FR 609

Minutes for May 23, 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	WMM
Gov. Robertson	R
Gov. Shepardson	CNS
Gov. Mitchell	GWM
Gov. Daane	JDD
Gov. Maisel	SJM
Gov. Brimmer	AFB

Minutes of a meeting of the available members of the Board of Governors of the Federal Reserve System on Monday, May 23, 1966. The meeting was held in the Board Room at 10:00 a.m.

PRESENT: Mr. Robertson, Vice Chairman
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. Cardon, Legislative Counsel
Mr. Fauver, Assistant to the Board
Mr. Brill, Director, Division of Research and Statistics
Mr. Solomon, Director, Division of Examinations
Mr. Hexter, Associate General Counsel
Mr. Koch, Deputy Director, Division of Research and Statistics
Mr. Gramley, Associate Adviser, Division of Research and Statistics
Mr. Sammons, Associate Director, Division of International Finance
Mrs. Semia, Technical Assistant, Office of the Secretary
Mr. Fisher, Senior Economist, Division of Research and Statistics
Messrs. Egertson and Maguire, Supervisory Review Examiners, and Goodfellow, Review Examiner, Division of Examinations

The following actions were taken subject to ratification at the next meeting of the Board at which a quorum was present:

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

	Item No.
Letter to The Peoples Bank of Montross, Virginia, Incorporated, Montross, Virginia, approving an investment in bank premises.	1

Item No.

Letter to Wells Fargo Bank International Corporation, San Francisco, California, granting consent to purchase shares of Banco de America, Managua, Nicaragua. 2

Telegram to the Federal Reserve Bank of New York approving the opening of an account for the Bank of Guyana. (This bank was established by statute in October 1965 to perform the functions of a central bank in British Guiana, which was to become independent as Guyana this month.) 3

Competitive factor report. 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 Commercial Bank of Dunn North Carolina, Dunn, North Carolina, into Waccamaw Bank & Trust Company, Whiteville, North Carolina. The conclusion read as follows:

> The proposed merger of Waccamaw Bank & Trust Company, Whiteville, and The Commercial Bank of Dunn North Carolina would have no adverse effect on competition.

Foreign travel. Mr Katz, Adviser in the Division of International Finance, was authorized to travel to Basle, Switzerland, to attend a meeting on the Euro-currency market on July 11, 1966, with the understanding that he would arrive in Basle on July 8 and that he would receive per diem in lieu of subsistence in accordance with the standardized Government travel regulations. It was understood that Mr. Klopstock of the Federal Reserve Bank of New York also would attend the July 11 meeting, which was sponsored by the Bank for International Settlements.

Proposed legislation on certificates of deposit. Members of the Board were to appear tomorrow before the House Banking and Currency Committee in connection with hearings on bills relating to the issuance of certificates of deposit by banks.

There had been distributed, under date of May 20, a revised draft of statement to be presented on behalf of the Board by Vice Chairman Robertson. In addition to commenting on the two bills at issue, on which the judgment would be expressed that they represented efforts to circumscribe competitive processes in ways that would be harmful to the public interest, the proposed statement would refer to the suggestion of the Secretary of the Treasury, made before the Committee last Thursday, that the Federal Reserve Act be amended to give the Board temporary authority to use an additional criterion for differentiating maximum permissible rates of interest, namely, the extent to which a time deposit was afforded protection through insurance by the Federal Deposit Insurance Corporation. The statement would indicate that while the Board welcomed consideration of measures aimed at increased flexibility in administering ceiling rates on time and savings deposits, experience had shown that this was a complicated field in which changes sometimes produced ramifications that were not anticipated. For this reason, the implications of a new legislative proposal should be explored thoroughly by the Congress and new powers should be exercised by regulatory agencies only after careful exploration of ultimate as well as immediate effects.

In administering the proposed amendment, it might prove difficult to achieve at one and the same time its stated objectives and equitable treatment as between small and large depositors. However, if the suggested amendment was enacted, the Board would conscientiously assume the responsibility for its use, in conjunction with its existing authority to regulate interest payments and its other policy instruments, as the public interest required.

It was understood that the revised draft of testimony would be reviewed further by Governors Robertson and Brimmer subsequent to this meeting, and that the statement would be presented in a final form satisfactory to the Vice Chairman.

There had also been distributed prior to this meeting a memorandum from Mr. Holland dated May 23, 1966, concerning reports by the Federal Reserve Banks on current mortgage conditions. On May 17 a wire had been sent to all of the Banks asking for a report on current conditions within major metropolitan markets in each Reserve District, with emphasis on recent changes in the availability of funds from nonbank lenders. A capsule reply was requested by May 20, with a more complete report to follow by the end of the month. To Mr. Holland's memorandum was attached an analysis by Mr. Fisher of the initial round of Bank replies. Also attached were the respective replies in full.

The initial reports indicated that the sharpest cut-backs had taken place in new mortgage commitments made for future lending, with much of the change occurring since early this year. Even though new mortgage commitments had been reduced in most Districts by a fifth or more from a year ago, the cut-backs had apparently not yet become fully evident in the backlog of outstanding commitments or in the volume of current lending. If present trends should persist, however, they pointed to a widespread reduction in future loan disbursements and market activity.

Frequent references to uncertainties about future sources of loanable funds as well as about interest rate levels apparently had contributed strongly to the sharp reductions in the supply of new commitments, and raised the question whether some lenders may not have been overly cautious in this respect. Such uncertainties had reportedly reflected in many cases unusually adverse recent lender experience with savings outflows, attributed in some cases to increased competition from commercial banks and in other cases to the general market effects of tighter money.

The outlook for types of construction traditionally underwritten by mortgages appeared unfavorable in many areas, particularly since savings and loan associations which specialized both in construction and permanent financing were most often cited as involved in the greatest reductions. Among the areas hardest hit appeared to be the cities of Chicago, Detroit, and New York and the State of California. In each of those areas the chief causal influence seemed to be adverse savings inflows to lenders other than commercial banks.

Upon request, Mr. Fisher presented an oral interpretation of the reports, his remarks being based generally on the distributed summary of the replies.

Governor Brimmer commented that the survey tended to substantiate rumors heard earlier that many savings and loan associations were cutting back substantially on residential mortgage commitments, which forecast a sharper reduction in construction activity later in the year. He had not realized that the trend had been quite so severe as now appeared. The survey seemed to demonstrate that many lenders had frozen their positions because of uncertainty, which raised the question whether the savings and loan associations should be given assurances of assistance if they found their positions squeezed excessively over the midyear dividend payment date. It appeared, in summary, that current monetary conditions were having a greater impact on the housing industry than on other sectors of the economy.

There ensued a general discussion of methods that might be used to afford reassurance to the savings and loan industry, focusing particularly on the situation that might develop around midyear, and of the relationships between monetary policy and current mortgage market conditions. The discussion also touched upon the probable effects on financial flows of reducing the ceiling rate of interest on time deposits and upon the efficacy, particularly in terms of stimulating the flow of saving funds to savings and loan associations, of adopting the suggestion made to the House Committee by the Secretary of the Treasury. On this point mixed views were expressed by members of the staff.

The meeting then adjourned.

Secretary's Note: 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:

Salary increase

M. Joan McLean, Clearing Assistant, Office of the Secretary, from $5,352 to $5,702 per annum, with a change in title to Supervisor, Clearing Unit, effective May 23, 1966.

Acceptance of resignation

Lee S. Elliott, Supervisor, Clearing Unit, Office of the Secretary, effective at the close of business May 20, 1966.

Secretary

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

Item No. 1
5/23/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 23, 1966

Board of Directors,
The Peoples Bank of Montross, Virginia,
Incorporated,
Montross, 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 additional investment in bank premises of not to exceed $115,000 by The Peoples Bank of Montross, Virginia, Incorporated, Montross, Virginia, for the purpose of constructing a new bank building.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

Item No. 2
5/23/66

May 23, 1966.

Wells Fargo Bank
International Corporation,
464 California Street,
San Francisco, California. 94120

Gentlemen:

In response to your letter of April 21, 1966, the Board of Governors grants consent for your Corporation to purchase and hold approximately 62,000 shares, par value cordobas 100 each, of Banco de America, Managua, Nicaragua, at a cost of approximately US$2,302,680, provided such stock is acquired within one year from the date of this letter. In this connection, the Board also approves the purchase and holding of such shares in excess of 15 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 and Wells Fargo Bank, 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.

TELEGRAM
LEASED WIRE SERVICE

Item No. 3
5/23/66

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

May 23, 1966

Sanford - New York

Your wire May 19. Board approves opening and maintenance of an account on books of Federal Reserve Bank of New York in the name of the Bank of Guyana, subject to the usual terms and conditions. It is understood that participation in this account will be offered to other Federal Reserve Banks.

(Signed) Merritt Sherman

SHERMAN