

Minutes for June 2, 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


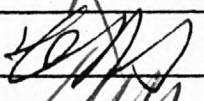

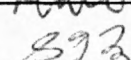
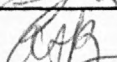
Gov. Shepardson

Gov. Mitchell

Gov. Daane

Gov. Maisel

Gov. Brimmer

Minutes of the Board of Governors of the Federal Reserve System on Thursday, June 2, 1966. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Young, Senior Adviser to the Board and
Director, Division of International Finance
Mr. Holland, Adviser to the Board
Mr. Molony, Assistant to the Board
Mr. Cardon, Legislative Counsel
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Brill, Director, Division of Research and
Statistics
Mr. Solomon, Director, Division of Examinations
Mr. Hexter, Associate General Counsel
Mr. O'Connell, 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. Vander Noot, Chief Analyst, Division of
Data Processing

Proposed legislation with respect to certificates of deposit.

Each member of the Board had received a letter dated May 31, 1966, from Chairman Patman of the House Banking and Currency Committee asking for comment on a proposed legislative approach to the current problems

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attendant upon competition for funds between banks and nonbank thrift institutions, the reply to be submitted in time for consideration at an executive session of the Committee scheduled for tomorrow.

The proposals identified in the letter would (1) provide that the statutory range of required reserves for time deposits be changed from the present 3-6 per cent to: (a) an 8 per cent minimum and a maximum equal to the existing reserve on demand deposits for reserve city banks, without altering the reserve with respect to passbook savings deposits (the Board would be required to establish a reserve of at least 8 per cent according to class and size of time deposit by no later than January 1, 1967); (b) 4-10 per cent; (2) provide that no time deposit could have a minimum maturity of less than (a) one year; (b) six months; (3) 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.

Pursuant to the understanding at yesterday's meeting, there had been distributed a draft of letter to Chairman Patman prepared by Messrs. Brill and Gramley. There had also been distributed a draft prepared by Governor Maisel.

At the request of Governor Shepardson, Mr. Cardon reported a telephone conversation with Mr. Morse, Counsel for the House Banking and Currency Committee, who indicated that Chairman Patman was desirous

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of having Chairman Martin and other available members of the Board appear before his Committee on Wednesday, June 8.

In light of this information, Governor Shepardson suggested that the Board not try to meet the deadline for reply to Chairman Patman but instead devote its time and attention to consideration of the issues involved, with a view to determining a possible Board position. The matter could then be considered further at tomorrow's meeting, when Chairman Martin was expected to be present.

There followed a lengthy discussion relating to the proposals cited in Chairman Patman's letter, similarities and dissimilarities in the approaches taken in the respective draft replies, and the nature and possible consequences of various types of actions that might be taken by the Board.

While the views expressed were primarily of a tentative nature, it appeared from the discussion that there was agreement among the Board members present on several points. First, the members would be receptive to legislation that would increase the Board's flexibility in setting reserve requirements against time and savings deposits. Second, the Board members would welcome legislation sufficiently flexible to permit graduation of reserve requirements and legislation extending reserve requirements to all insured banks. Third, the Board would look with disfavor on legislation specifying a minimum time deposit maturity of as long as a year, or even six months. Fourth, the members would

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not favor legislation setting a maximum rate as low as 4-1/2 per cent on time deposits of less than \$100,000. The members also were agreed in the view that the determination of ceiling interest rates and differentials in rates should be left to administrative discretion.

The principal focus of the discussion was on the question of the desirability of legislation authorizing the Board to impose separate ceilings on time deposits over and under \$100,000. There was some opinion to the effect that the \$100,000 level would appear to be a reasonable dividing point between the market for savings of individuals, municipalities, and small corporations and, on the other hand, corporate accumulations for which negotiable certificates were directly competitive with other money market instruments. There was not complete agreement, however, that the \$100,000 figure was necessarily more appropriate than the lower dividing point previously proposed by the Secretary of the Treasury or some intermediate figure. It was noted, in this regard, that the Secretary's proposal no longer appeared to be under active consideration, and some of the members of the Board were inclined to feel that little purpose would be served by attempting to reactivate it.

On the broader question of legislative authority to impose ceilings on deposits classified by size, whatever dividing point might be decided upon, the argument was advanced that this would be helpful in giving the Board additional latitude to deal with a problem such as

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appeared to be emerging in which large commercial banks were faced with increasing difficulty in turning over large denomination negotiable certificates of deposit under the existing rate ceiling. With the increased flexibility the Board could, if necessary, increase the ceiling rate on large denomination certificates, and at the same time it would be possible to increase required reserves against such deposits. One reservation that was mentioned related to the point that action to relieve the rate pressure upon large banks might work to the detriment of banks of somewhat smaller size also competing for the sale of negotiable certificates.

The argument in favor of authority to impose ceilings on deposits according to size also held that if such authority was available it would be possible for the Board, through various adjustments, to take steps more directly related to the problem of excessive competition for savings funds. In this connection, one member (Governor Brimmer) expressed the opinion that the Board should be considering a configuration of actions that might be appropriate to moderate the competition for deposits temporarily, assuming authority to differentiate by size became available. It was understood that his proposals would be put in memorandum form for distribution to the other members of the Board.

At the conclusion of the discussion the staff was requested to prepare for the Board a revised draft of reply to Chairman Patman embodying those features of the drafts before the Board today that

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appeared to reflect the preponderance of thinking. With such a revised draft available, the whole matter could then be considered further at tomorrow's meeting.

All members of the staff then withdrew from the meeting and the Board went into executive session.

Staff appointment. The Secretary was informed later by Governor Shepardson that during the executive session the Board appointed John J. Hart, presently Assistant to the Director in the Division of Personnel Administration, as Assistant Director of that Division effective July 1, 1966, with salary at the rate of \$16,500 per annum.

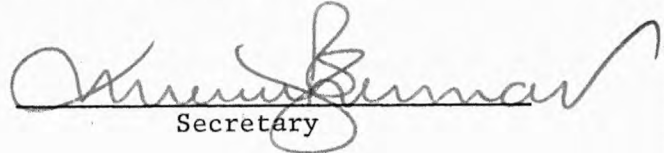
Wegematic matter. The Secretary also was advised that during the executive session the Board was informed, in respect to the matter of the claim for damages against Wegematic Corporation, that the initial payment required under the court judgment had been transferred by the Treasury Department to the Board's General Fund Account on May 13, 1966. It was understood that the total judgment was in the amount of \$289,457 (representing a scaling down to \$235,806 of the original claim of \$244,000, plus interest on the lower figure at the rate of 6 per cent from October 6, 1958) and that the judgment was payable in five instalments as follows: the first instalment of \$50,000 on May 13, 1966, and four equal instalments of \$59,864.25 each on May 15 of the years 1967 through 1970.

The meeting then adjourned.

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Secretary's Note: Governor Shepardson today approved on behalf of the Board a memorandum from the Division of Personnel Administration recommending the appointment of Carolyn Marie Nesbit as Stenographer in that Division, with basic annual salary at the rate of \$4,149, effective the date of entrance upon duty.



Secretary