

Minutes for April 22, 1966



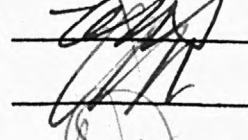
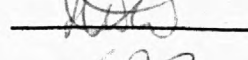
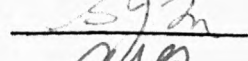
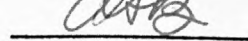

To: Members of the Board

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	<u></u>
Gov. Robertson	<u></u>
Gov. Shepardson	<u></u>
Gov. Mitchell	<u></u>
Gov. Daane	<u></u>
Gov. Maisel	<u></u>
Gov. Brimmer	<u></u>

Minutes of the Board of Governors of the Federal Reserve System on Friday, April 22, 1966. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Robertson, Vice Chairman
Mr. Shepardson
Mr. Maisel
Mr. Brimmer

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Broida, Assistant Secretary
Mr. Holland, Adviser to the Board
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Solomon, Director, Division of Examinations
Mr. Smith, Assistant Director, Division of Examinations
Mr. Furth, Consultant

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

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

Money market review. In preparation for this discussion, tables were distributed affording perspective on the money market and on bank reserve utilization, along with a chart on total member bank deposits, the money supply, time deposits, and negotiable certificates of deposit and a table showing changes in yields on 3-month Treasury bills and long-term Treasury bonds during the period December 3, 1965 - April 20, 1966.

Mr. Axilrod reviewed recent Government securities market developments, following which he analyzed the table on Government security

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yields and reviewed current aggregate reserve projections. His presentation was followed by a general discussion of credit trends against the background of existing monetary policy. Mr. Brill then summarized recent developments in the area of stock market credit.

All members of the research staff who had been present withdrew at this point and the following joined the meeting:

Mr. Cardon, Legislative Counsel
Mr. Farrell, Director, Division of Bank Operations
Mr. O'Connell, Assistant General Counsel
Mr. Smith, Associate Adviser, Division of Research and Statistics
Mr. Leavitt, Assistant Director, Division of Examinations
Mrs. Heller, Senior Attorney, Legal Division

Discount rates. The establishment without change by the Federal Reserve Bank of Atlanta on April 20 and by the Federal Reserve Banks of New York, Philadelphia, Chicago, and San Francisco on April 21, 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.

Investment in bank premises (Item No. 1). A letter to Cambria Bank, Incorporated, Christiansburg, Virginia, approving a proposed investment in bank premises was approved unanimously. A copy is attached as Item No. 1.

Suggested amendments to Bank Holding Company Act; consideration of competition from nonbank financial institutions (Item No. 2). Pursuant to the discussion at the meeting on April 20, 1966, there had been

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distributed a memorandum from the Legal Division dated April 21 submitting a revised draft of letter to Chairman Robertson of the Senate Banking and Currency Committee concerning certain amendments to the Bank Holding Company Act that had been suggested by a representative of Johnston, Lemon & Co., Washington, D. C. One of these suggestions was that the Act be amended to provide for the Board to consider nonbank competitors of subsidiaries and proposed subsidiaries of a bank holding company system, in connection with applications under the Act.

In the April 21 memorandum the Legal Division recommended that evidence of competition of nonbank financial institutions be deemed relevant under section 3(c) of the Act, both under factor 4 (convenience, needs, and welfare of communities) and under factor 5 (adequate and sound banking, public interest, and preservation of competition in the field of banking).

The memorandum noted that in 1960 the Legal Division, relying largely on the definition of "bank" in section 2(c) of the Act, advised the Board that nonbank financial institutions did not qualify as "banks" and therefore were not operating "in the field of banking" for the purposes of section 3(c) of the Act. The Board's statements on two applications (in 1960 and 1961) adopted this reasoning.

Those statements might be regarded as indicating a Board position that evidence of the competition of such nonbank institutions was not relevant to "preservation of competition in the field of banking."

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However, in 1962 the Legal Division advised the Board that the position taken in the 1960 decision did not preclude the Board from considering the effect of the activities of nonbank financial institutions on "competition in the field of banking," and that to the extent such institutions in a relevant geographic area engaged in fields of activity in which banks competed, they should be regarded as having a bearing on the competitive situation in the field of banking.

In point of fact, the activities of nonbank financial institutions had been accorded some consideration in the course of staff analysis of holding company applications, sometimes under the fourth factor in section 3(c) and sometimes under the fifth factor, but without plainly designating such activities as relevant to "competition in the field of banking."

Under the Bank Merger Act, the Board's position was that it was appropriate to consider the activities of nonbank financial institutions in evaluating the competitive aspects of a proposal. The legislative histories of the 1960 and 1966 versions of that Act lent support to the Board's position. Under the Merger Act, as under the Holding Company Act, Congress had placed upon the Board the obligation to consider, among other factors, the convenience and needs of the community involved and the effect of the transaction on competition. No valid reason appeared for considering the competition of nonbank financial institutions as relevant under one Act but not under the other. Similar treatment under both Acts appeared warranted and desirable.

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The proposed reply to the Senate Banking and Currency Committee would express agreement with the propriety of considering the competition of nonbank institutions and would recommend against an amendment to the Bank Holding Company Act expressly to charge the Board with the responsibility of undertaking such analysis and evaluation. Opposition to such an amendment was based on the following grounds: (1) the Act now permitted consideration of nonbank competition, (2) such consideration had been and would be undertaken in the analysis of bank holding company applications, (3) an amendment might engender new problems of interpretation, and (4) the present language of the Act allowed a certain amount of flexibility to the Board that was deemed desirable, particularly in light of the fact that nonbank financial institutions were not under the supervision of the Board, their competition was limited to certain types of banking business (particularly deposits and real estate loans), and they did not compete with commercial banks in the significant activity of transfer of funds by check.

Governor Brimmer said the Legal Division's memorandum had been helpful to him. He had also received a memorandum from the Banking Markets Section and would be glad to share it with any other member of the Board who would like to see it.

Mr. Hackley, in comments supplementing the Legal Division's memorandum, said that since savings and loan associations were not banks, it seemed to him their resources would not be relevant to the consideration of concentration of bank resources. However, it seemed quite

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appropriate to consider the competition of such associations in certain areas of activity, such as the receipt of savings funds and the making of mortgage loans, as competition in the banking field, in connection with the analysis of holding company applications. As to the statements issued by the Board in 1960 and 1961, it could be argued that the Board in those instances had been talking about concentration and not about competition. But the documents, if read literally, seemed to go beyond that point and say that competition with savings and loan associations in any area would not be regarded as a relevant consideration. A year or so later the Legal Division did advise the Board that, despite the earlier statements, it was believed quite appropriate to consider competition offered by savings and loan associations in certain fields.

Mr. Hackley said he was now convinced that competition from savings and loan associations was an appropriate factor in determining the effect of a proposal on competition in the banking field, that is, among banks. This would be a reversal of the position that seemed to have been indicated in the 1960 case. For that reason, he thought the proposed letter to Chairman Robertson was appropriate. It might not be necessary to say in the letter that in some earlier statements the Board had indicated that competition from savings and loan associations was not relevant to "competition in the field of banking," but holding company interests were familiar with the earlier statements and it might be a good thing to clarify the record.

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Vice Chairman Robertson asked how much weight it was envisaged would be placed on such competition. Certainly it would not be weighed on a one-to-one basis; rather, he would infer, only to the extent that competition actually existed.

Mrs. Heller commented that this was a reason for opposing the suggested amendment to the Holding Company Act. Such an amendment might only create problems. Without such an amendment, the Board would be free to use its judgment in determining how much weight to give the factor of competition from nonbank financial institutions.

The Vice Chairman noted that the draft letter stated that the suggested amendment would not effect a significant change in the Bank Holding Company Act or in the Board's procedures. But there was that possibility, depending on how such an amendment was written. Therefore, he would prefer simply to say that such an amendment would serve no useful purpose and might create additional problems.

There was general agreement with this point.

Governor Shepardson said he understood the principle stated in the Legal Division's memorandum would apply to other nonbank financial intermediaries as well as savings and loan associations. He pointed out that in the Ninth District, for example, there was a good deal of concern among banks about the expanding activities of rural credit unions, which engaged in various types of farm lending.

Mr. O'Connell remarked that in a particular area of lending, for example, agricultural loans or mortgage loans, competition from a nonbank

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financial institution might well be weighed on a one-to-one basis, depending on how the community was being served.

Unanimous approval then was given to a letter to Chairman Robertson in the form attached as Item No. 2.

"Cease and desist" bill. With reference to the so-called "cease and desist" bill currently pending before the Senate Banking and Currency Committee, and particularly certain objections that had been lodged in terms of alleged encroachment upon States' rights, Vice Chairman Robertson read a letter he had received from the newly-appointed Director of Banking of Nebraska. The State official related that he had found a number of situations appearing to be in need of corrective supervisory attention and a lack of adequate tools to deal with such situations effectively.

It was agreed that the Vice Chairman would get in touch with the writer to discuss the subject and suggest that the latter might want to make his views known to the Banking and Currency Committee.

Examination of St. Louis Bank. Mr. Smith (Examinations) commented on information developed in the examination of the Federal Reserve Bank of St. Louis by the Board's staff as of November 5, 1965, the report on which had been circulated to the Board along with the usual related memoranda.

It was agreed that there were no matters disclosed by the examination that appeared to call for action on the part of the Board.

The meeting then adjourned.

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

Letter to the Federal Reserve Bank of Richmond (copy attached as Item No. 3) approving the designation of James R. Piccoli as special assistant examiner.

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

Appointment

Frances Jane W. Ballard as Indexing and Reference Assistant, Office of the Secretary, with basic annual salary at the rate of \$5,523, effective the date of entrance upon duty.

Salary increases, effective April 24, 1966

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>Research and Statistics</u>			
Janet E. Innocenti, Statistical Assistant		\$ 5,352	\$ 5,523
<u>International Finance</u>			
Carol S. Bennett, Secretary		5,894	6,086
David C. Redding, Economist		10,619	10,987
<u>Bank Operations</u>			
P. D. Ring, Technical Assistant		12,945	13,380
<u>Examinations</u>			
James H. Joyce, Assistant Federal Reserve Examiner		7,987	8,241
Carl A. Zimmerman, Assistant Federal Reserve Examiner		8,241	8,495
<u>Administrative Services</u>			
Leroy H. Cooley, Senior Teletype Operator		7,046	7,238
Johnny Samuel Fox, Jr., Messenger-Driver		3,943	4,072

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Salary increases, effective April 24, 1966 (continued)

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>Administrative Services</u>			
William K. Jaynes, Guard		\$4,149	\$4,289
Margie W. Lakatos, Mailing List Clerk		4,797	4,953
<u>Data Processing</u>			
Lowell M. Glenn, Analyst		7,733	8,961
Evert F. Nowak, Digital Computer Programmer		8,495	9,267

Leave without pay

Viola E. Hamilton, Charwoman, Division of Administrative Services, for the period April 10 through May 15, 1966.

Acceptance of resignations

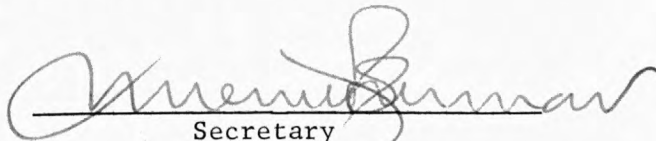
Rita S. Oddone, Secretary, Office of the Secretary, effective at the close of business April 20, 1966. (This action also constituted approval of leave without pay for the period March 27 through April 20, 1966.)

M. H. Schwartz, Director, Division of Data Processing, effective at the close of business April 27, 1966.

Irwin W. Robinson, Senior Federal Reserve Examiner, Division of Examinations, effective at the close of business May 31, 1966.

Permission to engage in outside activity

Lee R. Thompson, Operator, Tabulating Equipment, Division of Data Processing, to work for a shoe company on a part-time basis.


Secretary

Item No. 1
4/22/66

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 22, 1966



Board of Directors,
Cambria Bank, Incorporated,
Christiansburg, Virginia.

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 \$45,000 by Cambria Bank, Incorporated, Christiansburg, Virginia, for the purpose of constructing a branch building, and making necessary improvements to the site for parking and access facilities.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 2
4/22/66

OFFICE OF THE VICE CHAIRMAN



April 22, 1966

The Honorable A. Willis Robertson,
Chairman,
Committee on Banking and Currency,
United States Senate,
Washington, D. C. 20510

Dear Mr. Chairman:

Pursuant to the request in your letter of March 18, 1966, enclosing a letter from Mr. Ralph S. Richard of Johnston, Lemon & Co., I am pleased to furnish you with the Board's views on Mr. Richard's suggestions for additional amendments to the Bank Holding Company Act.

The Board favors Mr. Richard's first suggestion, namely, that section 6 be amended "to permit companion holding company banks to purchase loans from other holding company banks in the same system on a non-recourse basis." Sections 9 and 10 of S. 2353 would authorize such activity, as well as certain other activities now proscribed by section 6 of the Act. As you will recall, section 9 of the bill, in providing for the repeal of section 6 of the Act, would remove the current prohibition against a bank making any "loan, discount or extension of credit to a bank holding company of which it is a subsidiary or to any other subsidiary of such bank holding company". Section 10 of the bill would revise section 23A of the Federal Reserve Act, and apply it to insured non-member banks, as well as member banks. The revised section 23A would not apply, however, to loans purchased by a bank from another bank without recourse.

Mr. Richard's expressed desire for consistency and promptness in the disposition of bank holding company acquisition applications is shared wholeheartedly by the Board. Every effort is made to effect speedy and appropriate disposition of these, as well as all other matters entrusted to the Board's judgment. You may be sure that the Board and its staff will continue their efforts to accelerate disposition, consonant with requirements for thorough analysis and due process. You will readily understand that the length of time needed for the disposition of applications will vary with the number of banks involved, the complexity of the problems presented, the area concerned, the strategy of opponents, and, in some instances, the convenience of hearing

examiners, various bank supervisory authorities, attorneys and other interested persons, and also the number of witnesses presented at a hearing and the extent of their testimony. A statutory time limit for action on bank holding company applications might prove to be unduly rigid.

With respect to the suggestion that the Board should consider nonbank competitors of subsidiaries and proposed subsidiaries in a bank holding company system, in connection with applications under the Bank Holding Company Act, the Board agrees that it is appropriate that information on the competition of such financial institutions be considered. In some early cases under the Act, language was used by the Board that indicated that the competition of such institutions was not encompassed within the statutory phrase "competition in the field of banking". However, it is the Board's opinion that neither the provisions of the Act nor the Board's earlier statements preclude consideration of the competition of such institutions; and the Board in fact considers evidence thereof as relevant under section 3(c) of the Act, both under factor 4 relating to the convenience, needs, and welfare of the communities and area concerned, and under factor 5, relating to adequate and sound banking, the public interest, and the preservation of competition in the field of banking. In the circumstances, it appears to the Board that an amendment to the Act, along the lines suggested in the third numbered paragraph of Mr. Richard's letter, would serve no useful purpose and might create new problems.

Sincerely,

(Signed) J. L. Robertson

J. L. Robertson.

Item No. 3
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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 22, 1966

Mr. John L. Nosker, Vice President,
Federal Reserve Bank of Richmond,
Richmond, Virginia. 23213

Dear Mr. Nosker:

In accordance with the request contained in your letter of April 19, 1966, the Board approves the designation of James R. Piccoli as a special assistant examiner for the Federal Reserve Bank of Richmond.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.