

Minutes for June 22, 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 Wednesday, June 22, 1966. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Robertson, Vice Chairman
Mr. Mitchell 1/
Mr. Maisel
Mr. Brimmer

Mr. Sherman, Secretary
Mr. Broida, Assistant Secretary
Mr. Bakke, Assistant Secretary
Mr. Young, Senior Adviser to the Board and
Director, Division of International Finance
Mr. Molony, Assistant to the Board
Mr. Cardon, Legislative Counsel
Mr. Hackley, General Counsel
Mr. Brill, Director, Division of Research and
Statistics
Mr. Solomon, Director, Division of Examinations
Mr. Hexter, Associate General Counsel
Messrs. O'Connell, Shay, and Hooff, Assistant
General Counsel
Mr. Daniels, Assistant Director, Division of
Bank Operations
Mr. Leavitt, Assistant Director, Division of
Examinations
Mr. Sprecher, Assistant Director, Division of
Personnel Administration
Mrs. Semia, Technical Assistant, Office of the
Secretary
Messrs. Forrestal and Sanders, Senior Attorneys,
Legal Division
Mr. Collier, Assistant to the Director, Division
of Bank Operations
Mr. Egertson, Supervisory Review Examiner,
Division of Examinations

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

1/ Withdrew from meeting at point indicated in minutes.

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Item No.

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| Letter to Bankers Trust Company, Des Moines, Iowa, approving an investment in bank premises. | 1 |
| Letter to Smackover State Bank, Smackover, Arkansas, waiving the requirement of six months' notice of withdrawal from membership in the Federal Reserve System. | 2 |
| Letter to the Federal Reserve Bank of Atlanta approving the payment of salaries to David Baldwin and Jeffrey J. Wells at the rates fixed by the Bank's Board of Directors. | 3 |
| Letter to the Federal Reserve Bank of St. Louis approving the payment of salaries to F. Garland Russell, Jr., as Assistant Counsel and Assistant Secretary, and to Woodrow W. Gilmore and Leonall C. Andersen as Vice Presidents, at the rates fixed by the Bank's Board of Directors. | 4 |

Reports on competitive factors. Reports to the Comptroller of the Currency on the competitive factors involved in the following proposed mergers or similar transactions were approved unanimously for transmittal to the Comptroller in a form in which the conclusions were stated as follows:

Merger of The First National Bank of Ulster, Ulster, Pennsylvania, into The First National Bank of Towanda, Towanda, Pennsylvania

While a small amount of competition exists between The First National Bank of Ulster and The First National Bank of Towanda, the overall competitive effects of the proposed merger are not viewed as adverse.

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Purchase of assets and assumption of liabilities
of Bank of Richland, Richland, Washington, by
Old National Bank of Washington, Spokane, Washington

There appears to be little, if any, competition existing between Bank of Richland and Old National Bank of Washington, Spokane, a subsidiary of Old National Corporation, Spokane, a registered bank holding company. Consummation of the proposal would eliminate the only locally headquartered bank in Richland resulting in the community being served by offices of three large banks.

Mr. Egertson then withdrew from the meeting.

Requests to maintain reduced reserves (Items 5-7). At its meeting on January 7, 1966, the Board denied requests by City National Bank, Beverly Hills, California, and United States National Bank, San Diego, California, for permission to continue to carry reduced reserves following establishment by each bank of a new branch located within the city limits of Los Angeles. However, the Board agreed to allow both banks an adjustment period of six months, which would make July 7, 1966, the beginning of a reserve computation period, the effective date for carrying reserves at the level required of reserve city banks.

There had been circulated a memorandum dated June 10, 1966, from the Division of Bank Operations regarding requests received through the Federal Reserve Bank of San Francisco for deferment of the effective date of the reserve increase for City National Bank and for reconsideration of the Board's decision regarding United States National Bank. The latter bank also requested an opportunity to discuss the matter with the Board before any increase in its reserves was required, and a request

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for such a discussion had likewise been received from the bank's Washington counsel.

The San Francisco Reserve Bank recommended that the Board approve continuance of the reduced reserve privilege for both banks; indefinitely for United States National, and until actual establishment of the downtown office, scheduled for January 1967, for City National.

The Division of Bank Operations noted that the latest available information indicated that City National Bank had demand deposits of about \$115 million and United States National of about \$135 million, while the smallest Los Angeles bank in the reserve city category (Union Bank) had demand deposits of \$605 million. The Division also pointed out that the Board previously (in 1963) had given two New York City banks having demand deposits of \$122 million and \$131 million, respectively, permission to carry reduced reserves. City National stated that, when its new downtown branch opened in January 1967, it intended to offer competition to other downtown Los Angeles banks and that it would then expect to carry reserves at the level required of reserve city banks, but it believed its competitive ability until that time was insignificant. United States National stated that it was still predominantly engaged in business similar to that of a non-reserve city bank, that it would not be in competition with reserve city banks in Los Angeles for at least three or four years, and that its downtown office was not presently equipped to handle more than deposits and loan applications. After consideration of this information and the comments of

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the Federal Reserve Bank of San Francisco, the Division of Bank Operations recommended that the Board reaffirm its decisions of last January denying permission to carry reduced reserves but that the effective date for requiring the higher level be deferred in each case until July 6, 1967 (the beginning of a reserve computation period).

Governor Brimmer expressed the view that the Board should not appear to be vacillating in regard to the policy issue. If it had made up its mind that the banks were becoming reserve city banks because of the character of their business and their competitive position, it should reiterate that view and make it clear that any extensions of time for conformance were only a matter of convenience.

Governor Robertson commented that he did not regard the pending requests as reopening the policy issue. It was settled that when the character of a bank's business at offices located in a reserve city brought it into active competition with other reserve city banks, it became a reserve city bank subject to reserve requirements at the level for such banks. However, in these particular cases the banks thus far had a relatively small volume of business of the type that characterized reserve city banking, and the deferral of time for compliance with the higher reserve requirement seemed reasonable as giving the banks an opportunity for orderly adjustment to a competitive posture in their new status.

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After further discussion, letters to the San Francisco Reserve Bank and to the member banks were approved unanimously in the form attached as Items 5-7.

Regulations Q and D. At the meeting on June 20, 1966, there was a general understanding that upon completion of the analysis of a recent survey of time and savings deposits the Board would consider what actions, if any, should be taken on certain proposals that had been discussed concerning interest rates and reserves on time deposits.

Governor Robertson now requested that action be taken--whether affirmative or negative--on several questions that he mentioned relating to Regulation Q, Payment of Interest on Deposits, and Regulation D, Reserves of Member Banks. His questions were stated as follows, in a distributed memorandum of June 20:

1. Whether reserve requirements should be raised from 4 per cent to 6 per cent on time deposits other than savings deposits, to the extent that the combined total of time plus savings deposits at any bank exceeds \$5 million, as proposed in Governor Robertson's memorandum to the Board of June 6, 1966.

2. Whether the maximum permissible rate payable on time deposits maturing in less than 90 days should be lowered. (Governor Robertson now suggested that the rate to be considered should be 4 per cent--the same maximum rate as fixed for savings deposits--for time deposits maturing in less than 60 days, and a 4-1/2 per cent rate for those maturing in between 60 and 90 days.)

3. Whether promissory notes should be defined as deposits, in accordance with the most recent proposal made by Mr. Hackley.

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4. Whether the penalty provision for payment of a time deposit before maturity should be increased, or whether payment before maturity should be prohibited altogether.

5. Whether multiple maturities on time deposits should be prohibited, including whether automatic renewal should be prohibited, should be limited to one renewal, or should be authorized only on instruments bearing a maturity of not less than 90 days.

6. Whether "guaranteed" rates of interest on outstanding time deposit contracts should be subject to any reduction in the maximum rate permitted by Regulation Q, if and when amended.

There had also been distributed a memorandum from Mr. Hackley dated June 20, 1966, with which were submitted drafts of amendments to Regulations D and Q that would implement several of Governor Robertson's numbered suggestions; also attached were two previous memoranda from Mr. Hackley that contained discussions pertinent to the remaining suggestions.

In introductory remarks at today's meeting Chairman Martin stated that in the absence of two members of the Board, if there was disagreement among the five who were present as to the proper course to take, he would be in favor of postponing a decision unless the issues were considered so urgent as to necessitate action. The views of Governor Mitchell were then solicited, inasmuch as he expected to have to leave the meeting shortly to keep another appointment.

Governor Mitchell stated that his first choice would be to do nothing. However, since it appeared possible that some action would

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be necessary, he had been trying to assemble a package of measures that might be appropriate. He was inclined toward defining time deposits by limiting them to several specific categories--passbook savings; savings certificates with a maturity of not less than 90 days and renewable for not less than 90 days, which would be eligible for purchase only by individuals; savings discount bonds with maturities and renewals of not less than a year, also available only to individuals, and having the present privilege, or some modification of it, of pre-maturity payment in case of hardship; and negotiable certificates of deposit or open book time accounts, to which the present specification of not less than 30 days' maturity would apply, available to the same buyers as at present, but with no provision for optional maturities or automatic renewals. To provide some deterrent to the flow of funds into negotiable certificates of deposit, a limitation might be placed on the amounts of such certificates or a special reserve requirement might be placed against them. While he questioned the desirability of setting reserve requirements for time deposits at a different level from those for savings deposits, he believed such a procedure preferable to an amount limitation. Governor Mitchell thought a package such as he had outlined would be reasonably orderly, and it also might help with some of the difficulties that had been experienced in regard to names of instruments and advertising. His inclination was to rely on differing maturities and to specify buyers who would be eligible, but to leave maximum rates

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of interest undisturbed. He believed the Board had authority to adopt such a package, although that point would need the Legal Division's verification.

Governor Mitchell also observed that he would not now be inclined toward action to bring promissory notes within the definition of deposits; in his view, such instruments presently were providing a needed safety valve.

After an exchange of comments during which Governor Mitchell clarified various provisions of his suggestions, Governor Maisel inquired as to the Board's legal authority to implement the proposals.

Mr. Hackley responded that the Board had for many years defined savings deposits in terms of the nature of depositor, but he was not certain that this would be a valid precedent for defining time deposits other than savings in similar terms. While the Legal Division had not gone deeply into the matter, his own initial reaction was one of reservations as to propriety. The principle underlying the limitation of savings deposits essentially to individuals was that such deposits were for thrift purposes and were permitted to bear interest, even though in practice, despite the reserved right of banks to require 30 days' notice of withdrawal, they were payable on demand. He added that the Board clearly had authority to define time deposits according to maturity, as it did at present, and this authority could be utilized to provide, for example, that in order to qualify for this status a deposit must have a maturity of at least 60 or 90 days, instead of the present 30-day definition.

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Governor Mitchell stated that he was not inclined to press his proposal if there was any substantial question as to the legal authority for it. His preference was to leave maximum permissible rates of interest alone and to have a minimum of disturbance of banking practices. He believed that the survey of time and savings deposits proved that a considerable amount of negotiable certificates of deposit of less than \$100,000 denomination had come into existence and that discount bonds were fairly important in a few districts.

In response to a request by Chairman Martin that he elaborate on his view in regard to promissory notes, Governor Mitchell indicated that he had at first believed that the Board should not attempt to include that instrument in the definition of deposits. Subsequently, he had switched his view, but now, after the long deliberations the Board had had in regard to possible difficulties of such a definition and the evolution of the proposed definition from a simple one to a complexity of exceptions, he had returned to his original view that such a definitional approach was wrong. He believed that the issuance of promissory notes offered an escape from the bind of circumstances that it would be desirable to permit. Banks were paying close to the maximum rates of interest anyway, and if any bank needed a safety valve he would rather see such an avenue of escape used than to see the maximum permissible interest rate raised above 5-1/2 per cent. However, if a satisfactory definition could be devised that would encompass only promissory notes, he probably could go along with it as part of a package.

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Governor Maisel said that he would be sympathetic with Governor Mitchell's proposal for defining time deposits, if there was legal authority for it, since he thought it would carry with it the right to set a separate maximum rate of interest on funds covered under the savings-certificate concept. If this proved to be the case, it would seem logical to put a 5 per cent ceiling on certificates of the consumer-savings type.

Reverting to Governor Robertson's suggestion that a maximum rate of 4 per cent be fixed for time deposits maturing in less than 60 days and a rate of 4-1/2 per cent for those maturing in between 60 and 90 days, Governor Maisel commented that if such an action were taken he would be willing to go along with the deposit definition that would include promissory notes, because he thought they would develop into a large scale problem if such rates were adopted.

Governor Brimmer suggested that no action be taken at the moment; Governor Robertson's memorandum had assumed that the analysis of the survey of time and savings deposits would be available by now in a form that the Board could study with a view to publication, and that any actions by the Board would be taken in the light of the survey findings. Although the Board had had a preliminary briefing on staff impressions of the survey, which had been followed by suggestions by some of the Board members for refinement of certain points, no finished product had been placed before the Board with an analysis looking toward

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policy actions. He also stated that he was not interested in action for action's sake; some real issues were involved, and the survey results should cast some light on the problem. Governor Brimmer reserved judgment as to the proposals that had been offered during this meeting. Perhaps in another day or two the issues could be stated more clearly, an analysis of the survey could be made available, and more members of the Board could participate in the discussion. He was firmly of the view that whatever action was taken, it should stand against the survey findings as a background.

Governor Maisel thought that today's discussion should be helpful in clarifying the questions at issue. In his view, there were three issues--one on interest rates, a second on whether the problem of certificates of deposit was a monetary policy problem, and a third on the question of separating savings deposits from time deposits according to maturity. He believed these were three distinct questions, each deserving separate consideration.

Governor Brimmer stated that in his mind the critical issue in the present environment, and the one with the highest priority, was the question of interest rates. The questions concerning certificates of deposit and maturities were less urgent. However, he did not believe the Board should take action on any of the issues today.

Chairman Martin stated that he, too, doubted that these issues were of sufficient urgency to require action now. He would prefer that

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the Board study the problem further, and he hoped there would develop greater agreement among the members of the Board than there appeared to be at present. He recognized that others might disagree with that view, and if a majority of the Board thought there was a burning issue of monetary policy, with respect to which it was vital that action be taken now or in the next couple of days, he thought the members were entitled to vote accordingly. However, his own position was quite clear; in view of the absence of two members of the Board, and in the light of the evident divergence of opinion among the five members present, he believed that no action should be taken at this time. Careful thought should be given to the posture of the Board, since feeling was running high in parts of the financial community and any action taken was bound to attract a good deal of attention. Furthermore, while there was uncertainty as to what might happen in the way of shifts of funds from savings and loan associations following the midyear dividend date, it was his guess that there would not be a critical problem in this regard.

The discussion then turned to questions of procedure, during which Governor Maisel said he felt strongly that the Board should confer with the Federal Deposit Insurance Corporation when a majority view of the Board in favor of action relating to Regulation Q appeared to have been developed, rather than waiting until definite action had been taken by the Board. The Corporation had a similar regulation, as to

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which it probably would take parallel action, but its views should be heard while any decision by the Board was still in the making.

Ensuing staff comments indicated that the FDIC survey of time and savings deposits, similar to that conducted by the Board, was still in process and it seemed unlikely that the announcement of its results could be coordinated with the announcement of the Board's survey findings.

In this connection, Governor Mitchell commented that he had not closed his mind to the possibility of action relating to interest rates, but at the present time he saw no compelling reason to interfere with market forces through monetary policy. When the survey analysis was available, it should make possible a clearer view.

Governor Mitchell also believed that one of the difficulties in deciding what course of action to follow was the lack of information regarding the degree to which banks were planning to accelerate their promotional advertising for funds between now and the end of June. It might be possible for the Reserve Banks to obtain information as to such plans of banks.

There was agreement that the Reserve Bank Presidents be asked to be prepared to comment on such advertising plans when they were in Washington for next week's meeting of the Federal Open Market Committee.

In supplementation of the proposals that he had presented earlier in this discussion, Governor Robertson commented that the preliminary

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results of the survey of time and savings deposits suggested that large banks had been using purchased funds for the purpose of escaping the restrictiveness of monetary policy. If this were the case, an increase in reserve requirements applicable to time and savings deposits above \$5 million at each bank would increase the effectiveness of monetary policy and put a little more restraint in the credit area where he felt it was needed, namely, on the larger institutions. Governor Robertson also suggested that if rates on certificates of deposit of less than 60 days were limited to 4 per cent and those in between 60 to 90 days to 4-1/2 per cent, that would be a step toward gearing rates to maturities, which he considered sound. The two actions he suggested would indicate that the Board was aware of the problem and was trying to deal with it; they would press banks to rely on asset liquidity rather than liability liquidity and thus promote effectiveness of monetary policy. Another possible result might be to ward off enactment of recent legislative proposals that he considered unwise.

The question of promissory notes, Governor Robertson continued, was raised as soon as rate differentials were introduced on certificates of deposit of less than 90 days' maturity. He would like to see the Board act on the deposit definition that would encompass promissory notes. Since the majority of the Board apparently would be willing to accept such a provision if it was directed specifically at the promissory note type of instrument, he suggested adding to the most recent

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draft of amendment submitted by Mr. Hackley an exception for repurchase agreements. (The draft of amendment attached to Mr. Hackley's memorandum of June 20, 1966, would provide that "the term 'deposits' shall be deemed to include any promissory note, acknowledgement of advance, due bill, or similar instrument that is issued by a member bank primarily as a means of obtaining funds to be used in its banking business, except any such instrument (1) that is issued to another bank, or (2) that has an original maturity of more than two years and is subordinated to the claims of depositors.")

As to his fourth question, whether the penalty provision for payment of a time deposit before maturity should be increased or whether payment before maturity should be prohibited altogether, Governor Robertson felt that if a deposit was to qualify as a time deposit it should have a fixed maturity, with no prepayment provision. The lack of provision for prepayment might discourage interest rate acceleration and should have strong psychological effects.

Governor Robertson's fifth question was whether multiple maturities on time deposits should be prohibited. This included consideration as to whether automatic renewals should be prohibited, should be limited to one renewal, or should be authorized only on instruments bearing a maturity of not less than 90 days. The last-named alternative seemed to him adequate.

Governor Robertson had doubts as to the sixth question he had raised as to whether "guaranteed" rates of interest on outstanding

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time deposit contracts should be subject to any reduction in the maximum rate permitted by Regulation Q, if and when amended. If banks attempted to enter into contracts with a term of 5 or 6 years, he doubted that they should be protected from their own folly.

Governor Mitchell expressed the view that the suggested actions would have a more restrictive effect than Governor Robertson intended, and that in addition safety valves would be lacking.

The latter responded that the discount window would provide a safety valve, and one that could be controlled by using it for its intended purpose, namely, to price funds rather than to let the entire pricing function be performed in the market.

After further exchanges of comments in which Governors Robertson and Mitchell explored the merits of the several proposals, Governor Maisel expressed the view that Governor Robertson's first suggestion of action to increase reserve requirements on time deposits could be separated from the others. He thought it involved a question of monetary policy of the traditional kind on which the Board might act separately. He also suggested that it would be helpful to see drafts of amendments to Regulations Q and D that would implement the other proposals discussed during this meeting.

After further comments by members of the Board and staff regarding the impact of actions taken and proposed on money markets and on the banking community, discussion turned to the timing of a release covering

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the survey of interest rates on savings and time deposits, as well as to the timing of possible Board action along the lines of the discussion at this meeting. The discussion concluded with a request that the staff present for the Board's consideration later this week a draft of statement, in the hope that an announcement regarding the survey might be released within the next few days.

Governor Mitchell withdrew from the meeting at this point.

Messrs. Young, Brill, Hexter, O'Connell, Shay, Hooff, Daniels, Forrestal, Sanders, and Collier also withdrew.

Natural disaster insurance (Item No. 8). There had been distributed a memorandum dated June 16, 1966, from the Division of Examinations regarding an inquiry from the Department of Housing and Urban Development relating to the possibility of providing Federal insurance against certain natural disasters in order that occupants of the areas affected might have the means for their own rehabilitation and thus reduce the need for reliance on public assistance. The memorandum, which was accompanied by a draft reply to the Department, summarized background information and commented briefly on replies of the Federal Reserve Banks to the Board's solicitation of their views on eight questions posed by the Department.

Following brief discussion, during which a number of changes of an editorial nature were suggested in the proposed reply, a letter was approved unanimously in the form attached as Item No. 8.

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Messrs. Molony, Cardon, and Leavitt then withdrew from the meeting.

Officer salaries (Buffalo Branch). There had been distributed a memorandum dated June 16, 1966, in which the Division of Personnel Administration described certain changes in the official staff of the Buffalo Branch of the Federal Reserve Bank of New York and presented the Bank's request for the Board's approval of payment of salaries to the officers concerned at rates fixed by the Bank's Board of Directors.

Various questions were raised during discussion as to the appropriateness of the salaries contemplated, and there was unanimous agreement with a suggestion that these questions be explored with President Hayes of the Bank at an early opportunity, after which the matter would be considered further by the Board.

The meeting then adjourned.

Secretary's Notes: A letter was sent today to Bank of America National Trust and Savings Association, San Francisco, California, extending to February 1, 1967, the time for establishment of a branch in Calcutta, India. (A letter of July 14, 1964, had acknowledged the bank's notice of intent to establish this branch and a letter of July 30, 1965, had extended to August 1, 1966, the time for its establishment.)

A letter was also sent today to Bank of America National Trust and Savings Association extending to July 1, 1967, the time for establishment of branches in New Delhi and Madras, India. (Letters of July 2, 1965, had acknowledged the bank's notice of intent to establish these branches.)

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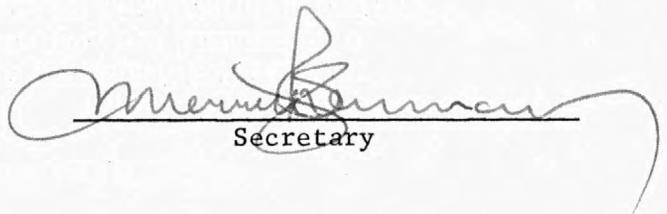
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Acting in the absence of Governor Shepardson, Governor Robertson approved on behalf of the Board on June 21, 1966, the following items:

Letter to Mr. Swan, Chairman of the Executive Committee of the Retirement System of the Federal Reserve Banks, suggesting the appointment of E. J. Johnson, Director of the Board's Division of Personnel Administration, as associate member of the Retirement Committee of the Retirement System, to replace H. F. Sprecher, Jr.

Memorandum from Guy R. De Carlo, Economist, Division of International Finance, requesting permission to teach a course in Economics at the University of Maryland.

Acting in the absence of Governor Shepardson, Governor Robertson today approved on behalf of the Board a memorandum from the Division of Personnel Administration recommending acceptance of the resignation of H. F. Sprecher, Jr., Assistant Director of that Division, effective the close of business July 15, 1966, with retirement effective July 16, 1966.


Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 1
6/22/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 22, 1966

Board of Directors,
Bankers Trust Company,
Des Moines, Iowa.

Gentlemen:

Pursuant to the provisions of Section 24A of the Federal Reserve Act, the Board of Governors of the Federal Reserve System approves an investment in bank premises of an amount not to exceed \$285,000 by Bankers Trust Company, Des Moines, Iowa, for the purpose of constructing a building for the Merle Hay Parking Lot Office.

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. 2
6/22/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 22, 1966

Board of Directors,
Smackover State Bank,
Smackover, Arkansas.

Gentlemen:

The Federal Reserve Bank of St. Louis has forwarded to the Board of Governors a letter dated June 7, 1966, signed by President Max A. Mitcham, 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 St. Louis of the Federal Reserve Bank stock issued to your institution, such stock will be cancelled and appropriate refund will be made thereon.

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

If your bank is desirous of continuing deposit insurance after withdrawal from membership in the Federal Reserve System, it will be necessary that application be made to the Federal Deposit Insurance Corporation.

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
6/22/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 22, 1966

CONFIDENTIAL (FR)

Mr. Harold T. Patterson, President,
Federal Reserve Bank of Atlanta,
Atlanta, Georgia. 30303

Dear Mr. Patterson:

The Board of Governors approves the payment of salaries to the following officers of the Federal Reserve Bank of Atlanta, for the period July 1 through December 31, 1966, at rates indicated, which are those fixed by your Board of Directors, as reported in your letter of June 10.

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
<u>Head Office</u>		
David Baldwin	Assistant Vice President	\$16,000
<u>Nashville Branch</u>		
Jeffrey J. Wells	Assistant Vice President	16,000

The Board notes that Mr. Leo Starr, Cashier at the Nashville Branch, will retire on June 30.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.



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

Item No. 4
6/22/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 22, 1966

CONFIDENTIAL (FR)

Mr. Darryl R. Francis, President,
Federal Reserve Bank of St. Louis,
St. Louis, Missouri. 63166

Dear Mr. Francis:

The Board of Governors has approved the payment of salary to officers of the Federal Reserve Bank of St. Louis listed below, for the period July 1 through December 31, 1966, at the following rates fixed by your Board of Directors, as reported in your letter of June 13.

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
Woodrow W. Gilmore	Vice President	\$20,000
Leonall C. Andersen	Vice President	20,000

The Board has noted the appointment of Mr. F. Garland Russell, Jr. as an Assistant Secretary, effective June 15, in addition to his current assignment as Assistant Counsel at his current salary of \$15,000, as reported in your letter of June 9.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 5
6/22/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 22, 1966

Mr. A. B. Merritt, Vice President,
Federal Reserve Bank of San Francisco,
San Francisco, California. 94120.

Dear Mr. Merritt:

This refers to your letters of May 31, 1966, transmitting requests from the United States National Bank, San Diego, and the City National Bank, Beverly Hills, for a reconsideration of the Board's action outlined in its letter of January 10, 1966.

After reconsideration of the information submitted, the Board finds no reason to change the position taken in its letters of January 10, 1966, advising the banks that permission to carry reduced reserves would not be granted. The Board has decided, however, that it will not be necessary for the banks to maintain reserves at the level required of other reserve city banks until the reserve computation period beginning July 6, 1967, instead of the earlier date of July 7, 1966. Please forward the enclosed letters addressed to the subject banks; copies are enclosed for your file.

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

6/22/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



June 22, 1966

Board of Directors,
United States National Bank,
San Diego, California. 92101.

Gentlemen:

This refers to the request from your bank, submitted through the Federal Reserve Bank of San Francisco, for reconsideration of the Board's action outlined in its letter of January 10, 1966, denying your application for permission to carry reduced reserves.

After further review of this matter in light of the information submitted in your letter, the Board reaffirms the position taken in its letter of January 10, 1966, but will postpone until the reserve computation period beginning July 6, 1967, the date for your bank to maintain reserves at the level required of other reserve city banks.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 7
6/22/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 22, 1966

Board of Directors,
City National Bank,
Beverly Hills, California.

Gentlemen:

This refers to the request from your bank, submitted through the Federal Reserve Bank of San Francisco, for a reconsideration of the date on which increased reserve requirements would be effective.

After further review of this matter in light of the information submitted in your letter, the Board is agreeable to a postponement until the reserve computation period beginning July 6, 1967, of the date for your bank to maintain reserves at the level required of other reserve city banks. It is understood that this date would be about six months after the expected opening of a downtown Los Angeles office.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 8
6/22/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 6, 1966.



Mr. Marion Clawson, Director,
Studies of Natural Disasters,
Office of Program Policy,
Department of Housing and Urban Development,
Washington, D. C. 20410.

Dear Mr. Clawson:

Your letter of May 19, 1966, presented certain background information about the possibility of a program of voluntary flood insurance and asked for the Board's comments on eight questions. The questions contained in your letter and answers thereto, based in part upon comments received from the Federal Reserve Banks, are set forth below.

1. Are lenders under your supervision more restrictive in the terms of financing and in credit standards in the extension of credit in high flood risk areas than in other areas? Do such restrictive terms reflect practices which are self-imposed or standards which are imposed by supervisory authority?

Lenders are generally more cautious in advancing credit in areas where flood risk is high; however, it appears that borrowers in such areas are usually able to obtain adequate credit. Restrictive terms that might be imposed by lenders would be self-imposed, since the Federal Reserve System has not imposed standards.

2. Is there evidence that lenders have suffered unusual losses from the extension of credit or have modified loan contracts after disasters in high flood risk areas?

No instances where a bank suffered unusual losses from extending credit in high flood risk areas have come to the attention of the Board. Losses from flood disaster are usually suffered solely by the property owner; in many instances, such owners have been given relief under disaster assistance programs. However, at times banks have found it necessary to modify loan contracts following a flood or other natural disaster.

Mr. Marion Clawson

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3. If flood insurance were made available, and if its cost bore a reasonable relation to the risk of flood damage, how would your agency view the situation where lenders would require insurance as a condition of extending credit much as they require fire and other types of hazard insurance in connection with advances of credit? Would your agency view it as both reasonable and prudent for lenders to require flood insurance where there is a substantial flood risk as a condition for lending? What is your agency's view on the reaction of borrowers to such a requirement?

If flood insurance were available, and if its cost bore a reasonable relation to the risk involved, it would constitute a desirable form of insurance and one which lenders would probably require. Borrowers probably would react favorably.

4. If flood insurance were required for the extension of credit in flood prone areas, where would lending agencies expect to get the necessary information on the degree of the risk of flood damage in a site? I might add that our preliminary studies have shown that there is great variation in flood hazard within a particular flood plain, so that highly localized information on flood risk would be needed if lenders were to consider this risk in making loans.

There seems to be general agreement that there exists a lack of definitive knowledge about the degree of risk of flood damage in most areas. Such information presumably would have to be furnished by either insurance companies or Governmental agencies, either Federal or State or both.

5. Does your agency have legal powers to impose the requirement of flood insurance? For what types of private lenders and what types of loans does this authority extend? If you do not have the legal powers to require special measures, do you have the authority to urge or to advocate flood insurance as a condition to making loans? Do you think that limitations or conditions on the extension of credit, such as the requirement for flood insurance in flood prone areas, would have a significant effect on private investment decisions?

The Federal Reserve System does not have statutory authority to require member banks to obtain flood insurance, but it does have authority to urge or advocate flood insurance if this appeared to be in the public interest. Limitations or conditions on the extension of credit, such as the requirement for flood insurance in flood prone areas, could be expected to have an effect on private investment decisions. However, such decisions are customarily taken after full consideration of all factors and other considerations might frequently be more important in reaching an investment decision than would coverage or lack of coverage of a particular type of insurance.

6. If flood insurance were required as a condition to loans, would this be effective only as to future loans, or could it be made effective as to outstanding loans if the properties are in high flood risk areas?

If flood insurance were required as a condition to loans it would be effective only as to future loans, unless outstanding loan agreements were drawn in such a manner as to permit the lender to impose additional requirements. The only other way in which lenders could obtain insurance on existing loans would be by agreement with the borrowers.

7. If your agency required or urged flood insurance as a condition to making loans in flood prone areas, do you think it essential that direct government loans, such as those the Small Business Administration now makes after disasters, should also require flood insurance against probable future floods? If this were not done, would it create difficult problems for the private lending firms?

If banks are to be urged to require flood insurance as a condition when making loans it would seem essential that direct government loans also be protected by flood insurance. If this were not done private lenders would be placed at a disadvantage; such a practice would also strengthen the argument that governmental agencies make direct loans on more lenient terms than can private lenders.

8. Do you foresee any special difficulties, not suggested by the foregoing questions, that would probably arise if lending institutions were to require flood insurance in flood prone areas?

If lending institutions were to require flood insurance in flood prone areas Federal legislation would presumably be required and such legislation might conflict with that of some States. Were this the case either legislative or administrative action might be required to avoid giving one class of financial institutions a competitive advantage over those chartered by another agency of government.

Mr. Marion Clawson

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Your letter suggests that it seems unrealistic to consider compulsory flood insurance and mentions as an alternative the possibility of requiring borrowers to obtain flood insurance as a condition to the extension of credit used to purchase real or personal property subject to flood damage. If such a condition were imposed there would be very little, if any, difference between compulsory flood insurance and voluntary insurance.

Sincerely yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.