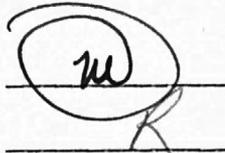


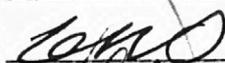
The attached minutes of the meeting of the Board of Governors of the Federal Reserve System on March 18, 1966, which you have previously initialed, have been amended at the request of Governor Brimmer to revise his comments in the first paragraph on page 6.

If you approve the minutes as amended, please initial below:

Chairman Martin



Governor Robertson



Governor Shepardson



Governor Mitchell



Minutes for March 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.

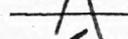
It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

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



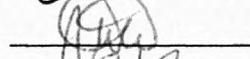
Gov. Shepardson



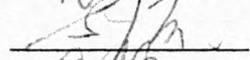
Gov. Mitchell



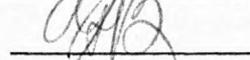
Gov. Daane



Gov. Maisel



Gov. Brimmer



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

PRESENT: Mr. Martin, Chairman
Mr. Shepardson
Mr. Maisel
Mr. Brimmer

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Broida, 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. Solomon, Director, Division of Examinations
Mrs. Semia, Technical Assistant, Office of the
Secretary
Mr. Morgan, Staff Assistant, Board Members'
Offices

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

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

Money market review. Mr. Bernard discussed developments in the Government securities market, after which Mr. Ettin commented on bank credit developments and analyzed, with the aid of a distributed table, the trend of rates on negotiable certificates of deposit. Other distributed material included tables or charts on the daily performance of new 3-month Treasury bills following weekly auctions, on bank reserve utilization, and on money, capital, and financial markets. Mr. Baker

3/18/66

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then reviewed foreign exchange markets and related matters, referring in a portion of his remarks to a distributed table on nonresident security issues.

Members of the research staff not concerned with the topics hereinafter discussed withdrew from the meeting at this point and the following entered the room:

Mr. Hackley, General Counsel
 Mr. Hexter, Associate General Counsel
 Mr. O'Connell, Assistant General Counsel
 Mr. Williams, Adviser, Division of Research and Statistics
 Mr. Leavitt, Assistant Director, Division of Examinations
 Messrs. Egertson, Supervisory Review Examiner, and Poundstone,
 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 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.

Approved items. The following letters were approved unanimously after consideration of background information that had been made available to the Board. Copies of the letters are attached under the item numbers indicated.

Item No.

Letter to The Commercial Savings Bank, Adrian,
 Michigan, approving the establishment of in-town
 branches at two specified locations and comment-
 ing on the bank's capital position.

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	<u>Item No.</u>
Letter to International Banking Corporation, New York, New York, approving the purchase of additional shares of Banque Internationale pour l'Afrique Occidentale, Paris, France.	2
Letter to International Banking Corporation, New York, New York, approving the purchase of additional shares of Banco de Honduras, S.A., Tegucigalpa, Honduras.	3
Letter to The National Bank of Commerce in New Orleans, New Orleans, Louisiana, regarding determination of its legal lending limit.	4
Letter to Counsel for The Central Bank and Trust Company, Denver, Colorado, granting an extension of time to file exceptions and brief in the matter of the application of Denver U.S. Bancor- poration, Inc., Denver, Colorado, to acquire control of The Mercantile Bank and Trust Com- pany, Boulder, Colorado.	5

Gold loan (Item No. 6). There had been distributed a memorandum from Mr. Young dated March 17, 1966, recommending approval of a request for 90-day renewal of gold loans to the Central Bank of the Philippines of \$15 million and \$5 million maturing March 23 and April 4, 1966, respectively. The renewals had been authorized by the directors of the Federal Reserve Bank of New York, subject to the approval of the Board of Governors, on the same terms and conditions as applied to the original loans.

The original loans had been authorized in November 1965 in response to a request from the Central Bank based on anticipated heavy

3/18/66

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seasonal demands on reserves and on expected exchange rate action. Because of a temporarily better reserve situation than anticipated, the loans were not drawn on until December and early January. In the request for renewal the Central Bank stated that conditions in the local exchange markets had improved and purchases of surplus exchange in the market were on the uptrend, the expected continuation of which would enable repayment of the loans during the coming months.

After discussion the Board unanimously approved renewal of the loans. A copy of the telegram so informing the Federal Reserve Bank of New York is attached as Item No. 6.

Report on H.R. 11916 (Item No. 7). There had been distributed a draft of reply to a request from Chairman Dawson of the House Committee on Government Operations for the Board's comments on H.R. 11916, a bill "To amend the Employment Act of 1946 to bring to bear an informed public opinion upon price and wage behavior which threatens national economic stability."

The bill would give the Joint Economic Committee responsibility for reviewing and evaluating the general wage-price guideposts to be submitted to the Committee each year by the Council of Economic Advisers. If the Committee found such guideposts inappropriate, it would be required to recommend appropriate ones to the Senate and House. The bill also would authorize the Committee to hold public hearings on individual price and wage behavior--actual or imminent--that appeared

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inconsistent with the guideposts and to report its findings and recommendations to the House and Senate for actions to be taken by the President or the parties concerned.

The draft reply, after offering comments generally favorable to the broad purpose of the proposal, namely, to direct greater attention to the importance of avoiding inflation and to the role of private decisions in contributing to economic stability, would state that "The Board sees no need for passage of this bill at this time. The current problem is one of excessive aggregate demand which can be dealt with best by monetary and fiscal policy. Moreover, there is the risk that a Joint Economic Committee annual review of the Council's general guideposts might tend to make less flexible an instrument of policy which is still somewhat experimental and may best continue to be administered more loosely on an advisory and experimental basis."

Governor Maisel distributed, at this meeting, an alternative that would replace several passages in the draft letter. He suggested expressing the view that there was no urgent need for passage of the bill at this time and noting the risk that further formalization of the present program might tend to make less flexible an instrument of policy that was still somewhat experimental. This approach, he observed, would leave the Board in a better position should developments over a period of time seem to warrant support of procedures along the lines contemplated by the bill.

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Governor Brimmer said that he was rather attracted to a sentence in the portion of the draft suggested for deletion that would express reservations about the wisdom of bringing both the executive and the legislative branches into extensive discussion, debate, and public hearings about individual price and wage decisions. In his view, it would be inadvisable to force company executives to explain in public why they made certain decisions; he would not want to discourage the informal and confidential wage-price discussions conducted within the executive branch.

Further discussion developed several suggestions as to how the foregoing points might be accommodated, and it was understood that a revised draft reply would be prepared.

Secretary's Note: At its meeting on March 21 the Board considered the matter further in the light of alternative staff drafts that had been distributed. Additional suggestions were made, and unanimous approval was given to a letter to Chairman Dawson in the form attached as Item No. 7.

Report by Mr. Brill. Mr. Brill reported informally on his attendance at the recent meeting in Paris of the Economic Policy Committee of the Organization for Economic Cooperation and Development.

All members of the staff except Messrs. Sherman and Solomon (Examinations) then withdrew.

Salary of Reserve Bank officer (Item No. 8). After discussion, unanimous approval was given to a letter to the Federal Reserve Bank

3/18/66

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of Cleveland (attached Item No. 8) approving the payment of salary to Vice President Harry W. Huning at the annual rate of \$19,000 for the period April 1 through December 31, 1966.

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 Boston (attached Item No. 9) approving the appointment of Howard Byron Everett as examiner.

Letter to the Federal Reserve Bank of New York (attached Item No. 10) approving the appointment of Vincent J. Conlan as assistant examiner.

Memorandum from the Division of Data Processing dated March 18, 1966, recommending that a new position of statistical assistant be established in the Financial Statistics Section.

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

Appointments

Susan Jane Herron as Clerk-Typist, Division of Personnel Administration, with basic annual salary at the rate of \$4,289, effective the date of entrance upon duty.

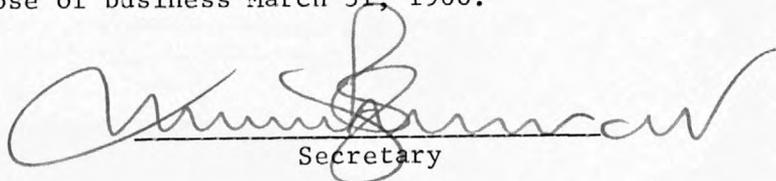
Janet Lou Lemley as Stenographer, Division of Personnel Administration, with basic annual salary at the rate of \$4,953, effective the date of entrance upon duty.

Transfer

Cecilia Ann Lawson, from the position of Clerk-Typist in the Division of Personnel Administration to the position of Clerk-Typist in the Office of the Secretary, with no change in basic annual salary at the rate of \$4,569, effective March 27, 1966.

Acceptance of resignation

Dorothy E. Swink, Research Assistant, Division of Research and Statistics, effective at the close of business March 31, 1966.


Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 1
3/18/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 18, 1966

Board of Directors,
The Commercial Savings Bank,
Adrian, Michigan.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by The Commercial Savings Bank, Adrian, Michigan, in the Southland Plaza Shopping Center, South Main Street, Adrian, Michigan, and a branch at 2170 North Main Street, Adrian, Michigan, provided the branches are established within six months from the date of this letter.

The Board notes that Vice President Ross of the Federal Reserve Bank of Chicago commented upon your bank's capital position in his letter to you dated March 4, 1966. The Board concurs in his remarks and also urges that consideration be given to means of strengthening your bank's capital position so that future growth will be on a sound basis.

Very truly yours,

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 branches; 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
3/18/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 18, 1966.



International Banking Corporation,
399 Park Avenue,
New York, New York. 10022

Gentlemen:

As requested in your letter of February 14, 1966, the Board of Governors grants consent for International Banking Corporation to purchase and hold additional shares of the capital stock of Banque Internationale pour l'Afrique Occidentale, Paris, France, at a cost of approximately US\$1,960,000, provided such stock is acquired within one year from the date of this letter.

The Board's consent is granted subject to the same conditions prescribed in the Board's letters of July 23, 1964, and September 4, 1964, granting consent to the purchase of shares of Banque Internationale pour l'Afrique Occidentale.

The Board also approves the purchase and holding of shares of Banque Internationale pour l'Afrique Occidentale within the terms of the above consent in excess of fifteen 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, First National City Bank and First National City Overseas Investment 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 amounts 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) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 3
3/18/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 18, 1966.

International Banking Corporation,
399 Park Avenue,
New York, New York. 10022

Gentlemen:

As requested in your letter of February 11, 1966, the Board of Governors grants consent for International Banking Corporation to purchase and hold 250 additional shares of the capital stock of Banco de Honduras, S.A., Tegucigalpa, Honduras, at a cost of approximately US\$312,500.

The Board's consent is granted subject to the same conditions prescribed in the Board's letter of July 16, 1965, granting consent to the purchase of shares of Banco de Honduras, S.A.

The foregoing consent is given with the understanding that the investment now being approved, combined with other foreign loans and investments of your Corporation, First National City Bank and First National City Overseas Investment 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.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.



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

Item No. 4
3/18/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 18, 1966



Mr. John A. Oulliber, President,
The National Bank of Commerce in New Orleans,
New Orleans, Louisiana. 70112.

Dear Mr. Oulliber:

This is in reply to your letter of February 24 relating to the "legal lending limit" of The National Bank of Commerce.

As indicated in the letter of the Comptroller's Chief Counsel, which you enclosed, it is the position of the Comptroller that the amount of outstanding capital notes or debentures of a national bank that are subordinated to the bank's deposit liabilities may be regarded as part of its "capital stock . . . and . . . unimpaired surplus fund", for purposes of section 5200 of the Revised Statutes (U.S. Code title 12, section 84). That statutory provision is a part of the National Bank Act, and it is the responsibility of the Comptroller of the Currency to apply and enforce section 5200 in the examination and supervision of national banks.

The Board of Governors does not consider it appropriate to issue interpretations of statutory provisions that apply only to national banks and are administered solely by the Comptroller. However, the terms "capital stock", "capital", and "surplus" also appear in various provisions of the Federal Reserve Act that impose requirements or limitations upon member banks. In the ruling that you enclosed, the Board of Governors reached the conclusion that capital notes and capital debentures do not constitute capital stock, capital, or surplus for the purposes of those provisions. Since the application of certain of them are based on the limitations of section 5200, the Board has, of necessity, interpreted the provisions of section 5200 in these connections.

For example, section 13 of the Federal Reserve Act (U.S. Code title 12, section 345), relating to the discounting powers of the Reserve Banks, provides that

Mr. John A. Oulliber

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"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"

And section 9 of the Act (U.S. Code title 12, section 330) forbids a Federal Reserve Bank "to discount for any State bank . . . notes, drafts, or bills of exchange of any one borrower who is liable for borrowed money to such State bank . . . in an amount greater" than could have been borrowed lawfully if the State bank had been a national bank.

In interpreting and applying these provisions, the Board of Governors has taken the position that the lawful lending limit of a national bank, under section 5200, is based upon its capital stock and surplus, and that the amount of a bank's undivided profits or capital debentures may not be taken into account in calculating the applicable limit. Eligibility of paper for Federal Reserve discount is governed by this interpretation of section 5200.

The Board of Governors has also taken the position that, as a matter of policy, the Reserve Banks should not extend credit to any member bank, national or State, on the security of obligations 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; and for this purpose the amount of the legal lending limit, as indicated above, is calculated on the basis of the amount of the member bank's capital and surplus accounts.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 5
3/18/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 21, 1966

AIR MAIL - REGISTERED
RETURN RECEIPT REQUESTED

D. Monte Pascoe, Esq.,
Ireland, Stapleton, Pryor & Holmes,
1700 Broadway,
Denver, Colorado. 80202

Re: In the Matter of the Application of Denver U. S.
Bancorporation, Inc., Docket No. BHC-73

Dear Mr. Pascoe:

This is in reply to your letter of March 15, 1966, requesting on behalf of your client, The Central Bank and Trust Company, Denver, Colorado, a participant in the proceeding conducted by the Board on the above application, an extension of time from March 22, 1966, to March 29, 1966, within which to file exceptions, with supporting brief, to the Report and Recommended Decision filed by Hearing Examiner David London in this matter.

The Board, upon good cause found, and noting that counsel for Applicant, and the State of Colorado Banking Department and State Bank Commissioner have no objection, has granted the request and will receive The Central Bank and Trust Company's exceptions and brief on or before March 29, 1966. This letter, a copy of which is being sent to Mr. London and counsel aforementioned, constitutes the Board's Order granting the extension of time requested.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

TELEGRAM
LEASED WIRE SERVICEItem No. 6
3/18/66BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

March 18, 1966

CROWLEY - NEW YORK

BOARD APPROVES RENEWAL OF LOAN ON GOLD UP TO A
TOTAL OF \$20 MILLION BY THE FEDERAL RESERVE BANK OF NEW
YORK TO THE CENTRAL BANK OF THE PHILIPPINES ON THE TERMS
DESCRIBED IN YOUR WIRE OF MARCH 17.

(Signed) Merritt Sherman

SHERMAN



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 7
3/18/66

OFFICE OF THE CHAIRMAN

March 23, 1966

The Honorable William L. Dawson,
Chairman,
Committee on Government Operations,
House of Representatives,
Washington, D. C. 20515

Dear Mr. Chairman:

This letter is in response to a request for comment on H.R. 11916, a bill "To amend the Employment Act of 1946 to bring to bear an informed public opinion upon price and wage behavior which threatens national economic stability."

The bill would amend the Employment Act of 1946 so as to give to the Joint Economic Committee responsibility for reviewing and evaluating the general wage-price guideposts to be submitted to the Committee each year by the Council of Economic Advisers. If the Joint Economic Committee finds such guideposts not appropriate the Committee is required to recommend appropriate guideposts to the Senate and House. The bill also provides for public hearings by the Joint Economic Committee on individual price and wage behavior--actual or imminent--which appears inconsistent with the guideposts and threatens national economic stability. The Committee is to report to the House and Senate its findings and recommendations for actions to be taken by the President or the parties concerned.

The purpose of this proposal is desirable in that it is directed toward greater appreciation of the importance of avoiding inflation and of the role that private decisions can play in contributing to economic stability. This is particularly the case when decisions are made by labor or business groups in a position at times to exercise some degree of administrative power over the market for their products and services. As the bill states it is aimed mainly at the "cost-push" type of inflation which results from price advances and wage settlements in some large industries in which fully effective restraint may not be provided by competitive market forces.

The Honorable William L. Dawson

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The guideposts as formulated by the Council of Economic Advisers in recent years have served to help focus public attention on the relation of trend productivity changes to wages and prices. At times, Presidential power has been used to dramatize even more sharply the nature and importance of the public interest in specific price and wage decisions. This bill proposes to go further by bringing legislative in addition to executive influence to bear on individual wage and price decisions as well as to provide for legislative annual review and evaluation of the Council's guideposts. The Board has serious reservations about the wisdom of extending public discussion, debate, and hearings about individual price and wage decisions in the manner contemplated by the proposed legislation.

The Board feels there is no urgent need for passage of this bill at this time. A risk exists that further formalization of the present program might tend to make less flexible an instrument of policy that is still somewhat experimental and may best continue to be developed and administered more loosely on an advisory basis. The Board would not, therefore, recommend enactment of H.R. 11916.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 8
3/18/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 18, 1966

CONFIDENTIAL (FR)

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

Dear Mr. Hickman:

The Board of Governors approves the payment of salary to Mr. Harry W. Huning, Vice President in charge of the Bank Examination Department at the Federal Reserve Bank of Cleveland, at the rate of \$19,000 per annum, for the period April 1 through December 31, 1966.

The rate approved is that fixed by your Board of Directors as reported in your letter of March 10, 1966.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.



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

Item No. 9
3/18/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 18, 1966

Mr. Luther M. Hoyle, Jr., Vice President,
Federal Reserve Bank of Boston,
Boston, Massachusetts. 02106

Dear Mr. Hoyle:

In accordance with the request contained in your letter of March 15, 1966, the Board approves the appointment of Howard Byron Everett, at present an assistant examiner, as an examiner for the Federal Reserve Bank of Boston. Please advise the salary rate and the effective date of the appointment.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 10
3/18/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 18, 1966

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 Mr. Bilby's letter of March 15, 1966, the Board approves the appointment of Vincent J. Conlan as an assistant examiner for the Federal Reserve Bank of New York. Please advise the effective date of the appointment.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.