FR 609

Minutes for June 6, 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 Monday, June 6, 1966. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Broida, Assistant Secretary
Mr. Bakke, Assistant Secretary
Mr. Young, Senior Adviser to the Board and Director, Division of International Finance
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. Solomon, Director, Division of Examinations
Miss Eaton, General Assistant, Office of the Secretary
Mr. Morgan, Staff Assistant, Board Members' Offices

Messrs. Brill, Koch, Partee, Garfield, Williams, Axilrod, Gramley, Altmann, Ettin, Fisher, Keir, Schweitzer, Taylor, Thompson, and Wernick of the Division of Research and Statistics

Messrs. Hersey, Irvine, Katz, Reynolds, Wood, Bryant, Emery, Maroni, Mills, and Nettles, and Mrs. Junz of the Division of International Finance

Economic review. The Division of International Finance summarized selected international financial developments, following which the Division of Research and Statistics reviewed domestic business and financial developments.

At the conclusion of the foregoing presentations, all members of the staff except Messrs. Sherman, Kenyon, Broida, Bakke, Young, Holland, Fauver, Brill, F. Solomon, Koch, Partee, Gramley, and Ettin withdrew from the meeting, and the following entered the room:

Mr. Hackley, General Counsel
Mr. Hexter, Associate General Counsel
Messrs. O'Connell and Shay, Assistant General Counsel
Mr. Forrestal, Miss Hart, and Mrs. Heller, Senior Attorneys, Legal Division
Mr. Egertson, Supervisory Review Examiner, Division of Examinations

Extension of time to accomplish System membership. There had been distributed a memorandum from the Division of Examinations dated June 1, 1966, regarding a request by Summit State Bank of Richfield-Bloomington, Richfield, Minnesota, for two months' extension of time within which to accomplish admission to membership in the Federal Reserve System. The bank's membership application had been approved by the Board on December 17, 1965, subject to compliance with the requirements for admission by June 17, 1966. The requested extension of time was approved unanimously. A copy of the letter advising the bank of this action is attached as Item No. 1.

Competitive factors report. Unanimous approval was given to transmittal to the Comptroller of the Currency of a report on the competitive factors involved in the proposed merger of The Bank of Halifax, Halifax, Virginia, into The Fidelity National Bank, Lynchburg, Virginia. The conclusion read as follows:

While a small amount of competition exists between The Bank of Halifax and the Brookneal branch of The Fidelity National Bank, Lynchburg, the overall effect of the proposed merger on competition would not be adverse.

Amendment of Clayton Act (Item No. 2). There had been distributed a memorandum from the Legal Division dated May 23, 1966, with attached draft letter of response to a request from the Chairman of the House Judiciary Committee for the Board's views on H.R. 11572, a proposal to amend section 8 of the Clayton Act. The prohibitions of this section, insofar as concerns interlocking relationships between banks, are administered by the Board pursuant to its Regulation L (Interlocking Bank Directorates Under the Clayton Act).

Also affected by the proposed legislation would be section 32 of the Banking Act of 1933, which restricts persons associated with an entity engaged in certain securities business activities from serving at the same time as an officer, director, or employee of a member bank of the Federal Reserve System. The Board administers the prohibitions of this statutory provision pursuant to its Regulation R (Relationships With Dealers in Securities Under Section 32 of the Banking Act of 1933).

The bill in question would replace the present section 8 of the Clayton Act in its entirety, and would supersede all provisions of section 32 of the Banking Act of 1933 inconsistent therewith.

Essentially, the effect of the proposed legislation would be to forbid any director, officer, or employee with management functions of

any bank to serve in a similar capacity any other bank that is (a) an actual or potential competitor, (b) an actual or potential customer, or supplier, or source of credit or capital, or (c) whose principal business is the holding of stock in, or control of, any other bank. Regulatory authority to implement the foregoing prohibitions would be transferred exclusively to the Attorney General, although the Board would retain enforcement authority as to banking aspects of the amended section 8.

The principal points advanced in the Legal Division's draft letter of comment were that (1) regulatory authority to implement section 8 of the Clayton Act and section 32 of the Banking Act of 1933 with respect to banks was originally placed with the Board because the Congress believed that aspect of the coverage could best be administered by an agency expert in the banking field; but (2) if across-the-board regulatory authority were now to be vested in the Attorney General, perhaps the responsibility for enforcement should also be placed in his hands.

Governor Robertson commented that he had no strong feeling about the proposed legislation, but did consider it advisable to point out the jurisdictional shift in responsibility for regulating the banking industry that would be involved in areas touched by the proposed legislation. While perceiving no reason to question the ability of the Justice Department to administer the regulatory authority in question on a uniform

basis, he believed it desirable to comment upon the traditional preference manifested by Congress for giving banking agencies jurisdiction over matters involving banks.

Governor Shepardson inquired why the proposed legislation did not include chain banking within the ambit of the proposed prohibitions, insofar as concerned section 8 of the Clayton Act. Miss Hart replied that it was concededly difficult to justify this line of demarcation in principle, although as a practical matter the evils to which the legislation was addressed were less likely to assume serious dimensions where the common denominator of the interlocking relationship was the capital resources of an individual. Also, she noted that the control involved in chain banking was less likely to be enduring because individuals, unlike corporations, do not have perpetual life.

Governor Maisel observed that as he read the bill, its language would, in fact, prohibit chain banking where the institutions were actual or potential competitors. Miss Hart replied that this would be the case unless an individual held 50 per cent or more ownership of the banks involved; in this event, the prohibition would not apply by virtue of an express exemption in the bill.

The letter was thereupon approved unanimously. A copy is attached as Item No. 2.

Petition of Central Wisconsin Bankshares, Inc. (Item No. 3). By order dated January 4, 1966, the Board denied the application of Central

Wisconsin Bankshares, Inc., a registered bank holding company, to acquire the voting shares of Central National Bank of Stettin, Stettin, Wisconsin, a proposed new bank. Thereafter, applicant petitioned for reconsideration of this action and a hearing upon its application.

There had been distributed a memorandum from the Legal Division dated June 1, 1966, wherein, for reasons stated, it was recommended that the petition be denied. A draft Order reflecting this recommendation was attached.

Mrs. Heller summarized the substance of the memorandum, commenting that in the view of the Legal Division the requested reconsideration and hearing would serve no useful purpose.

Following comment by Mr. O'Connell and Mrs. Heller on a question raised by Chairman Martin as to precedent for the action recommended by the Division, issuance of the Order of Denial was authorized. A copy is attached as Item No. 3.

Direct purchase of Treasury obligations (Item No. 4). There had been distributed a memorandum from the Legal Division, dated June 2, 1966, to which was attached a draft report to the Chairman of the Senate Banking and Currency Committee on S. 3368, a bill to amend section 14(b) of the Federal Reserve Act. The proposed legislation would extend until June 30, 1968, the authority of Federal Reserve Banks to purchase United States obligations directly from the Treasury Department.

Mr. Forrestal commented that the draft letter, which favored enactment of the proposed legislation, was in accord with previous expressions by the Board concerning extending the authority in question.

Governor Maisel commented that a collateral issue involved was the question whether Reserve Banks should have authority for direct purchase of Federal agency security issues. He recalled that at a previous meeting of the Board when the subject of direct purchase of agency issues was discussed, two legislative alternatives had been advanced: The first was to include such authority in S. 3368; the second was to have a separate bill amending section 14(b) of the Federal Reserve Act to allow the Federal Home Loan Bank System to borrow from the Federal Reserve Banks. He wondered whether passage of the pending legislation would preclude the Board for a two year period from seeking authority for direct purchase of agency issues.

Mr. Forrestal replied that in the view of the Legal Division the two issues were independent and no such estoppel would result.

Mr. Holland added that the Treasury Department desired to keep the agency purchase issue separate from the authority here involved and, therefore, would prefer to have the Board's report on S. 3368 follow the pattern of those previously submitted. He noted that Treasury had decided not to mention the agency purchase authority in its report on the bill.

Governor Brimmer suggested that authority to purchase agency issues was a consideration germane to evaluation of this bill, in that there was a question whether the $5 billion limitation on direct purchases that has prevailed for many years was appropriate.

Governor Daane commented that, for the purpose stated in the past in support of the authority, the $5 billion ceiling seemed satisfactory. He would not wish to confuse this issue by bringing in the separate question of purchasing of agency issues.

Governor Brimmer expressed the hope that the Board would give consideration to the role of the central bank as a lender of last resort. He could foresee the possibility of the Federal Home Loan Bank Board exercising its drawing rights on the Treasury Department to forestall a liquidity crisis in the savings and loan industry, and in view of this he wondered whether the Federal Reserve System should not have legislative flexibility to help out if this situation arose.

Governor Maisel noted that the Federal Home Loan Bank Board had authority to borrow up to $1 billion from Treasury, and, since it was a banking system, Treasury could put deposits into the Home Loan Banks, thereby providing them with additional liquidity. In his opinion, the Board should face up to the question whether the Federal Home Loan Bank Board should be permitted to borrow directly from the Federal Reserve System, with the approval of the Treasury.

Governor Robertson expressed the view that if Congress was thinking in terms of making additional funds available to the Federal Home Loan Bank System, it should be done directly rather than through the Federal Reserve.

Chairman Martin then suggested that, since the question of authorizing direct purchases of agency issues involved more than might appear on the surface, the Board report favorably upon the two year extension of the existing direct purchase authority and that the question of direct purchase of Federal agency issues by the System be studied as a separate matter.

The letter was thereupon approved unanimously. A copy is attached as Item No. 4.

At this point, Mr. Eckert, Chief, Banking Section, Division of Research and Statistics, entered the meeting.

Certificates of deposit. There had been distributed a number of materials relating to pending legislative proposals to limit the maximum permissible rate of interest on certain classes of time and savings deposits: a memorandum from Mr. Hackley dated June 3, 1966, regarding possible amendments to Regulation Q (Payment of Interest on Deposits) regarding multiple maturities on time deposits and payment of time deposits before maturity; a second revised draft of letter to Chairman Patman of the House Banking and Currency Committee responding to his request for views, in letters of May 31, 1966, to each Board

member, on the proposals embodied in H.R. 14026; a memorandum from Governor Brimmer dated June 2, 1966, containing his suggestions for action to effect temporary moderation in competition for deposits by banking and thrift institutions; copy of a letter to Chairman Patman from the Secretary of the Treasury dated June 2, 1966, responding to the same questions posed in the former's letter of May 31 to members of the Board; copy of a letter to Chairman Patman by the President of the American Bankers Association dated June 3, 1966, responding to these same questions; copy of a wire from First Vice President Treiber of the Federal Reserve Bank of New York to Acting Chairman Robertson dated June 2, 1966, expressing that Bank's opposition to a 4-1/2 per cent interest rate ceiling on time deposits of under $100,000; and a report dated June 3, 1966, on current mortgage market conditions, prepared by the Board's staff based upon special surveys by the Federal Reserve Banks.

Discussion focused upon the draft response to Chairman Patman's letters of May 31, which asked for comment upon the following legislative alternatives:

> (1) Provide that the statutory range of required reserves for time deposits be changed from the present 3-6 per cent to: (a) 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 Federal Reserve 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 may 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 less than $100,000. The present ceiling of 5-1/2 per cent would apply to time deposits of $100,000 and over.

The draft letter took the position that the Board: (1) would welcome greater flexibility in setting reserve requirements, suggesting discretionary authority to establish such requirements within a range of 3 to 10 per cent on time deposits other than passbook; (2) saw no merit in setting minimum maturities for time deposits at either one year or six months; and (3) believed that discretionary authority to fix lower interest rate ceilings for savings-type time deposits than for money-market CD's, without specification of the amount at which the distinction would be drawn, would be worth exploring.

Governor Robertson commented, with respect to the third point, that he would not favor an interest ceiling on time deposits under a given amount, whatever it might be, because he did not think it appropriate to have a rate differential based on deposit size alone. On the other hand, he did feel that a rate distinction on the basis of maturity would be justified, and in this connection suggested that at present the maximum permissible rate on time deposits of less than 90 days should be 3 per cent. In addition, he was sympathetic to the proposals in Mr. Hackley's memorandum of June 3 to prohibit multiple

maturities for certificates of deposit that would qualify for a higher rate if renewed successively, and to prohibit payment of time deposits before maturity. Also, with respect to the first point dealt with in the draft letter, he favored increasing required reserves to 6 per cent on time deposits with maturities over 90 days.

Governor Maisel noted that some members of the Board had indicated during an earlier discussion that time deposits of $100,000 and over were a distinct category of money market instrument, thus justifying higher interest rates and reserve requirements for this class of deposits than for those of smaller amounts. If the Board were given authority to make such a distinction, he felt that perhaps a maximum interest rate of 5 per cent on such large-denomination time deposits could be allowed.

Governor Daane commented that while he did not disagree with the foregoing approach, he would prefer to have $25,000 as the dividing line.

Mr. Brill stated that to impose a rate differential on the basis of either maturity or size of deposit would have significant impact on the money market, in view of the volume of outstanding certificates with maturities of under 90 days or amounts of less than $100,000.

Governor Robertson reiterated the view that, whatever the problem facing the Board in this area, the soundest long-run approach would be to return to rate differentials based on maturity. Banks could justify higher rates of interest on longer maturities because

of the assurance of having the use of these funds for longer periods. The reservations expressed by Mr. Brill, based upon the immediate problem that banks would have in replacing short-term deposits on which a lower rate would be permitted could be dealt with by issuing the regulation with a future effective date, thereby allowing banks time to decide how best to cope with the impact of a new scale of maximum rates.

Governor Brimmer expressed himself in favor of having authority to set different rates on time deposits based on size, noting that the Board already had authority to fix rates according to maturity. Legislative action to permit a differential based on size would add a desirable dimension to the Board's administrative discretion, in his view, and would be particularly appropriate at this time because he felt the present problem revolved about the size of certificates of deposit, not their maturities.

Governor Daane reiterated the point that in light of the short maturity pattern of outstanding certificates, any action at this time that limited banks' ability to retain deposits because of lower rates on shorter maturities could have a disruptive effect on the banking community.

Governor Robertson expressed the opinion that, on the basis of discussions he had had with a number of bankers, there would be no great problem in this direction, since they could probably renew maturing certificates for longer periods carrying higher rates.

Chairman Martin then suggested that the substance of the draft letter and the comments at this meeting be used as the basis for preparing a draft of his testimony on behalf of the Board before the House Banking and Currency Committee on June 8.

After some further discussion, it was understood that further consideration would be given to the matter at a meeting on the afternoon of June 7.

The meeting then adjourned.

Secretary's Notes: Pursuant to the understanding at a recent meeting of the Board in executive session, the letter of which a copy is attached as Item No. 5, relating to size of staff and official travel, was sent to the Director of the Bureau of the Budget under date of June 3, 1966.

A letter was sent today to Bank of America National Trust and Savings Association, San Francisco, California, acknowledging receipt of notice of its intent to establish an additional branch in the Federation of Nigeria, to be located in Port Harcourt.

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. 6) approving the appointment of Gary D. Peterson as assistant examiner.

Memorandum from the Division of Administrative Services dated June 3, 1966, recommending that the salary of Josephine S. Marcey, Substitute Telephone Operator, be increased from $1.75 to $1.99 an hour, effective May 24, 1966, and that appropriate adjustment of Mrs. Marcey's salary be made whenever the Board's Regular Salary Schedule is revised in the future.

Memorandum from Joan Lee Turek, Economist, Division of Research and Statistics, requesting permission to teach a graduate course at Catholic University.

Secretary

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

Item No. 1
6/6/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 6, 1966

Board of Directors,
Summit State Bank of
Richfield-Bloomington,
Richfield, Minnesota.

Gentlemen:

The Board of Governors of the Federal Reserve System extends to August 17, 1966, the time within which admission to membership in the Federal Reserve System may be accomplished by Summit State Bank of Richfield-Bloomington, Richfield, Minnesota.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 2
6/6/66

OFFICE OF THE CHAIRMAN

June 9, 1966

The Honorable Emanuel Celler, Chairman,
House Judiciary Committee,
U. S. House of Representatives,
Washington, D. C. 20515

Dear Mr. Chairman:

This refers to your letter of October 15, 1965, requesting a report on H.R. 11572, a bill to amend section 8 of the Clayton Act (15 U.S.C. 19) in order to prohibit certain corporate management interlocking relationships, and for other purposes.

The Board understands that your intention, as you stated on introducing the bill in the House of Representatives, was to provide "a basis for further consideration and hearings, so that the results that reasonably may be anticipated from specific amendments to existing law may be thoroughly probed." Two important objectives which it is hoped to achieve as a result of amending section 8 would be elimination of known defects in existing law governing interlocking relationships between business entities, and development of a consistent government-wide policy regarding the regulation of such relationships. The Board is thoroughly in accord with both objectives, and believes it would indeed be helpful for Congress at this time to take a fresh look at the entire subject.

H.R. 11572 would affect the Board's responsibilities under two existing statutes, section 8 of the Clayton Act and section 32 of the Banking Act of 1933 (12 U.S.C. 78). Under its terms, your bill would replace the first, and take precedence over any inconsistent provisions of the second, or of any regulations promulgated thereunder. Section 8 governs interlocking relationships among certain banking institutions. As it now stands, the statute forbids private bankers and directors, officers, or employees of any member bank of the Federal

Reserve System or their branches to serve at the same time as directors, officers, or employees of any other banking institution organized under the National Bank Act or under the laws of any State or the District of Columbia. The statute grants the Board authority to permit persons, by regulation, to serve in one nonconforming interlocking relationship. In addition, the statute specifically exempts mutual savings banks and six other types of situations.

Section 32 relates to interlocking relationships between member banks and securities companies. It provides that "no officer, director, or employee of any corporation or unincorporated association, no partner or employee of any partnership, and no individual, primarily engaged in" certain described securities activities "shall serve [at] the same time as an officer, director, or employee of any member bank" except in limited classes of cases in which the Board may allow such service by general regulations.

Turning first to section 8, the present statute is clearly inconsistent in failing to cover certain areas where interlocking relationships have quite as serious an anti-competitive potential as do those now subject to its prohibitions. For example, the same persons may serve banks that are in direct competition with one another, if the banks are in different, noncontiguous or nonadjacent cities, towns, or villages, and interlocking relationships are permitted between commercial banks and mutual savings banks, despite the fact that the former have come to compete actively in fields formerly served principally by the latter.

In a letter of June 5, 1964, the Board discussed an earlier bill to amend section 8, H.R. 10506. While in sympathy with the objective of that bill to extend the prohibition of the statute to interlocking relationships involving any bank or savings and loan association with Federal deposit or account insurance, the Board did not favor enactment of that bill for a number of reasons, particularly because the Board felt further study was needed of the implications of the proposed extension of section 8's prohibition to cover ownership by individuals of substantial beneficial stock interests in two or more banks or associations. The Board felt that this proposed extension raised the whole issue of the need or desirability of Federal regulation of chain banking (ownership by individuals of stock in two or more banks), and that this extremely complex issue needed to be dealt with in a context broader than that of the antitrust aspect alone.

The scheme of H.R. 11572 would be free from many defects both of existing law and of the earlier bill. The new bill would broadly forbid interlocking relationships between any two corporations, where one was engaged in commerce if (a) the two were actual or potential competitors, (b) there was an actual or potential relationship between them as customer, supplier, or source of credit or capital, or (c) the principal business of one was to hold stock in, or control stock of, another company. Interlocking relationships between parent and subsidiary, where one owned 50 per cent or more of the voting stock of the other, would be exempt. Any other exemption would require approval of the Attorney General.

Because the new bill would be limited to persons in positions with management responsibilities, it would avoid occasional apparent hardship under present law where, for example, a clerk of a downtown bank wishes to work, perhaps one evening a week or on Saturdays, for a small suburban bank, which may in turn otherwise have difficulty in obtaining trained personnel to serve at these hours. It is not at all clear how such interlocking service would have anti-competitive consequences, and yet, under the present section 8, this is forbidden.

Conversely, the new bill would eliminate a known loophole. This loophole, which has caused particular concern to the Board, involves the exception for institutions "more than 50 per centum of the common stock of which is owned directly or indirectly by persons who own directly or indirectly more than 50 per centum of the common stock of such . . ." other institution. The loophole arises from the fact that the statute fails to give any specific content to the term "persons". As a result, it is legally possible, to take the simplest example, where one person controls bank A, and another controls bank B, for the two of them to exchange single shares of stock, and thereafter come within the statutory exception, since together they are "persons" owning 50 per cent or more of the stock of both banks. Thereafter, under the present law, there may be interlocking service between the two banks, even if they are located across the street from one another and in direct competition.

At the same time, it would seem advisable to consider continuing certain specific exceptions in a statute of this kind. While such exceptions should be limited in number, they should cover, for example, service with a Federal Reserve Bank because some directors of each Federal Reserve Bank are required to be bankers, and possibly with any Edge Act and Agreement Corporations that are subsidiaries of bank holding companies. It is understood from your statement in introducing the bill, referred to above, that one reason for putting it forward in its present form is to provide an occasion for discussing what exceptions might be appropriate, in conformity with the legislative purpose.

Turning to section 32, the Board understands that the statute would remain in force, except to the extent superseded by the revised section 8. Certain areas which are subject to section 32 would apparently not be affected by H.R. 11572, notably interlocking relationships with securities partnerships (the bill appears to relate only to relationships among individuals, corporations, and associations) and with individuals primarily engaged in the activities described in that section. Many securities firms, of course, are partnerships. In addition, section 32 forbids any interlocking relationships involving an employee, while the prohibitions of H.R. 11572 are confined to employees with management functions. Whether certain interlocking relationships with partnerships should be subject to the prohibitions of H.R. 11572, and whether non-management employees should be permitted to have interlocking relationships under section 32, are questions that might warrant further examination.

More broadly, regulatory authority under sections 8 and 32 was originally confided to the Board because of the belief by Congress that, in view of the special nature of banking, such authority should be placed in an agency with specialized knowledge of the requirements and functioning of banks. While the Board would not object if regulatory authority in these areas were confided to another bank supervisory agency, the Committee might wish to consider this aspect very carefully before granting such authority to a Department whose general responsibilities necessarily preclude it from acquiring the particular expertise that is required for this type of regulation. At the same time, the bill would leave enforcement authority as to banking aspects of the amended section 8 (under section 11 of the Clayton Act) in the Board. In this instance, it would appear that regulatory and enforcement authority might more appropriately be combined.

One final comment may be helpful as to the general scope of the new bill. It covers only corporations with capital, surplus, and undivided profits aggregating more than $1 million. The competitive importance of a bank for some purposes is measured in terms of its deposits, variously defined, and there are some banks large enough to be significant vis a vis a $1 million corporation, whose aggregated capital, surplus, and undivided profits might not reach that figure. For this reason, your Committee might wish to consider some other measure or measures for determining what banks are to be subject to the revised statute.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Item No. 3
6/6/66

UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

In the Matter of the Application of

CENTRAL WISCONSIN BANKSHARES, INC.,
Wausau, Wisconsin,

for prior approval of acquisition of voting shares of Central National Bank of Stettin, Stettin, Wisconsin, a proposed new bank.

ORDER DENYING PETITION FOR RECONSIDERATION
AND FOR HEARING

This matter has come before the Board of Governors upon petition of Central Wisconsin Bankshares, Inc., Wausau, Wisconsin, filed on March 31, 1966, for (1) reconsideration by the Board of its Order of January 4, 1966, denying petitioner's application, pursuant to section 3(a)(2) of the Bank Holding Company Act of 1956, for prior approval of acquisition of the voting shares of Central National Bank of Stettin, Stettin, Wisconsin, a proposed new bank, and (2) for a hearing on said application. In connection with said petition, the Board has made the following findings:

(1) The Board's Rules of Procedure (12 CFR 262.2(f)(6)) provide with respect to bank holding company applications:

"(6) After action by the Board on an application, the Board will not grant any request for reconsideration of its action, unless the request presents relevant facts that, for good cause shown, were not previously presented to the Board, or unless it otherwise appears to the Board that reconsideration would be appropriate."

(2) Applicant's petition for reconsideration does not present relevant facts or arguments that, for good cause shown, were not previously presented to or considered by the Board.

(3) The applicable statute does not require the Board to grant a hearing on petitioner's application as a matter of right. Further, such a hearing is not considered by the Board to be required in the public interest or otherwise warranted by the circumstances herein, Applicant having had ample opportunity to present all relevant facts and arguments. Accordingly,

IT IS ORDERED that the petition for reconsideration and for a hearing on the application be and hereby is denied.

Dated at Washington, D. C., this 6th day of June, 1966.

By order of the Board of Governors.

(SEAL) (Signed) Merritt Sherman

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 4
6/6/66

OFFICE OF THE CHAIRMAN

June 6, 1966

The Honorable A. Willis Robertson, Chairman,
Committee on Banking and Currency,
United States Senate,
Washington, D. C. 20510

Dear Mr. Chairman:

This is in response to your letter of May 18, 1966, requesting the Board's views on S. 3368, a bill which would amend section 14(b) of the Federal Reserve Act to extend for two years the authority of Federal Reserve Banks to purchase United States obligations directly from the Treasury. Under existing law, the authority will terminate on June 30, 1966.

The use of this authority by the Federal Reserve enables the Treasury to avoid creating unnecessary financial strains that would otherwise occur if it had to draw heavily on its accounts especially during periods immediately preceding tax payment dates. Temporary Treasury borrowing at such times, followed by prompt repayment from the proceeds of tax payments, provides a smooth operating mechanism, without the abrupt money market fluctuations that would otherwise occur. The authority could also be useful in dealing with situations resulting from a national emergency. Since 1942, when the authority was granted, it has been used sparingly, and its use is reported, as required by law, each year in detail in the Board's Annual Report. The results of its use also appear currently in weekly statements issued by the Federal Reserve and in daily statements issued by the Treasury. The Board, therefore, favors the proposed legislation.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

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

Item No. 5
6/6/66

OFFICE OF THE CHAIRMAN

June 3, 1966.

Mr. Charles L. Schultze, Director,
Bureau of the Budget,
Executive Office Building,
Washington, D. C. 20500

Dear Charlie:

This will acknowledge receipt of the President's memorandum of May 20, 1966 to heads of executive departments and agencies relating to restrictions on employment and travel. The Board is of course in complete agreement with the broad principles outlined in the memorandum and concurs in the desirability of taking steps to avoid inflationary pressures.

Over the years the Board has endeavored to maintain its staff only at a level considered necessary to enable it to perform its responsibilities effectively. The staff has increased moderately as those responsibilities have been enlarged, but today--at 650--it is less than half again as large as 25 years ago, when it numbered 448. In fact, our staff presently is if anything smaller than is needed to provide the information and perform the functions required of and by the Board in line with its duties. While it is our practice to review every vacancy to determine whether the particular position is essential before it is filled, we are satisfied from a current review that we must not only maintain the present heavily-burdened staff at its numerical level, but that we must add positions from time to time. In doing this we shall, as the President suggests and as has been our practice in the past, continue to authorize the filling of vacancies or establishment of new positions only where the Board is convinced an essential need exists.

With reference to travel, the Board has followed a conservative policy in authorizing official trips. Attendance at professional meetings, to which the President's memorandum refers especially, has represented only a minor part of our travel, having been limited generally to those that the Board believes to be of significant importance to current work or to development of the individuals participating.

We believe that our modest program of participation in these meetings is close to the minimum practicable level now, but we shall continue to apply a careful test to each request for travel authorization in the light of the President's request to limit it to what the Board considers to be essential participation.

Sincerely yours,

/s/ Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

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

Item No. 6
6/6/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 7, 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 June 2, 1966, the Board approves the appointment of Gary D. Peterson 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.