

Minutes for April 27, 1966

To: Members of the Board

From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

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

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, please initial below. If you were present at the meeting, your initials will indicate approval of the minutes. If you were not present, your initials will indicate only that you have seen the minutes.

Chm. Martin

RM

Gov. Robertson

RR

Gov. Shepardson

CS

Gov. Mitchell

DM

Gov. Daane

DD

Gov. Maisel

EM

Gov. Brimmer

GB

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

PRESENT: Mr. Martin, Chairman  
Mr. Robertson, Vice Chairman  
Mr. Shepardson  
Mr. Mitchell  
Mr. Daane  
Mr. Brimmer

Mr. Sherman, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Holland, Adviser to the Board  
Mr. Solomon, Adviser to the Board  
Mr. Molony, Assistant to the Board  
Mr. Hackley, General Counsel  
Mr. Brill, Director, Division of Research and Statistics  
Mr. Solomon, Director, Division of Examinations  
Mr. O'Connell, Assistant General Counsel  
Mr. Partee, Associate Director, Division of Research and Statistics  
Mr. Axilrod, Associate Adviser, Division of Research and Statistics  
Mr. Sammons, Associate Director, Division of International Finance  
Mr. Leavitt, Assistant Director, Division of Examinations  
Mr. Langham, Assistant Director, Division of Data Processing  
Miss Wolcott, Technical Assistant, Office of the Secretary  
Mr. Smith, Attorney, Legal Division  
Mr. Eckert, Chief, Banking Section, Division of Research and Statistics  
Messrs. Burton, Egertson, Maguire, and Poundstone, and Miss Greene of the Division of Examinations  
Messrs. Staiger and Veenstra of the Division of Data Processing

Approved letters. The following letters were approved unanimously after consideration of background information that had been made

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available to the Board. Copies of the letters are attached under the respective item numbers indicated.

	<u>Item No.</u>
Letter to First Bank of Colonia, Colonia, New Jersey, approving the establishment of a branch in Woodbridge Township.	1
Letter to Coast Bank, Long Beach, California, waiving the requirement of six months' notice of withdrawal from membership in the Federal Reserve System.	2
Letter to Morgan Guaranty International Finance Corporation, New York, New York, granting consent to its request to participate in underwriting an offering of additional common shares of Compania Fundidora de Fierro y Acero de Monterrey S.A., Mexico, and perhaps to acquire shares in connection with the underwriting.	3
Letter to the Federal Reserve Bank of New York interposing no objection to changes in its foreign travel program.	4

Report on competitive factors. A report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of First National Bank of Whiteville, Whiteville, North Carolina, into Southern National Bank of North Carolina, Lumberton, North Carolina, was approved unanimously for transmittal to the Comptroller. The conclusion read as follows:

There appears to be little, if any, competition existing between First National Bank of Whiteville and Southern National Bank of North Carolina, Lumberton, and the overall effect of the proposal on competition does not appear adverse.

Application of First Montana Bank Corporation. At the meeting on April 13, 1966, preliminary consideration was given to the application

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of First Montana Bank Corporation, Great Falls, Montana, to become a bank holding company through acquisition of a majority of the voting shares of Ravalli County Bank, Hamilton, Montana, and First State Bank of Stevensville, Stevensville, Montana. A memorandum dated March 29, 1966, from the Division of Examinations had been distributed, along with other pertinent papers. The Division recommended denial, if such a course was legally supportable. Action on the application was deferred pending the availability of a memorandum from the Legal Division relating to questions presented by the relationships between applicant and The Montana Corporation.

There had now been distributed a memorandum from the Legal Division dated April 19, 1966, examining the extent of control that Montana Corporation might be expected to exercise over First Montana Bank Corporation, discussing the concepts of "statutory control" and "working control," and suggesting alternative courses of Board action.

There had also been distributed a memorandum from the Division of Examinations dated April 21, 1966, discussing consequences that would result from the top-heavy financial structure proposed by the applicant.

Messrs. Solomon and O'Connell offered comments in amplification of the distributed material, following which questions were raised by members of the Board in order to verify certain facts.

The application was then denied by unanimous vote, with the understanding that an order and statement would be drafted for the Board's

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consideration. It was understood that the statement would indicate that denial of the application was based on (1) a finding that approval of the application would result in a sufficiently close working relationship between applicant's banking subsidiaries and Montana Corporation's nonbanking interests as to be inconsistent with one of the basic purposes of the Bank Holding Company Act, and (2) a finding of other adverse consequences inherent in applicant's proposal, including its top-heavy financial structure.

Survey of deposit rates. There had been distributed a memorandum dated April 25, 1966, from the Division of Research and Statistics recommending that a survey be made of rates paid by banks on savings deposits, savings certificates, and other types of time deposits of individuals, partnerships, and corporations. A similar survey conducted as of December 22, 1965, had provided information on the initial response of banks to the December change in maximum interest rates; but it was believed there was need for current information with which to assess the impact of changing rate structures on the flow of funds. It was recognized that the value of current information on a continuing basis warranted the development of a statistical series, but the implementation of such a series would be time-consuming. In the interim the staff proposed conducting a survey along the lines of that undertaken last December, with certain improvements and refinements.

Governor Brimmer indicated that after talking with the staff he favored the procedure outlined in the memorandum. He understood, however, that Governor Maisel would have favored developing a sampling procedure.

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Copies of a draft form proposed for use in the survey were then distributed to the members of the Board. For various types of time deposits and for savings deposits, the form would call for dollar amounts outstanding on December 22, 1965, and May 11, 1966, and for terms offered as of December 3, 1965, and May 11, 1966.

During discussion of the proposal in light of the distributed material and additional comments by Mr. Brill, Governor Mitchell suggested consideration of the feasibility of including a request for information on rate changes around the quarterly interest date, in the thought that this would be helpful in analyzing flows of funds. It was understood that this possibility would be considered.

It was then suggested that the members of the Board transmit any additional views on the draft survey form to the staff, that the staff review the questionnaire and other aspects of the survey with the System research subcommittee that was meeting this Friday to plan the development of a statistical series on deposit rates, and that plans for the survey proceed as outlined in the April 25 memorandum unless substantive changes were recommended, in which case the matter would be brought back to the Board.

The making of the survey was approved unanimously on this basis.

Secretary's Note: At the meeting on Friday, April 29, the Board was advised that the Federal Deposit Insurance Corporation was interested in making a similar survey of nonmember insured banks and that question

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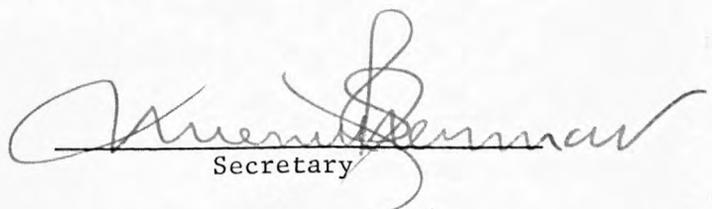
had been raised about the possibility of coordinating the two surveys. It appeared, however, that deferral of the effective date of the Board's survey beyond Wednesday, May 11, might make it difficult to obtain and analyze the results before the first of July. The view expressed by the Board was that the staff should cooperate with the Corporation in every way possible, but that deferral of the effective date of the Board's survey would not be desirable.

All members of the staff except Mr. Sherman then withdrew from the meeting.

There followed informal reports by members of the Board on several matters of general current interest. Reference also was made to a memorandum from Mr. Holland dated April 26, 1966, regarding proposed staff visits to certain foreign central banks for discussions in connection with the current study of the discount mechanism. Mr. Holland and Mr. Katz, Adviser in the Division of International Finance, were authorized to visit the central banks of Canada, Germany, and England, with reimbursement on an actual expense basis if desired, for the purpose of such discussions.

The meeting then adjourned.

Secretary's Note: The requirements contemplated by the Board's action on March 17, 1966, in approving the issuance of a preliminary permit to The Bank of New York International Corporation, New York, New York, having been completed, a letter was sent today to that corporation transmitting a final permit to commence business.

  
Secretary



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

Item No. 1  
4/27/66

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 27, 1966

Board of Directors,  
First Bank of Colonia,  
Colonia, New Jersey.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by First Bank of Colonia, Colonia, New Jersey, of a branch at 604 Amboy Avenue, Woodbridge Township, Middlesex County, New Jersey, 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. 2  
4/27/66



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 27, 1966

Board of Directors,  
Coast Bank,  
Long Beach, California.

Gentlemen:

The Federal Reserve Bank of San Francisco has forwarded to the Board of Governors President McFerrin's letter dated April 14, 1966, signifying your intention to withdraw from membership in the Federal Reserve System and requesting waiver of the six months' notice of such withdrawal, together with a resolution dated July 15, 1965.

In accordance with your request, the Board of Governors waives the requirement of six months' notice of withdrawal. Upon surrender to the Federal Reserve Bank of San Francisco of the Federal Reserve stock issued to your institution, such stock will be canceled and appropriate refund will be made thereon. Under the provisions of Section 208.10(c) of the Board's Regulation H, your institution may accomplish termination of its membership at any time within eight months from the date that notice of intention to withdraw from membership was given.

It is requested that the certificate of membership be returned to the Federal Reserve Bank of San Francisco.

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  
4/27/66



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 27, 1966.

Morgan Guaranty International  
Finance Corporation,  
23 Wall Street,  
New York, New York. 10015

Gentlemen:

As requested in your letter of April 19, 1966, the Board of Governors grants consent for Morgan Guaranty International Finance Corporation ("MGIFC") to participate, as a member of an underwriting group headed by Credito Bursatil, S.A., a Mexican corporation, and International Finance Corporation, Washington, D. C., in the underwriting of additional common shares of Compania Fundidora de Fierro y Acero de Monterrey S.A. ("CFFAM"), a Mexican corporation, with a par value of Mexican Pesos 100 per share. It is understood that MGIFC will agree to purchase up to the Mexican Peso equivalent of US\$864,000 (approximately Mexican Pesos 10,800,000) of such common stock as is not subscribed to by the shareholders. Accordingly, the Board of Governors grants consent for MGIFC to purchase and hold up to approximately 90,000 shares of stock of CFFAM at a cost of approximately US\$864,000, provided such stock is acquired within one year from the date of this letter.

The Board also approves the purchase and holding of the shares of CFFAM within the terms of the above consent is excess of 10 per cent of MGIFC'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, Morgan Guaranty Trust Company of New York, and Morgan Guaranty International Banking Corporation will not cause the total of such loans and investments to exceed the guidelines established under the voluntary foreign credit restraint effort now in effect and that due consideration is being given to the priorities contained therein.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,  
Assistant Secretary.

Item No. 4  
4/27/66

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



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 27, 1966

Mr. Richard A. Debs, Secretary,  
Federal Reserve Bank of New York,  
New York, New York. 10045

Dear Mr. Debs:

The Board of Governors has noted without objection the changes in the Foreign Travel Program of the Federal Reserve Bank of New York for the current calendar year, as reported in your letter of April 21, 1966.

Sincerely yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.