

Minutes for June 1, 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.

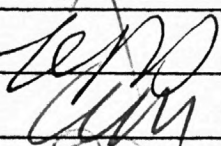
Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, please initial below. If you were present at the meeting, your initials will indicate approval of the minutes. If you were not present, your initials will indicate only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

Chm. Martin

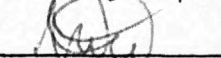


Gov. Robertson

Gov. Shepardson

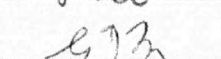


Gov. Mitchell

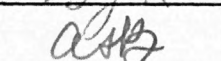


Gov. Daane

Gov. Maisel



Gov. Brimmer



Minutes of the Board of Governors of the Federal Reserve System on Wednesday, June 1, 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. 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. Brill, Director, Division of Research and Statistics
Mr. Hexter, Associate General Counsel
Mr. O'Connell, Assistant General Counsel
Mr. Shay, Assistant 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
Mr. Leavitt, Assistant Director, Division of Examinations
Miss Wolcott, Technical Assistant, Office of the Secretary
Mr. Via, Senior Attorney, Legal Division
Messrs. Egertson and Maguire of the Division of Examinations
Messrs. Vander Noot and Veenstra of the Division of Data Processing

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

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	<u>Item No.</u>
Letter to the Federal Reserve Bank of Chicago waiving the assessment of a penalty incurred by The Franklin County National Bank of Brookville, Brookville, Indiana, because of a deficiency in its required reserves.	1
Letter to the Federal Reserve Bank of Chicago waiving the assessment of a penalty incurred by The First National Bank of Winnetka, Winnetka, Illinois, because of a deficiency in its required reserves.	2
Letter to the Federal Deposit Insurance Corporation regarding the application of Union Bank and Trust Company, Delphi, Indiana, for continuation of deposit insurance after withdrawal from membership in the Federal Reserve System.	3
Letter transmitting to the Assistant Secretary of the Federal Advisory Council a list of topics suggested for discussion at the meeting of the Council on June 20-21, 1966.	4

Report on competitive factors. After discussion, during which a revision of the conclusion was agreed upon, unanimous approval was given to the transmittal to the Comptroller of the Currency of a report on the competitive factors involved in the proposed merger of Catawissa-Valley National Bank into The First National Bank of Catawissa, Catawissa, Pennsylvania. In the form in which approved, the conclusion read as follows:

The proposed merger of the Catawissa-Valley National Bank, Catawissa, Pennsylvania, into The First National Bank of Catawissa, Catawissa, Pennsylvania, would combine the only two banks in the community and eliminate existing and potential competition between them. The record does not show the extent to which banking alternatives in Bloomsburg and elsewhere are competitive with those in Catawissa. It could be presumed their existence would somewhat moderate the anti-competitive effects of this proposal. The merger would not result in a significant concentration of banking resources.

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Request of Otto Bremer Company. In a letter dated February 8, 1965, to Northwest Bancorporation, Minneapolis, Minnesota, the Board ruled that acquisition of shares in an agricultural credit corporation by a registered bank holding company was permissible under section 4(c)(4) of the Bank Holding Company Act. This ruling was based on the following reasoning: section 4(c)(4) permitted a bank holding company to acquire stocks of the kinds and in the amounts eligible for investment by national banks; section 5136 of the Revised Statutes prohibited national banks from purchasing corporate stocks except as permitted by that section or as "otherwise permitted by law"; section 23A of the Federal Reserve Act restricted investments by member banks, including national banks, in stock of their affiliates but specifically exempted investments in stock of any affiliate engaged solely in the business of an agricultural credit corporation; section 23A had thus been regarded as impliedly recognizing the authority of national banks to purchase stock of such a corporation; and the Comptroller of the Currency had ruled that under section 5136 of the Revised Statutes and section 23A of the Federal Reserve Act a national bank could invest in the stock of an agricultural credit corporation.

Prior to the 1965 ruling the Board's position had been that neither section 23A nor any other provision of Federal law authorized a national bank or a State member bank to invest in the stock of an agricultural credit corporation, and that a State member bank already owning all the stock of such a corporation could not lawfully purchase additional stock proposed to be issued by that affiliate.

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There had now been distributed a memorandum from the Legal Division dated May 26, 1966, expressing the view that the 1965 ruling was incorrect. It was the opinion of the Division that the Board was not bound by rulings of the Comptroller of the Currency that the Board considered to be erroneous, as was the case in this instance. Accordingly, it was now the recommendation of the Division that the Board rule that a holding company was not authorized by section 4(c)(4) of the Holding Company Act to acquire stock of an agricultural credit corporation.

The foregoing conclusion was reached in connection with a request of Otto Bremer Company, St. Paul, Minnesota, to acquire voting shares of two agricultural credit corporations. The proposed ruling, however, would not preclude a holding company from acquiring stock in an agricultural credit corporation. In 1961 the Board had authorized a similar acquisition by Otto Bremer Company under section 4(c)(6) of the Holding Company Act. Determinations under section 4(c)(6) were required to be made on the basis of a hearing record. However, at a section 4(c)(6) hearing on January 20, 1966, in connection with the proposed acquisition of three proposed insurance agency corporations, witnesses for the applicant (Otto Bremer Company) described the proposed agricultural credit corporations and their operations, and it was believed that these circumstances would obviate the necessity for a further hearing.

It was the recommendation of the Legal Division that the Board advise counsel for Otto Bremer Company that the proposed transactions

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were not permissible under section 4(c)(4) but might be permissible under section 4(c)(6), possibly without the necessity for a further hearing. It was further recommended that Northwest Bancorporation be apprised of the decision so that it would not rely on the 1965 ruling in connection with future transactions. Drafts of letters implementing these recommendations and an amended notice of request for determination proposed for publication in the Federal Register were attached to the distributed memorandum.

After summary comments by Mr. Via, based principally on the material that had been distributed, the staff responded to a number of questions by members of the Board directed mainly toward clarification of the issues involved.

At Governor Brimmer's suggestion, action was then deferred until a later meeting in order to provide more opportunity for members of the Board to study the matter.

Messrs. Egertson, Maguire, and Via then withdrew from the meeting.

Proposed legislation with respect to certificates of deposit. The members of the Board had received a letter dated May 31, 1966, from Chairman Patman of the House Banking and Currency Committee requesting views on a suggested legislative approach to the solution of problems involved in the current competition between banks and nonbank financial institutions, which problems were the subject of current Committee hearings.

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The suggested legislative approach would provide that the statutory range of required reserves for time deposits be changed from the present 3-6 per cent to either (a) an 8 per cent minimum and a maximum equal to the existing reserve requirement on demand deposits for reserve city banks, without altering the reserve requirement with respect to passbook savings deposits (the Federal Reserve Board would be required to establish a reserve requirement of at least 8 per cent according to class and size of time deposit by not later than January 1, 1967); or (b) 4-10 per cent. The legislative approach would also provide that no time deposit could have a maturity of less than one year, or alternatively six months. It would further provide that the maximum rate of interest payable on time deposits be 4-1/2 per cent per annum for deposits of less than \$100,000. The present ceiling of 5-1/2 per cent would apply to time deposits of \$100,000 and over.

The letter indicated that the Committee anticipated meeting in executive session on Friday, June 3, and would appreciate comments by that time.

There had been distributed to the members of the Board copies of a paper prepared by Mr. Brill under today's date noting some of his tentative reactions and points that might be covered in a reply to Chairman Patman.

The matter was considered at some length in terms of the deadline indicated by Chairman Patman's letter and related factors, including the temporary unavailability of some members of the Board. Among

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the issues discussed was whether, before formulating a reply, the Board should determine if some action on its part was warranted under existing legislative authority. It was noted, however, that as many Board members as possible should participate in decisions of that kind. It was also pointed out that there would be available to the Board shortly a summary and analysis of the replies of the Federal Reserve Banks to the Board's recent request for information on mortgage market conditions in the respective districts. Further, the results of the survey made as of May 11 of changes in rates paid by member banks on time and savings deposits were now beginning to be processed.

Against the possibility that it would develop that a reply had to be made within the stated time limit, consideration was given to Mr. Brill's draft as a basis of report. In this connection, several suggestions were made on the drafting of a letter, particularly in terms of fundamental approach.

The discussion concluded with an understanding that Governor Shepardson would try to get in touch with Chairman Martin by telephone to obtain the Chairman's views on procedure, and that in the meantime Mr. Brill and other members of the staff would prepare a draft of reply to Chairman Patman, in light of views expressed at today's meeting, for the Board's consideration.

The meeting then adjourned.

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Secretary's Notes: At the meeting on May 4, 1966, the Board authorized the issuance of an order and statement reflecting its approval on April 21, 1966, of the application of The State Bank and Trust Company, Defiance, Ohio, to merge The Ney State Bank, Ney, Ohio, with the understanding, however, that the issuance of the documents would be deferred until newspaper publication of the proposal by the banks, as required by law, had been completed. Certification of newspaper publication having been received, the order and statement were issued today. Copies are attached as Items 5 and 6.

A letter was sent today to First National City Bank, New York, New York, acknowledging receipt of notice of its intent to establish two additional branches in Santiago, Chile, to be located in the downtown area of the city. The letter noted that no additional capital investment would be required from New York.

Governor Shepardson today approved on behalf of the Board the following items:

Letter to the Federal Reserve Bank of Chicago (copy attached as Item No. 7) approving the appointment of Paul D. Hooley as assistant examiner.

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

Salary increases, effective June 5, 1966

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>Office of the Secretary</u>			
Ruth W. Eschmeyer, Senior Records Clerk		\$5,865	\$6,036
Mary L. Morris, Secretary		5,523	5,694
<u>Legal</u>			
Catherine M. Cole, Secretary		5,702	5,894

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Salary increases, effective June 5, 1966 (continued)

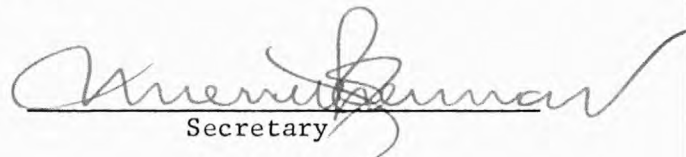
<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>Research and Statistics</u>			
Mary Ellen Smith, Statistical Clerk-Typist		\$ 4,797	\$ 4,953
<u>International Finance</u>			
Dorothy S. Adcock, Secretary		5,702	5,894
Barbara Anne Wilson, Stenographer		4,797	4,953
<u>Bank Operations</u>			
James A. McIntosh, Technical Assistant		12,510	12,945
<u>Examinations</u>			
Alex J. Harris, Jr., Assistant Review Examiner		9,573	9,879
<u>Administrative Services</u>			
Wesley B. Collins, Photographer (Offset)		6,261	6,594
Edward S. Green, Cafeteria Laborer		3,507	3,626
Laura A. Smith, Charwoman		3,507	3,626
Frances E. Willis, Charwoman		3,983	4,102

Transfer

Linda Cochran, from the position of Stenographer in the Division of Personnel Administration to the position of Secretary in the Division of Research and Statistics, with an increase in basic annual salary from \$4,797 to \$5,181, effective upon assuming her new duties.

Additional leave without pay

Viola E. Hamilton, Charwoman, Division of Administrative Services, for the period May 16 through May 20, 1966.


Secretary

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

Item No. 1
6/1/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 1, 1966

Mr. C. E. Bierbauer, Cashier,
Federal Reserve Bank of Chicago,
P. O. Box 834,
Chicago, Illinois. 60690.

Dear Mr. Bierbauer:

This refers to your letter of May 10, 1966, regarding a penalty of \$122.16 incurred by The Franklin County National Bank of Brookville, Brookville, Indiana, on an average daily deficiency of \$49,000 for the reserve computation period ended April 13, 1966.

It is noted that (1) a transfer of \$125,000 authorized on Wednesday was delayed until the following Monday by the mails and by a Friday holiday at the Reserve Bank, (2) during the first several days of a change-over in the method of paying for Federal Reserve Bank cash letters by automatic charge to the bank's reserve account, the bookkeeper failed to take cash letters into consideration on the day they were functioned, (3) the bookkeeper was not aware of the Friday holiday at the Reserve Bank when computing estimated reserves, and (4) the bank has an excellent record of maintaining adequate reserve balances.

In the circumstances, the Board authorizes your Bank to waive the assessment of the penalty of \$122.16 for the period ended April 13, 1966.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 2
6/1/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 1, 1966

Mr. C. E. Bierbauer, Cashier,
Federal Reserve Bank of Chicago,
P. O. Box 834,
Chicago, Illinois. 60690.

Dear Mr. Bierbauer:

This refers to your letter of May 10, 1966, regarding an average deficiency of \$27,000 in reserves of The First National Bank of Winnetka, Winnetka, Illinois, for the period ended February 16, 1966.

It is noted that (1) through an error at your Bank in posting excess reserves for the bank in the period following the deficiency, the bank was incorrectly assessed a penalty of \$12.47 for a \$5,000 deficiency instead of \$24.94 for a \$10,000 deficiency; (2) the remaining penalty was waived by your Bank under Paragraph C of the Board's instructions (F.R. L. S. #6120) since Paragraph E had been used for waiving the previous period's penalty against a deficiency of \$18,000; and (3) the bank has had an otherwise excellent record of maintaining adequate reserves.

In the circumstances, the Board authorizes your Bank to waive assessment of the remaining \$12.47 of the penalty due for the reserve computation period ended February 16, 1966.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 3
6/1/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 1, 1966

The Honorable K. A. Randall, Chairman,
Federal Deposit Insurance Corporation,
Washington, D. C. 20429

Dear Mr. Randall:

Reference is made to your letter of May 6, 1966, concerning the application of Union Bank and Trust Company, Delphi, Indiana, for continuance of deposit insurance after withdrawal from membership in the Federal Reserve System.

There have been no corrective programs urged upon the bank, or agreed to by it, which have not been fully consummated, and there are no programs that the Board would advise be incorporated as conditions of admitting the bank to membership in the Corporation as a nonmember of the Federal Reserve System.

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. 4
6/1/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 1, 1966.



Mr. William J. Korsvik,
Assistant Secretary,
Federal Advisory Council,
c/o The First National Bank of Chicago,
Chicago, Illinois. 60690

Dear Bill:

The Board of Governors suggests the topics shown on the attached list for discussion at the meeting of the Federal Advisory Council on June 20, 1966, and the joint meeting of the Board and the Council on June 21.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Attachment

Suggested Topics for Discussion at Meeting of
Federal Advisory Council on June 20-21, 1966

1. Economic conditions and prospects.
 - A. How does the Council appraise prospects for consumer spending and for consumer and industrial prices at mid-1966?
 - B. Have Council members observed any significant recent changes in business plans for capital expenditures in response to the President's request or in response to tighter conditions in markets for labor, materials, and credit? Have there been any significant changes in inventory policies?
2. Banking developments.
 - A. What does the Council anticipate as to near-term business demands for bank credit? Do the members expect banks to have difficulty in meeting such demands?
 - B. How much tightening of bank lending policies has taken place since last winter? Has the ABA checklist to guide selection of loans been effective in this regard?
 - C. How have recent developments affected the ability and willingness of banks to attract funds through issuance of large-denomination negotiable CD's? Through issuance of small-denomination consumer-type CD's?
 - D. What are the views of Council members regarding the desirability, and the possible effects, of various recent legislative proposals for limiting CD issuance by reducing time deposit interest rate ceilings applicable to certificates below certain maturities or denominations?
 - E. How would the Council appraise the current state of the mortgage and consumer credit markets?
3. Balance of payments.
 - A. Does the Council believe that the reduction in foreign lending by U.S. banks is due mainly to (a) general monetary conditions, (b) the voluntary foreign credit restraint program, or (c) other factors?

- B. Does the Council believe that any significant amount of export financing is being refused because of the voluntary foreign credit restraint program or because of general monetary conditions?
 - C. What is the Council's view regarding the outlook for foreign lending by banks during the remainder of 1966?
4. What are the Council's views on monetary and credit policy under current circumstances?

UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

In the Matter of the Application of
THE STATE BANK AND TRUST COMPANY
for approval of merger with
The Ney State Bank

ORDER APPROVING MERGER OF BANKS

There has come before the Board of Governors, pursuant to the Bank Merger Act, as amended (12 U.S.C. 1828(c), Public Law 89-356), an application by The State Bank and Trust Company, Defiance, Ohio, a State member bank of the Federal Reserve System, for the Board's prior approval of the merger of that bank and The Ney State Bank, Ney, Ohio, under the charter and title of The State Bank and Trust Company. As an incident to the merger, the sole office of The Ney State Bank would become a branch of the resulting bank. Notice of the proposed merger, in form approved by the Board, has been published pursuant to said Act.

Upon consideration of all relevant material in the light of the factors set forth in said Act, including reports furnished by the Comptroller of the Currency, the Federal Deposit Insurance Corporation,

and the Attorney General on the competitive factors involved in the proposed merger,

IT IS HEREBY ORDERED, for the reasons set forth in the Board's Statement of this date, that said application be and hereby is approved, provided that said merger shall not be consummated (a) before the thirtieth calendar day following the date of this Order or (b) later than three months after said date.

Dated at Washington, D. C., this 1st day of June, 1966.

By order of the Board of Governors.

Voting for this action: Vice Chairman Robertson, and Governors Shepardson, Maisel, and Brimmer.

Absent and not voting: Chairman Martin, and Governors Mitchell and Daane.

(signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 6
6/1/66

APPLICATION BY THE STATE BANK AND TRUST COMPANY
FOR APPROVAL OF MERGER WITH
THE NEY STATE BANK

STATEMENT

The State Bank and Trust Company, Defiance, Ohio ("State Bank"), with total deposits of approximately \$18 million, has applied, pursuant to the Bank Merger Act, as amended (12 U.S.C. 1828(c), Public Law 89-356), for the Board's prior approval of the merger of that bank with The Ney State Bank, Ney, Ohio ("Ney Bank"), with total deposits of about \$2 million.^{1/} The banks would merge under the charter and title of State Bank, which is a member of the Federal Reserve System. As an incident to the merger, the sole office of Ney Bank would become an office of State Bank, increasing the number of its offices to three.

Competition. - Defiance, the location of the two offices of State Bank, is a growing city of about 17,000 persons in northwestern Ohio. Defiance County, in which both banks are located, is primarily rural, but the city of Defiance and its environs are becoming increasingly developed and industrialized. Ney is a small village (population approximately 350) in a rural area about 12 miles northwest of Defiance.

^{1/} Deposit figures are as of December 31, 1965.

While the service areas^{2/} of the two banks overlap, the number of accounts and dollar volume of business held by each of the banks that originate in the area served by the other are relatively small. Ney Bank is not an aggressive competitor. Ney Bank does not actively seek new business, offers only a limited range of services, has only a small percentage of its deposits loaned, and, though its lending limit is comparatively low, does not participate loans with other banks. There does not appear to be any significant competition that would be eliminated by consummation of the proposal.

The relevant area for considering the remaining competitive effects of the proposal is Defiance County and the southern part of Williams County, which lies immediately north of Defiance County. In addition to State Bank and Ney Bank, six banks operate offices within the relevant area. State Bank is the largest of the area banks, and Ney Bank ranks seventh in terms of deposit size. Consummation of the proposal would increase the percentage of total area deposits held by State Bank from 30 per cent to 33 per cent. However, the substitution of an office of State Bank for that of Ney Bank would be expected to have a beneficial competitive effect by stimulating competition with other banks in the northern part of the relevant area while not increasing importantly the market power of State Bank.

The Board concludes that consummation of the proposal would not have any adverse competitive effects.

^{2/} The area from which a bank derives 75 per cent or more of its deposits of individuals, partnerships, and corporations.

Financial and managerial resources and future prospects. -

Ney Bank has satisfactory financial resources and its earnings have been adequate. The bank's president and only active executive officer, however, is well past normal retirement age and any prospects for recruiting or training a successor management are not favorable. The financial and managerial resources and future prospects of State Bank are satisfactory and would not be adversely affected by effectuation of the proposal.

Convenience and needs of the communities. - The resulting benefits to the village of Ney and the surrounding agricultural area would be the principal consequences that would flow from consummation of the merger. Several housing developments have been constructed near Ney in recent years, and the growth of Defiance and the nearby town of Bryan in Williams County may lead to more residential construction. As indicated previously, Ney Bank is not an aggressive institution. The bank makes no instalment loans, its lending limit of \$13,500 has been inadequate to satisfy many credit needs, and its loan-to-deposit ratio is substantially lower than that of other banks in the area.

Effectuation of the proposal would provide the village of Ney and the surrounding area with a banking office that would be expected to offer a range of services commensurate with the community's needs. Residents of Defiance would be served by increasing the lending limit of State Bank from \$150,000 to \$185,000.

Summary and conclusion. - Consummation of the proposal would not have adverse competitive effects; it would assure to the Ney area successor

management for its only banking office, and it would provide a true alternative source of banking services to residents of the Ney area who must now seek a number of these services elsewhere.

Accordingly, the Board concludes that the proposed merger should be approved.

June 1, 1966.

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

Item No. 7
6/1/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 1, 1966

Mr. Leland M. Ross, Vice President,
Federal Reserve Bank of Chicago,
Chicago, Illinois. 60690

Dear Mr. Ross:

In accordance with the request contained in your letter of May 27, 1966, the Board approves the appointment of Paul D. Hooley as an assistant examiner for the Federal Reserve Bank of Chicago. Please advise the effective date of the appointment.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

