized payment of such expenses as might be involved in obtaining and installing the exhibit.

Review of foreign currency operations. With a memorandum from Mr. Molony dated March 3, 1966, there had been distributed a draft review of open market operations in foreign currencies prepared by the Special Manager of the System Open Market Account and proposed for inclusion in the Board's Annual Report for 1965. The memorandum noted among other things that the draft was being circulated to appropriate foreign central banks and that it would be adapted as necessary to take account of their comments.

Mr. Molony and Mr. Reynolds referred to language at certain portions of the review that was being discussed by the Board's staff with the Special Manager, and it was the consensus that the language proposed by the Board's staff was appropriate for use in the Annual Report. It was also the consensus that the description of foreign currency operations in the Annual Report need not be identical with the article on foreign currency operations that was to be published in a forthcoming issue of the New York Reserve Bank's Monthly Review.

New York holding company cases. With regard to the applications of Charter New York Corporation and BT New York Corporation to become bank holding companies, decided by the Board on February 16, 1966, but not yet announced, Mr. Fauver noted that the March 3 issue of the American
Banker made reference to a letter written to the Board by the Comptroller of the Currency indicating that, if these applications were approved, he would interpret such action as opening the State of New York to Statewide branch banking by national banks. This letter had been written by the Comptroller after he was furnished in routine fashion a copy of the BT New York Corporation application, in which no continuing national bank was involved. He had previously recommended approval of the Charter New York application.

Mr. Fauver related that he had received a request from the press for a copy of the Comptroller's letter, and it was agreed that there would be no objection to furnishing copies of the letter in response to such requests.

The meeting then adjourned.

Secretary's Notes: There was sent today to International Banking Corporation, New York, New York, a letter acknowledging receipt of advice that The First National City Bank of New York (South Africa) Ltd. intended to establish an additional branch in Cape Town, Republic of South Africa.

Acting in the absence of Governor Shepardson, Governor Robertson approved on behalf of the Board on March 3, 1966, a letter to the Federal Reserve Bank of New York (copy attached as Item No. 8) approving the appointment of Louis M. Bellotti as examiner.

Acting in the absence of Governor Shepardson, Governor Robertson today approved on behalf of the Board memoranda recommending the following actions relating to the Board's staff:
Appointments

Genevieve Patricia Duarte as Data Control Clerk, Division of Data Processing, with basic annual salary at the rate of $6,378, effective the date of entrance upon duty.

Paul L. Kelty as Economist, Division of Research and Statistics, with basic annual salary at the rate of $8,961, effective the date of entrance upon duty.
Board of Directors,
Chemical Bank New York
Trust Company,
New York, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System extends to November 23, 1966, the time within which Chemical Bank New York Trust Company may establish a branch at 1500 Forest Avenue, Port Richmond, Borough of Richmond, New York, New York.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.
Board of Directors,
Bank of Warren,
Front Royal, Virginia.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Bank of Warren, Front Royal, Virginia, of a branch at 610 North Royal Avenue, Front Royal, Virginia, 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.)
March 4, 1966.

Bank of America,
41 Broad Street,
New York, New York. 10015

Gentlemen:

As requested in your letter of February 8, 1966, the Board of Governors grants consent for your Corporation to purchase and hold 200,000 shares, par value Philippine Pesos 10 each, of Northern Industrial Finance Corporation, Manila, Philippines, at a cost of approximately US$513,000, 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 Bank of America National Trust and Savings Association, San Francisco, 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.
Mr. John T. Boysen,
First Vice President,
Federal Reserve Bank
of Kansas City,
Kansas City, Missouri.  64106

Dear Mr. Boysen:

This refers to your letter of February 18, 1966, regarding a penalty of $161.34 incurred by the Citizens State Bank, El Dorado, Kansas, on a deficiency in its required reserves for the computation period ended January 19, 1966.

It is noted that (1) the deficiency resulted from a charge to the bank’s reserve account in payment for securities your Bank purchased for the bank; (2) funds to cover the payment were to be transferred on the same day from the bank’s local correspondent but the transfer inadvertently was not made; (3) when the error was discovered, the bank was unable to make up the complete deficiency during the remainder of the computation period; and (4) the bank has had a good record for maintaining its required reserves.

In the circumstances, the Board authorizes your Bank to waive the assessment of the penalty of $161.34 for the period ended January 19, 1966.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.
Board of Directors,
American Bank and Trust
Company,
Racine, Wisconsin.

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 $815,595 by American Bank and Trust Company, Racine, Wisconsin, for bank building improvements, TV drive-in and parking facilities, allowance for variation in cost, and expenditures on bank premises not to be capitalized.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.
Mr. Phillip S. Hughes,  
Assistant Director for  
Legislative Reference,  
Bureau of the Budget,  
Washington, D. C. 20503

Dear Mr. Hughes:

This is in response to your communication of March 3, 1966, requesting the views of the Board on the enrolled bill H. R. 12563, "To provide for the participation of the United States in the Asian Development Bank."

The Board recommends that the bill be approved by the President.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.
Mr. Philip F. Zeidman, General Counsel,
Small Business Administration,
Washington, D. C. 20416

Dear Mr. Zeidman:

This is in reply to your letter of January 6, 1966, inquiring whether notes fully guaranteed as to principal and interest by the Small Business Administration ("SBA") under its small business investment company program would be eligible for purchase by Reserve Banks under section 14(b) of the Federal Reserve Act (12 U.S.C. 355) and as security for advances to member banks under the eighth paragraph of section 13 of that Act (12 U.S.C. 347).

It is understood that the loans in question are made to small business investment companies ("SBICs") pursuant to authority of section 303(b) of the Small Business Investment Act of 1958 (15 U.S.C. 683(b)). The stated purpose of the SBIC program is to provide equity capital and long-term funds, through the medium of SBICs, to small business concerns for the financing of their operations and for their growth, expansion, and modernization.

It is further understood that the loans to SBICs are made under one of two lending programs instituted by the SBA. Under the first program SBA sells with recourse to private financial institutions loans originally made by SBA to SBICs. This, in effect, is a sale of loans presently held in SBA's portfolio subject to an SBA guarantee. Under the second program SBA guarantees loans made in the first instance by private financial institutions to SBICs.

The eighth paragraph of section 13 provides in part that any Reserve Bank "... may make advances for periods not exceeding ninety days to its member banks on their promissory notes secured by
such notes, drafts, bills of exchange, or bankers' acceptances as are eligible for rediscount or for purchase by Federal reserve banks under the provisions of this Act." Section 14(b) provides in part that "... until July 1, 1966, any bonds, notes, or other obligations which are direct obligations of the United States or which are fully guaranteed by the United States as to principal and interest may be bought and sold without regard to maturities either in the open market or directly from or to the United States".

Although the Small Business Investment Act does not expressly pledge the "faith" or "credit" of the United States to the redemption of the SBA guaranteed notes, the Attorney General of the United States has stated that a guaranty by a Government agency is an obligation fully binding on the United States despite the absence of language in the statute expressly pledging the full faith and credit of the Government to the redemption of the guaranty. (42 Op. A.G. No. 1 of April 14, 1961.)

On the basis of this opinion and the authorities cited therein, the Board has concluded that notes covered by a 100 per cent SBA guaranty are fully guaranteed by the United States as to principal and interest within the meaning of section 14(b) of the Federal Reserve Act. Any such guaranteed notes are, therefore, eligible for purchase and as security for advances by Federal Reserve Banks.

The notes herein involved are to be distinguished from notes guaranteed by the SBA under section 7(a) of the Small Business Act (15 U.S.C. 636). Those notes, which were the subject of the Board's letter of April 20, 1965, are guaranteed by SBA only to the extent of 90 per cent of the balance due and therefore are not "fully guaranteed" by the United States.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman, Secretary.
Mr. Fred W. Piderit, Jr., Vice President,
Federal Reserve Bank of New York,
New York, New York. 10045

Dear Mr. Piderit:

In accordance with the request contained in your letter of February 28, 1966, the Board approves the appointment of Louis M. Bellotti, at present an assistant examiner, as an examiner for the Federal Reserve Bank of New York. Please advise the salary rate and the effective date of the appointment.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.