

Minutes for May 31, 1966

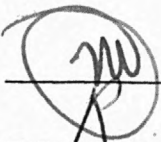
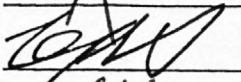

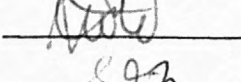
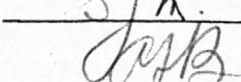
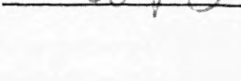

To: Members of the Board

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 Tuesday, May 31, 1966. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Shepardson, Acting Chairman  
Mr. Mitchell  
Mr. Maisel  
Mr. Brimmer

Mr. Sherman, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Fauver, Assistant to the Board  
Mr. Hackley, General Counsel  
Mr. Farrell, Director, Division of Bank Operations  
Mr. O'Connell, Assistant General Counsel  
Mr. Daniels, Assistant Director, Division of Bank Operations  
Mr. Leavitt, Assistant Director, Division of Examinations  
Miss Eaton, General Assistant, Office of the Secretary  
Mr. Forrestal, Senior Attorney, Legal Division  
Mr. Collier, Assistant to the Director, Division of Bank Operations  
Mr. Egertson, Supervisory Review Examiner, Division of Examinations

Approved items. The following letters, copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously after consideration of background material that had been made available to the Board and clarification of points of information about which members of the Board inquired:

Item No.

Letter to Rhode Island Hospital Trust Company, Providence, Rhode Island, granting an extension of time to establish a branch on North Main Street and noting that consideration was being given to strengthening the bank's capital structure.

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	<u>Item No.</u>
Letter to Coopersville State Bank, Coopersville, Michigan, approving the declaration of a dividend.	2
Letter to First State Bank, Britt, Iowa, waiving the requirement of six months' notice of withdrawal from membership in the Federal Reserve System.	3
Letter to United California Bank, Los Angeles, California, approving the establishment of a branch in El Cajon.	4
Letter to the Chairman of the Conference of Presidents suggesting that there be referred to the appropriate committee, for study and recommendation, the practice of some member banks in setting up deferred or transit accounts to make allowance for time in transit of drafts drawn on correspondent banks in remitting for cash letters received from the Federal Reserve Bank.	5
Letter to the Bureau of the Budget regarding a Treasury draft bill relating to the income tax treatment of mortgage guaranty insurance companies.	6
Letters to the Federal Reserve Bank of New York regarding a request for access by the Federal Bureau of Investigation to certain reports of examination of a former State member bank.	7-8

In connection with Item No. 5, members of the Board noted that the practice in question would appear to have the effect of increasing float, thus working in a direction contrary to the efforts currently under way within the System. They therefore expressed a view that discouragement of the practice would seem in order, and a hope that this would be the outcome of the requested committee study. It was pointed

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out that in any event the results of the study would come to the Board's attention, at which time the Board would have an opportunity to express itself on the subject.

In connection with Items 7 and 8, consideration was given to the possibility, which had been mentioned by a member of the legal staff of the Federal Reserve Bank of New York, of affording the Federal Bureau of Investigation access to the pertinent pages of the confidential section of the December 2, 1963, report of examination of the former Citizens Trust Company of Schenectady, New York, in addition to pertinent pages of the open sections of that report of examination and the succeeding report of examination. Mr. O'Connell presented reasons why he felt that it would not be desirable to volunteer portions of the confidential section in question, at least at this time, these reasons relating principally to the fact that the confidential section contained expressions by the examiner prepared without realization that the material might later be used for purposes going beyond the scope of normal bank supervisory processes. He further indicated that the open section material proposed to be furnished contained substantial factual data that should be of assistance to the Bureau in connection with the matter it was investigating and that the investigative needs should be served adequately thereby. He also said that the matter had been discussed with General Counsel for the New York Reserve Bank, who concurred in the recommended approach.

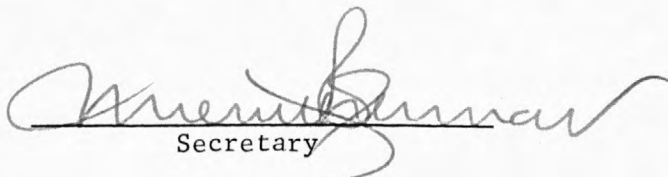
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Members of the Board indicated a willingness to accept Mr. O'Connell's judgment in this instance. On a more general basis, however, they expressed a view that, while recognizing the desirability of continuing to prepare confidential sections of examination reports with such completeness as to provide useful information for bank supervisory purposes, examiners should also be impressed with the need for careful selection of language, against the possibility that a confidential section might conceivably be used at some point for other purposes. Mr. O'Connell advised that he had directed attention to this matter at the most recent conference of representatives of the Reserve Bank examination departments.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board a memorandum from the Division of Data Processing recommending an increase in the basic annual salary of Rexanne E. Byard, Statistical Clerk in that Division, from \$3,814 to \$4,149, effective June 5, 1966.

  
Secretary

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 1  
5/31/66

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

May 31, 1966

Board of Directors,  
Rhode Island Hospital  
Trust Company,  
Providence, Rhode Island.

Gentlemen:

The Board of Governors of the Federal Reserve System extends to July 11, 1967, the time within which Rhode Island Hospital Trust Company, Providence, Rhode Island, may establish a branch on North Main Street in the Lippitt Hill section of Providence, Rhode Island.

The Board notes that consideration is being given to the issuance of capital debentures to strengthen your bank's somewhat less than satisfactory capital position.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,  
Assistant Secretary.



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BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 2  
5/31/66



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

May 31, 1966

Board of Directors,  
Coopersville State Bank,  
Coopersville, Michigan.

Gentlemen:

The Board of Governors of the Federal Reserve System approves, under the provisions of paragraph 6 of Section 9 of the Federal Reserve Act and Section 5199(b) of United States Revised Statutes, the declaration of a dividend of \$18,000 by Coopersville State Bank, Coopersville, Michigan, payable June 30, 1966. This letter does not authorize any future declaration of dividends that would require the Board's approval under the foregoing statutes.

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  
5/31/66

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

May 31, 1966



Board of Directors,  
First State Bank,  
Britt, Iowa.

Gentlemen:

The Federal Reserve Bank of Chicago has forwarded to the Board of Governors a letter dated May 17, 1966, signed by President F. A. Rummel, Jr., together with the accompanying resolution, signifying your intention to withdraw from membership in the Federal Reserve System and requesting waiver of the six months' notice of such withdrawal.

The Board of Governors waives the requirement of six months' notice of withdrawal. 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. Upon surrender to the Federal Reserve Bank of Chicago of the Federal Reserve Bank stock issued to your institution, such stock will be canceled and appropriate refund will be made thereon.

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

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,  
Assistant Secretary.



Item No. 4  
5/31/66

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

May 31, 1966



Board of Directors,  
United California Bank,  
Los Angeles, California.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by United California Bank, Los Angeles, California, of a branch in the vicinity of the intersection of Fletcher Parkway and Magnolia Avenue, El Cajon, California, provided the branch is established within 18 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. 5  
5/31/66



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

May 31, 1966

Mr. Edward A. Wayne, Chairman,  
Conference of Presidents,  
Federal Reserve Bank of Richmond,  
Richmond, Virginia. 23213.

Dear Mr. Wayne:

There is enclosed a copy of a letter from Mr. M. H. Strothman, Jr., First Vice President, Federal Reserve Bank of Minneapolis, concerning the kind of entries that might be made by a member bank which remits for a cash letter from its Federal Reserve Bank by means of a draft drawn on a correspondent bank.

As noted in Mr. Strothman's letter, some member banks have set up deferred or transit accounts to make allowance for time in transit of drafts drawn on a correspondent bank account. Since the use of such accounts makes delayed remittances advantageous and may increase float, and since that subject is under study by a committee of the Conference of Presidents, the Board feels that it would be appropriate to refer the matter to this committee for study and recommendations. Enclosed is a copy of a memorandum to the Board describing the procedures referred to in Mr. Strothman's letter.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

Enclosures

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 6  
5/31/66



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

May 31, 1966

Mr. W. H. Rommel,  
Acting Assistant Director for  
Legislative Reference,  
Bureau of the Budget,  
Washington, D. C. 20503

Dear Mr. Rommel:

This is in reply to your Legislative Referral Memorandum of May 12, 1966, requesting the views of the Board on a Treasury draft bill, "Relating to the income tax treatment of amounts set aside in certain reserves required by State law with respect to mortgage guaranty insurance, and for other purposes."

The provisions of the proposed legislation do not involve matters within the area of the Board's responsibility and, consequently, the Board has no comments to make on this draft bill.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 7  
5/31/66



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

May 31, 1966

Mr. Robert Meyer,  
Assistant Counsel,  
Federal Reserve Bank of New York,  
New York, New York. 10045

Dear Mr. Meyer:

This is in response to your letter of May 19, 1966, with respect to the requests by the Special Agent in Charge of the Federal Bureau of Investigation, Albany, New York, and the Senior Vice President, National Commercial Bank and Trust Company, Schenectady, that the FBI be given access to certain portions of two examination reports of Citizens Trust Company of Schenectady, formerly a State member bank, which reports were prepared by examiners on the staff of your Bank.

The circumstances under which the requests have arisen and a statement of the Board's authorization in response to these requests are set forth in the enclosed letter of this date. It is intended that the enclosed letter can be furnished or shown to the representative of the FBI if appropriate. You will note that the Board's authorization is restricted to the designated portions of the open sections of the December 2, 1963, and October 6, 1964 reports of examination for the reason that the letters of request appeared to relate only to such portions of the reports. Should the FBI's investigation of this matter indicate to its officials a need for access to additional portions of the two reports in question or to other reports of examination of the Citizens Trust Company, the Board will consider any further requests of this nature.

We assume that the matter of these requests and the Board's response thereto will be brought to the attention of Vice President Piderit of your Bank's Examinations Department.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

Enclosure

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 8  
5/31/66



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

May 31, 1966

Mr. Robert Meyer,  
Assistant Counsel,  
Federal Reserve Bank of New York,  
New York, New York. 10045

Dear Mr. Meyer:

This acknowledges your letter of May 19, 1966, enclosing letters from Marhlon G. Snell, Senior Vice President, National Commercial Bank and Trust Company, Schenectady, New York, and from Vernon H. Bailey, Special Agent in Charge of the Federal Bureau of Investigation, Albany, New York, requesting that the Board authorize access by representatives of the FBI to those portions of the December 2, 1963, and October 6, 1964 reports of examination of Citizens Trust Company of Schenectady, New York, relating to transactions of H. L. Neverett & Sons. The requests arise in relation to an investigation now being conducted by the FBI with respect to an alleged check kiting operation involving Citizens Trust Company of Schenectady (now the Citizens Office of National Commercial Bank and Trust Company, Schenectady) and H. L. Neverett & Sons.

Pursuant to the requests of Messrs. Snell and Bailey, the Board authorizes your Bank to provide Special Agent Bailey or his designated representative with those portions of the following pages from the designated reports of examination of Citizens Trust Company that relate specifically to the investigation now being conducted by the FBI with respect to the H. L. Neverett & Sons' transactions: pages 2, 10-(1), 10(c), and 11 through 11(5) of the December 2, 1963 report of examination; and pages 2 and 11-(1) through 11-(14) of the October 6, 1964 report of examination. This authorization contemplates your furnishing either photo or typed copies of the authorized portions of the two reports. It is to be understood that the FBI is to use the information furnished to it for investigative purposes only, and that if further or other use of this information is contemplated, that fact will be made known to the Board and an appropriate request for authorization tendered for the Board's consideration.

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Mr. Robert Meyer

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We assume that the matter of these requests and the Board's response thereto will be brought to the attention of Vice President Piderit of your Bank's Examinations Department.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.