Minutes for June 24, 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 proposed to place in the record of policy actions required to be kept under the provisions of section 10 of the Federal Reserve Act entries covering the items in this set of minutes commencing on the page and dealing with the subjects referred to below:

Page 22 Amendment to Supplement to Regulation D, Reserves of Member Banks, relating to reserve requirements against time deposits.

Page 22 Amendments to Regulation D, Reserves of Member Banks, and Regulation Q, Payment of Interest on Deposits, relating to promissory notes.

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.

Chairman Martin ______

Governor Robertson ______

Governor Shepardson ______

Governor Mitchell ______

Governor Daane ______

Governor Maisel ______

Governor Brimmer ______

Minutes of the Board of Governors of the Federal Reserve System on Friday, June 24, 1966. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Broida, Assistant Secretary
Mr. Bakke, Assistant Secretary
Mr. Holland, Adviser to the Board
Mr. Molony, Assistant to the Board
Mr. Cardon, Legislative Counsel
Mr. Solomon, Director, Division of Examinations
Mrs. Semia, Technical Assistant, Office of the Secretary
Miss Eaton, General Assistant, Office of the Secretary
Mr. Morgan, Staff Assistant, Board Members' Offices

Messrs. Brill, Koch, Partee, Williams, Axilrod, Gramley, Bernard, Eckert, Ettin, Fry, Keir, Kelty, and Rosenblatt and Mrs. Peskin of the Division of Research and Statistics

Messrs. Sammons, Katz, Baker, and Nettles of the Division of International Finance

Money market review. Mr. Bernard commented on a distributed table showing financial and monetary indicators and discussed trends in the Government securities market, after which Messrs. Ettin and Keir reported on bank credit developments, special attention being given to a table relating to shifts in time and savings deposits and savings capital in depositary-type institutions. Other distributed material afforded perspective on the money and capital markets and on bank reserve utilization. Mr. Baker then discussed foreign exchange markets.

All members of the staff not concerned with the remaining topics on the agenda then withdrew from the meeting and the following entered the room:

Mr. Hackley, General Counsel
Mr. Kakalec, Controller
Mr. Byrne, Director, Division of Data Processing
Mr. Hexter, Associate General Counsel
Messrs. O'Connell and Shay, Assistant General Counsel
Mr. Daniels, Assistant Director, Division of Bank Operations
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Langham, Assistant Director, Division of Data Processing
Mr. Forrestal, Senior Attorney, Legal Division
Mr. McIntosh, Technical Assistant, Division of Bank Operations
Mr. Egertson, Supervisory Review Examiner, Division of Examinations
Mr. Veenstra, Chief, Financial Statistics Section, Division of Data Processing

Discount rates. The establishment without change by the Federal Reserve Bank of Boston on June 20, 1966, by the Federal Reserve Bank of Atlanta on June 21, 1966, and by the Federal Reserve Banks of Philadelphia, Cleveland, Richmond, St. Louis, Minneapolis, Kansas City, and Dallas on June 23, 1966, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

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

	Item No.
Letter to Pan American Bank of Miami, Miami, Florida, approving an investment in bank premises.	1
Letter to Bank of White Sulphur Springs, White Sulphur Springs, West Virginia, approving payment of a dividend.	2
Letter to the Federal Reserve Bank of Chicago waiving the assessment of a penalty incurred by Forest City Bank and Trust Company, Forest City, Iowa, because of a deficiency in its required reserves.	3
Letter transmitting a report to Chairman Nix of the Subcommittee on Census and Statistics of the House Committee on Post Office and Civil Service in response to his request for information relating to electronic data processing systems today as compared with three years ago.	4
Letter to the Federal Reserve Banks transmitting forms for use by State member banks and their affiliates in submitting condition reports as of the next call date.	5

With respect to Item No. 5 Governor Mitchell noted that the letter stated that the Reserve Banks would not be requested to make the usual biennial survey of branch deposits at member banks operating branches outside the head office city, but that instead the Federal Deposit Insurance Corporation would conduct a summary of deposits survey as of June 30. He asked if there had been assurance that the data from the Corporation's survey would be as freely available to the Federal Reserve as had been the figures from its own surveys. Mr. Veenstra indicated that there had been a firm understanding as to that point, at least at staff level. In continuing comments Mr. Veenstra described changes that it was understood were being made in the Comptroller of the Currency's form for reports of condition; principally, the elimination of figures for loan repurchase agreements and, at the urging of the Bureau of the Mint, the inclusion of a report of half dollars in vault cash and tellers' cash.

Work measurement program (Item No. 6). The management consultant firm of Booz, Allen and Hamilton, Inc., had conducted a work measurement training program in 1965 at the Federal Reserve Bank of Dallas, and subsequently offered a similar program to the Federal Reserve Bank of St. Louis, alone or in conjunction with one or more of the other Federal Reserve Banks. After discussion on March 30, 1966, the Board in a letter dated April 1 requested the views of the other Reserve Banks regarding their possible participation in such a program. In a distributed memorandum dated June 8 Mr. Kiley reported on the responses made by eight of the Reserve Banks. The Richmond, Kansas City, and San Francisco Banks had agreed to join with the St. Louis Bank and individually contract with Booz, Allen and Hamilton to develop a work measurement program (the Kansas City Bank conditioned its agreement on participation by a majority of the Reserve Banks, but it was understood that the Bank might not be adamant on that point). Five Reserve Banks had declined to participate, for various reasons. Final replies had not been received from the Boston and Philadelphia Banks.

At the meeting on June 17 there was discussion of the replies and of possible courses of action suggested in Mr. Kiley's memorandum. However, the matter was held in abeyance.

There had now been distributed a further reply from the Philadelphia Reserve Bank expressing firm opposition to participating in the program. The suggestion was still under consideration at the Federal Reserve Bank of Boston. Also distributed was a memorandum dated June 22, 1966, from the Division of Bank Operations submitting a draft of letter to the Federal Reserve Banks that would combine elements of an approach earlier suggested by Mr. Kiley with statements clearly indicating the Board's interest in having participation by the Banks in such a program at some time in the future if not at present.

Governor Mitchell commented that there might be some validity to the points on which the Federal Reserve Bank of Philadelphia based its opposition to joining in the work measurement program that had been outlined in the Board's earlier letter. Although he thought that the draft letter might be transmitted after some softening changes in language, Governor Mitchell said that he could be easily persuaded to let the matter of a further letter to the Reserve Banks drop. He believed that basically the Board's staff was working in the right direction, and perhaps there should be some further expression by the Board in favor of work measurement programs.

Chairman Martin said that he felt the letter might be changed in a manner to make clear that the Board had no intention of questioning the decisions of the individual Reserve Banks not to participate in the program at this time, but which would nevertheless indicate the Board's interest in work measurement by transmitting a number of questions that had been raised regarding the program and comments thereon. After he suggested specific language for some of the changes, the other members of the Board generally concurred in this approach, and it was agreed that the letter would be revised along the lines suggested by the Chairman and sent in the form attached as Item No. 6.

New York building program (Item No. 7). On a number of occasions the Board had discussed the building program of the Federal Reserve Bank of New York. In October 1964 the Board authorized the Bank to acquire certain property that might be used for an additional building to house some of the operations of the Bank, and by letter of April 27, 1965, the Board authorized the Bank to terminate or substantially shorten tenancies in the buildings recently acquired, or to effect other arrangements for that purpose, where that could be done advantageously. However, the letter stated that it would be appreciated if the Bank would let the Board know in advance of any proposed arrangement for the termination or shortening of a lease if the cost involved would be significantly larger than the $25,000 limitation that had been requested by the Bank.

A circulated memorandum dated May 13, 1966, from the Division of Bank Operations referred to a letter of April 19 from the New York Reserve Bank requesting the Board's agreement to the Bank's proceeding now generally to terminate leases in the buildings on the recently-acquired property, engaging a real estate agent for such purpose, and engaging an architect to prepare preliminary plans and specifications for a new building. The letter also presented the Bank's comments on the conclusions of a management consultant firm, The Diebold Group, Inc., after a study of the impact of automation on the Bank's long-term space requirements. A copy of the firm's report was attached to the letter.

At today's meeting Mr. Sherman reported telephone conversations late yesterday afternoon and this morning in which First Vice President Treiber of the New York Reserve Bank had said that Mr. Curtiss, the Bank's real estate agent, had had indications that speculators were attempting to buy the lease on a small shop located on one of the Bank's properties on John Street. Mr. Curtiss had thought the Bank might be able to terminate the lease, which had ten years to run, for $80,000 to $100,000, and had indicated that prompt action seemed desirable to forestall speculative bidding up of that price. Because the amount involved was substantially greater than the $25,000 referred to in the Board's letter of April 27, 1965, Mr. Treiber would like to have some word as to the Board's attitude in regard to this particular lease; of less urgency were the questions of general authority to proceed with lease terminations and of the employment of an architect to develop preliminary plans for a new building.

Governor Robertson expressed the view that it had been proper for the Bank to request permission to negotiate in regard to a termination cost so substantially above the figure mentioned in the Board's letter of April 1965; however, as to the general principle of lease termination, it seemed to him that the Board was already committed and in effect had granted blanket authority.

At Chairman Martin's request, Mr. Daniels then reviewed events relating to the New York building program, including the fact that at the time the Board had granted authority for purchase of the properties it had suggested that building plans be deferred until the impact of automation on Reserve Bank operations became more clear. In the spring of 1965 when representatives of the Bank met with the Board they indicated that the Bank had employed outside consultants to study the impact of automation on future space needs. The highlights of the report by the consultants, The Diebold Group, Inc., had been set out in the Division's memorandum of May 13. In essence, the report held that the Bank would need much less space in 1990 than the Bank estimated. According to the Diebold estimates the Bank would need more space than was available in the present head office building, but not more than was available in that building plus the present annex building. The Bank, however, felt strongly that the present annex should not be used as permanent space because of its distance from the head office building and because it was not well adapted for remodeling to house operating functions.

Also, there would be difficulty in making service facilities available to employees in the annex. The Division of Bank Operations had made no recommendations, feeling that the question whether or not the Bank should be authorized to engage an architect for design of a new building called for a policy decision. The Division noted, however, that the probable impact of automation on space needs was no clearer now than it had been when the building program was first proposed.

Governor Brimmer expressed the view that a critical point was that the projection of space needs indicated that, even with the reduction in staff expected to result from automation, the Bank's operations could not be housed entirely in the head office building and therefore it would not be possible to do away with the annex. He believed this involved a policy question, and that it would not be advantageous to encourage the Bank to go through the exercise of trying to anticipate the effect of automation. Since in any event the head office building would not provide sufficient space, he thought the circumstances pointed to the need for a new building--possibly to replace the present main building. His observations of other Reserve Bank buildings convinced him that it was a mistake to try to add needed space to an old building.

Governor Mitchell stated that he wished to be recorded as opposing authorizing the Bank at this time to proceed with plans for a new building, because he did not think the information developed justified that step. He did not know whether the Bank could or could not fit its operations into the present head office building, but he believed the Bank had perhaps underestimated the impact of automation. Moreover, he was under the impression that there was some overstaffing in the Bank, particularly in areas that were affected by automation, and he believed that if these operations were subjected to a thoroughgoing management review, it might show that, with appropriate reductions in personnel, adequate space could be available. Therefore, he would regard it as a mistake to authorize proceeding at this time with plans for a new building.

In response to an observation by Governor Robertson that the present request was for authorizing the preparation of plans rather than for authorizing construction, Governor Mitchell said that even authorizing plans implied a commitment. At the time the Bank had been authorized to acquire the land (in October 1964), Governor Mitchell had expressed doubt as to the need for additional space. He believed that acquisition of the land was more reasonable than the preparation of plans because the latter would be profoundly affected by the advance of automation, and it was still too early to judge how great the effect would be or what kind of building would be needed a few years hence.

Governor Robertson noted that there was a considerable time element involved. From two to four years might pass before the time arrived for authorizing construction, and within that period the effect of automation would become much clearer than it was now. Therefore, if at that time developments should point to denial of construction authority, what would have been wasted would be only the cost of planning. He then asked if any estimates of planning costs were available.

Mr. Daniels responded that while specific figures had not been developed, it might be expected that planning fees would run to about 6 per cent of the $15 to $20 million estimated total cost; 50 per cent of that amount, or about $450,000 to $600,000, would be payable at the completion of preliminary plans. It was customary for the Board to require that Reserve Bank agreements with architects could be cancelled after preliminary plans were drawn.

In response to a query from Governor Maisel as to when the New York Bank would reach a peak of personnel under the present outline of space needs, Mr. Daniels said that no definite figure was available. The Reserve Bank believed that additional space was needed at the present time and more would be needed in the next few years, although space needs might decrease in later years as automation progressed. The Bank recognized that it might have a smaller staff by 1990 than at present.

Governor Maisel expressed the view that the time element was a key question. If construction might not begin for several years, the longer one waited to buy up a lease the less of its term remained to be bought.

Mr. Sherman commented that it might be helpful to know that the longest-term lease on the properties that had been bought by the

New York Bank under the Board's 1964 authorization ran to 1981, another expired in 1979, and others in 1978, 1976, 1974, and 1973. The lease on the small shop of immediate interest ran for 10 years, to mid-1976. The Bank wished to get the lease within its control, even though it might lease again to the same occupant, rather than to have it pass to speculators who would then control it to mid-1976. The Reserve Bank was not concerned about the short-term leases expiring in the next 2 or 3 years, but would like to control the long-term ones.

Chairman Martin remarked that it was difficult for the Board to assume the responsibility for detailed decisions on leasing matters such as this; it was his feeling that such decisions should be left to the judgment of the officers and directors of the Reserve Banks. He would like to give the New York Bank authority to terminate leases such as it now requested, and as for Governor Mitchell's adverse view on the building program as a whole, the larger question could be deferred for a few months.

Governor Maisel said that in considering the latter question he would like to have a clearer estimate of the Bank's future space needs, and recommendations from the Board's staff.

Chairman Martin suggested that it might be useful to ask representatives of the Bank to discuss the building program with the Board again, and there followed other suggestions that members of the Board's staff go to New York to survey the situation firsthand. Discussion of the latter proposal included comments that the Board's staff should be allowed ample time for such a survey, and that it ought to include careful study as to the feasibility or desirability of renovating a building that was now almost 46 years old, as was the New York head office structure. The latter question was raised in the context of doubt as to the desirability of requiring the Reserve Bank to operate in an environment in which its peers had far superior quarters.

After further discussion it was understood that (1) the Secretary would inform the New York Bank that the Board would have no objection to its terminating leases at a cost of not more than about $100,000 in each case; (2) the staff would undertake an analysis of space needs of the New York Bank along the lines suggested at this meeting; and (3) consideration of New York's request for authority to employ an architect and prepare preliminary plans would be deferred, probably until the fall of this year, with the expectation that there would be a joint discussion by the Board and representatives of the New York Bank before action was taken on that request.

> Secretary's Note: The Board's views were made known to the Federal Reserve Bank of New York in telephone conversations. In addition, a letter stating the substance of those views was subsequently sent to the Bank in the form attached as Item No. 7.

All members of the staff not concerned with the remaining items on the agenda then withdrew from the meeting.

Emergency credit for savings banks (Item No. 8). For some days preceding today's meeting there had been discussions between the Board's staff and the Federal Reserve Bank of New York regarding the possible need to provide Federal Reserve credit to savings banks if they experienced unduly heavy withdrawals of funds around the time of midyear dividend payments. A plan developed by the New York Reserve Bank to provide such assistance in the Second Federal Reserve District was submitted to the Board with a memorandum dated June 16, 1966, from the Legal Division, and discussed by the Board on June 17. The members of the Board were subsequently furnished copies of a revised plan that had accompanied a letter of June 22, 1966, from Mr. Treiber, First Vice President of the Bank. The plan set forth several alternative procedures through which emergency credit might be granted to assist savings banks. However, the New York Bank at this time requested authority in one specific respect, explained in Mr. Treiber's letter as follows:

> "The plan contemplates that this Bank would be prepared to make advances to member banks on the security of Collateral Trust Notes or other collateral of Savings Banks Trust Company (a nonmember bank which acts as a liquidity agency for savings banks in this District), the member banks having advanced credit to the Trust Company on the security of the same collateral, for disbursal to savings banks (the circumstances under which such advances would be made by this Bank are explained in Exhibit B to the plan). The permission of the Board of Governors is required under Section 201.5 of Regulation A for a Federal Reserve Bank to accept as security for an advance to a member bank, assets acquired by a member bank from a nonmember bank (with an exception not here relevant). That Section contemplates that the application for such permission would come from the member bank which desired to offer such assets as security for an advance. Since, under the plan, more than one member bank may make advances to Savings Banks Trust Company on the security of such assets and in view of the necessity of having the plan ready to go into

operation no later than June 28, 1966, we request that the Board grant its permission to this Bank to accept as security for advances to member banks under the plan, assets acquired by such member banks from, or bearing the signature or endorsement of, Savings Banks Trust Company, and that the Board treat such request as an application made in behalf of all member banks making such advances to Savings Banks Trust Company."

The Legal Division's memorandum of June 16 had indicated that a request by the Reserve Bank for the necessary permission on behalf of the several member banks who might participate in the arrangements would be permissible as fulfilling the requirement of Regulation A (Advances and Discounts by Federal Reserve Banks) regarding requests for permission.

There had also been distributed a memorandum dated June 23, 1966, in which Mr. Partee set forth the views of the Division of Research and Statistics regarding arrangements for emergency credit in any of the Federal Reserve Districts and the possible need for such credit by other types of institutions in addition to mutual savings banks. The memorandum also explored considerations bearing upon the order of priority in use of various alternatives, objectives of the program, credit terms, and implications for monetary policy.

In response to the Board's request for comments, Mr. Partee stated that it might be an academic question whether or not savings banks would experience withdrawals sufficient to necessitate recourse to emergency credit. If they raised their rates on term instruments to 5 per cent, he surmised that their loss of funds at midyear would not be so great as to cause real difficulty. However, it was a fact that country-wide they had lost $341 million, or 0.65 per cent of their deposits, in April, with losses for some individual institutions apparently running to a considerably larger percentage, and there was a great deal of fear that payment of the June dividend would be attended by large withdrawals. If a difficult situation did arise, it could extend beyond the New York District; there was a greater number of savings institutions in the Boston District, although their average size was much smaller; there were 11 relatively large institutions in the Philadelphia District; and there were sizable asset totals in savings institutions in the States of Maryland, Washington, and Minnesota. Savings flows had been about as poor in the Boston and Philadelphia Districts as in New York.

If it developed that mutual savings banks were faced with the heavy withdrawals that some anticipated, it seemed to the Board's research staff that there might be four lines of recourse for such institutions. First, presumably a good many savings banks had a line of credit with a commercial bank through which they might be able to obtain needed cash. The Board's staff did not have information as to the extent to which savings banks had such lines of credit or the terms and conditions, but it seemed reasonable that savings banks should be encouraged to use whatever credit lines they had available.

The second line of recourse (available, however, only in the New York District) was the Savings Banks Trust Company in New York, which extended credit privileges to all mutual savings banks in the Second District. It had aggregate unused lines of credit with commercial banks of about $300 million. However, the usual collateral required was U.S. Governments or agency issues, of which the Trust Company had only about $50 million. Therefore, if the Trust Company needed to utilize the entire $300 million of its credit lines, it would have to tender the collateral trust notes it held for advances to savings banks. But it was understood that some large commercial banks had indicated reluctance to take those notes unless assured that the New York Reserve Bank would accept them as collateral for advances under section 10(b) of the Federal Reserve Act. (The rate for such advances, of course, would be the section 10(b) penalty rate of 1/2 of 1 per cent above the basic discount rate, and the advances would be for the discount window's usual term of 15 days.) The borrowing banks would not gain anything from this accommodation except the use of a different kind of collateral from that ordinarily offered.

Third, if the Savings Banks Trust Company's lines of credit were not sufficient to meet the need in New York, or if in other Districts individual savings banks' lines of credit could not cover withdrawal demands, the next recourse would be called into play, which would be for the Reserve Bank to extend credit indirectly to savings institutions through a cooperating member bank or banks as a conduit. There had already been preliminary exploration of this possibility through an arrangement involving one New York City bank. Under this procedure, the member bank would accept collateral trust notes for 30-day extensions of credit, and, under section 10(b), would pledge the notes with its Reserve Bank for advances that would be kept separate from the normal operations of the discount window.

The fourth recourse (the third outside the New York District) would be direct extension of credit by Federal Reserve Banks to savings banks (and, in New York, to Savings Banks Trust) on the collateral of Government securities under the last paragraph of section 13 of the Federal Reserve Act. Mutual savings banks generally had sizable holdings of Governments, although the portfolios of banks outside New York appeared to be larger than those of banks in New York.

With respect to aiding savings banks other than those in New York, Mr. Partee stated that of the last two alternatives mentioned, the staff was inclined to favor direct use of Federal Reserve credit under the last paragraph of section 13 rather than the conduit arrangement using section 10(b) advances to member banks; this was because of the importance of having the Reserve Bank in a position to control the situation by specifying the rate, insuring that it was the same for every borrowing savings bank, and setting repayment terms and conditions. There might not be uniformity in these respects if a discounting operation were delegated to member banks. This view of the staff, however, did not connote opposition to the use in New York of the Savings Banks Trust Company, which might serve as a valuable intermediary.

Mr. Partee noted also that the plan developed by the New York Reserve Bank called for Savings Banks Trust Company to liquidate as promptly as possible any credit extended through a cooperating member bank, which in turn could generate pressure on savings banks to liquidate assets to repay the Trust Company. The staff had some misgivings that this stipulation might have the effect of putting pressure on savings banks to cut down on their mortgage commitments at a time when there was already economic distress because of cutbacks in mortgage activity. The question as to how much pressure should be exerted toward repayment of credit really depended upon definition of the Board's objectives. The terms and availability of credit could vary considerably according to different objectives. Several possible objectives had been mentioned in the research memorandum dated June 23: these included placing the System in a position where everything possible was being done to insure that no significant financial institution was permitted to fail during this unsettled period, at least for lack of liquidity; avoiding disruptive effects of concentrated heavy sales of Government securities in the market; and encouraging continued mortgage commitment activity by assuring savings banks of a considerable volume of funds for liquidity purposes.

In response to a question by Governor Brimmer as to whether his remarks indicated an adverse view toward using a member bank in New York as a conduit to provide credit to savings banks, Mr. Partee stated that he could not take a definite stand on that point, since he did not know what degree of control the New York Reserve Bank might be able to exercise through the various steps in the member-bank conduit arrangement.

After the staff had clarified certain points at his request, Governor Maisel expressed the view that the Board should grant the specific permission requested by the Federal Reserve Bank of New York for section 10(b) advances to member banks secured by collateral trust notes of Savings Banks Trust Company, in order that the Trust Company could make full use of its lines of credit. If this did not prove adequate, his inclination would be, in view of the staff's reservations as to the use of the conduit arrangement, to authorize the Reserve Bank to make direct advances to savings banks under the authority of the last paragraph of section 13. Finally, he would advocate the use of advances under section 10(b) as a lender of last resort, pursuant to the conduit arrangement. He suggested that the staff draw up a program in those terms.

Mr. Partee asked if Governor Maisel meant that, beyond the utilization of Savings Banks Trust Company's $300 million of credit lines, he would not favor making use of the credit conduit that had already been tentatively negotiated with a particular member bank. Governor Maisel replied that he would not do so unless there were strong advantages; at least, he would not favor setting up additional arrangements of that kind.

Chairman Martin remarked that it did not appear necessary to take action today on a System-wide program. He suggested that a staff memorandum regarding the policy issues be prepared as a basis for discussion with the Federal Reserve Bank Presidents when they were in Washington next week for the meeting of the Federal Open Market Committee, and after some discussion there was agreement with Chairman Martin's suggestion.

Comments then turned again to the specific request of the New York Reserve Bank for authority to accept as security for advances to member banks assets they had acquired from a nonmember bank. A draft reply that would grant the requested authority was then presented by Mr. Hexter. The reply would limit the authority to acceptance from member banks of collateral acquired from Savings Banks Trust Company.

During the ensuing discussion there was general concurrence in the desirability of sending such a letter to the New York Bank. There was also agreement with a suggestion by Governor Maisel that the Secretary informally advise the Bank that the current authorization was intended to be administered only as part of the normal discount window operation, and that the policy issues involved in arrangements looking beyond this limited scope could not be resolved until after the Board's discussion of them with the Reserve Bank Presidents.

At the conclusion of the discussion a letter to the Federal Reserve Bank of New York was approved unanimously in the form attached as Item No. 8.

<u>Amendments to Regulations D and Q (Items 9-11)</u>. The most recent in a series of discussions of possible actions with respect to Regulation D, Reserves of Member Banks, and Regulation Q, Payment of Interest on Deposits, was on June 22, 1966, when the Board discussed questions raised by Governor Robertson in a memorandum of June 20. The discussion concluded with agreement that further consideration would be given to the matter when it was possible to appraise the possible need for action against the background of findings of a recent survey of time and savings deposit rates and flows, and the announcement of any action could coincide with the publication of the survey results.

There had now been distributed a memorandum dated June 23, 1966, from Mr. Brill, submitting a draft of press release reporting the findings of the survey. The memorandum pointed out, among other things, that the draft did not directly evaluate the impact of recent restrictive legislative proposals regarding certificates of deposit or Board actions that had been under consideration; it did highlight the survey results having the most direct bearing upon those issues. If the Board wished to couple release of the survey results with announcement of specific actions stemming from the survey, the release could be redrafted accordingly.

There had also been distributed a memorandum dated June 23, 1966, in which Mr. Hackley outlined four measures that might be taken in an effort to prevent further escalation of interest rates on so-called consumer certificates of deposit and to retard somewhat the issuance of large denomination negotiable certificates of deposit. In essence, the measures would (1) prescribe lower maximum rates of interest on multiple maturity deposits; (2) increase reserve requirements from 4 per cent to 6 per cent against negotiable certificates of deposit, the higher requirement to be applied either to a bank's time deposits other than savings deposits to the extent that the combined total of time plus savings deposits at any bank exceeded $5 million (as Governor Robertson had suggested) or the higher requirement could be imposed only to the extent that a bank's time deposits other than savings exceeded $5 million; (3) amend Regulation Q to provide that emergency payment of a time deposit before maturity would incur a penalty of forfeiture of all interest on the amount withdrawn for a period of 3 months, including any interest that might have been actually paid to the depositor or credited to his account (at present the forfeiture was interest "accrued and unpaid" for a period of not less than 3 months on the amount withdrawn); and (4) amend Regulations Q and D to provide, in effect, that promissory notes shall be treated as deposits for the purposes of the Regulations, with three exceptions--notes representing borrowings from other banks, instruments evidencing repurchase agreements, and notes having maturities of more than 2 years and subordinated to the claims of other depositors (this proposal also had been made by Governor Robertson). Attached to the memorandum were drafts of amendments that would carry out the measures described.

Initial comments at today's meeting dealt with the content of the press release regarding the survey, but the discussion veered to the possibility of action under Regulations D and Q when Governor Mitchell observed that the draft press statement and the facts disclosed by the survey lent themselves, in his view, to either of two positions--to do nothing, or to take a rather mild action. If an action were to be taken, he thought the survey data should be released along with the action announcement; if no action was to be taken, he believed the survey press statement should be released as soon as possible. Changes could be made in the press statement to support either an action or a decision not to take action. He had no strong feeling one way or the other. He would somewhat prefer not to take action, but he would not object to a mild action. However, he thought he would be opposed to an action that was not mild.

Chairman Martin suggested that the Board turn to the various proposals for action that had been made, particularly that regarding the treatment of promissory notes. The general views of the members of the Board on such proposals were already known from earlier discussions. Governor Mitchell had expressed dislike of the promissory note proposal, at least partly on the ground that the present use of promissory notes provided a safety valve for banks. The Board had discussed many times the possibility of defining deposits in such a way as to bring promissory notes within the coverage, and it seemed desirable that either such a definition be adopted or the proposal definitely discarded. If it was desired to put a little more pressure on banks but at the same time not foreclose their current use of promissory notes, the Board could raise reserve requirements from 4 per cent to 6 per cent on single maturity time deposits to which the maximum interest rate of 5.5 per cent was applicable, and do nothing else.

Governor Mitchell expressed the view that such action might be somewhat severe, although the effect would depend upon the specific way the increased reserve requirement would be applied.

There ensued a discussion of the possible terms of application of a change in reserve requirements, including Governor Robertson's suggestion of excluding from the increase combined savings and time deposits up to $5 million. There was general agreement that the $5 million exclusion would have the effect of channeling the increased reserve requirement toward the large negotiable certificates of deposit and away from the smaller "consumer-type" certificates. Comments were made on the amount of reserves that would be affected by an increase according to various alternative approaches. There was general agreement that a 1 per cent reserve requirement increase at the reserve computation period around July 20 might be appropriate. The suggestion was made that such an action could be coupled with adoption of a deposit definition that would encompass promissory notes. It was also suggested that another 1 per cent step might be made effective, either in the first half of August or in a step of 1/2 of 1 per cent then, followed by a similar increase at a later date, but predominant opinion among the members of the Board favored the position advanced by Governor Mitchell that there be no commitment as to the possibility of action beyond the 1 per cent increase in July, pending observation of developments.

During further discussion, Governor Maisel raised the question whether the Board might adopt the suggestion in Mr. Hackley's memorandum that, without prohibiting multiple maturity deposits, the Board might prescribe a lower maximum interest rate on all such deposits, such as 5 per cent for any deposit having an alternative maturity or renewal option of 90 days or more, and a 4 per cent maximum rate for deposits with an alternative maturity or automatic renewal privilege of less than 90 days. In Governor Maisel's view, there were two problems to be dealt with. The increased reserve requirement would answer the monetary policy question of whether the Board was becoming reluctant to deal with the problems created by issuance of the large certificates of deposit; it would give the Board some control of the banks that had attracted from 20 to 30 per cent of their deposits through these volatile instruments. In addition, while the lower maximum rate of 5 per cent for the multiple maturity instruments would have minimal impact, since it was probable that few banks were paying more than 5 per cent on such paper anyway, it might be a deterrent to issuance of such instruments.

Governor Mitchell expressed the view that it would be desirable to define the various types of deposit in the regulation. The increase in reserve requirements was intended to affect large negotiable certificates of deposit and open book accounts, but the other types were not defined. (There had been discussion at the meeting on June 22 of proposals by Governor Mitchell for definition of various deposit instruments.) The figures emanating from the survey showed that large banks had had less gain in volume of consumer-type paper than had smaller banks; yet the proposal for a lower maximum interest rate on multiple maturity deposits would make that paper less attractive at the very time that large banks were suffering a diminution of passbook savings and when savings and loan associations were increasing their dividend rates consequent to relaxation by the Federal Home Loan Bank Board of its efforts to regulate dividend rates indirectly. Governor Mitchell believed that the differential maximum rate was wrong in approach and that a much clearer effect would be obtained if savings certificates, for example, were defined as having a minimum maturity and a minimum renewal.

Chairman Martin remarked that if market forces were to be allowed to operate, this was a poor time to be tinkering with interest rates. It would be much more appealing to him to limit the action to reserve requirements, without changing rates.

Governor Brimmer indicated that he could go along with the Chairman's proposal, noting that the Board could return to the question of rates on consumer types of time deposits later. He felt that the most constructive step that the Board could take at this time would be to prescribe a higher reserve requirement that would operate against large certificates of deposit.

Governor Maisel expressed the view that if the Board was of a mind to act on reserve requirements but not on rates, he believed it would be best at the present time not to pursue the definitional approach to multiple maturity instruments. As for reserve requirements, from the money market aspect he preferred the formula under which the higher requirement would be applied to a bank's time deposits (other than savings deposits) to the extent that they exceeded $5 million. He was personally in favor of action to prescribe a 5 per cent ceiling rate on multiple maturity instruments because he believed it would not cost anybody anything, it would be a good gesture, and it might deter acceleration of the issuance of those instruments. However, if the other members of the Board did not agree with that view, he was perfectly willing to go along with action on reserve requirements alone.

There followed a discussion of the possibility of action regarding maximum rates of interest on multiple maturity instruments, during which the view was again expressed that the Board might wish to revert to that possibility after a few more weeks had passed.

Chairman Martin referred to a Resolution passed yesterday by the House Committee on Banking and Currency stating that the Board "should act within thirty days to put an end to this excessive interest rate competition and to forestall the threat of such further competition." Even in the light of that Resolution, the Board must, of course, do what it considered the right thing. Although his own view was that from the psychological aspect it would be better not to take any action at this time, he recognized that other members of the Board did not share that view and he did not hold out his judgment as final. Nevertheless, today's discussion reflected a great deal of uncertainty, and it should be kept in mind that whatever course was taken should seem reasonable in the light of the survey results that would be published.

Governor Maisel said that, given the general lack of agreement, he would settle for the increase of one percentage point in reserve requirements on time deposits above $5 million, excluding savings accounts.

Governor Robertson expressed himself in favor of a maximum rate of interest of 5 per cent on the consumer types of time deposits, together with the suggested one per cent increase in reserve requirements. It seemed to him that such actions would constitute a caveat against further escalation of rates on this type of deposits. He would not touch the large denomination certificates of deposit as far as the maximum interest rate of 5-1/2 per cent was concerned. These actions, he believed, would indicate concern about the escalation in competition for consumer-type deposits, might have a settling influence on interest rate structures, and might hold the line until the Board could see what, if any, further steps it wished to take.

Mr. Hackley commented that if Governor Robertson's suggestion of a 5 per cent maximum rate on consumer-type time deposits contemplated that that rate would apply to such deposits with alternative renewals of more than 90 days, with a 4 per cent rate on those with renewals of less than 90 days, it would have a real bite, because many banks were issuing savings certificates with optional 30-day withdrawals. If there were only one rate on all consumer types of deposits, the bite would not be as great.

Governor Mitchell commented on data from the survey that, in combination with other figures he had studied, seemed to him to indicate that to some extent the activity of large banks in large denomination certificates was defensive--they were channeling funds out of one type of deposit in the bank into another type at higher cost, rather than see the funds flow out to other banks. Although he recognized that the general slant of staff comments was consistent with not taking any action at this time, he requested staff views as to the possible merits of discouraging that kind of activity on the part of large banks.

Mr. Brill replied that the argument that something must be done about large banks might be somewhat obsolete, since recently large banks had been increasingly under pressure; their interest rates were pushing against the Regulation Q ceilings and they had not been doing as well in garnering funds as smaller banks had. He believed that if the Board was inclined to the view that action should be taken to moderate competition for the consumer types of time deposits, the approach of lowering rates on multiple maturity instruments showed perhaps the best promise. Over all, his preference was to do nothing, and his second choice was an action that would be largely "cosmetic."

Mr. Holland expressed the view that if reserve requirements were increased on time deposits in July, the present squeeze on ceiling rates on large denomination certificates, together with seasonal credit expansion forces in the fall, might put the Board under pressure to relax conditions in a few months. Whether the tightness resulted from changes in maximum interest rates or in higher reserve requirements, the squeeze was building. However, this was not to say that it might not be good policy to tighten credit conditions this summer and then relax them later if that was necessary.

Governor Brimmer advocated action now that would put pressure on large banks to desist from buying funds to satisfy their borrowers. He believed this action might take the form of the increase in reserve requirements on time deposits in July; if in the fall a reverse action was indicated, the Board could respond accordingly. He hoped the Board would not again back away from taking action. He had been entirely in favor of waiting for the analysis of the survey, but that was now in hand and he believed it was time for a decision. If the desirability of rate action could not be resolved, he surmised that the Board could at least agree on the 1 per cent increase in reserve requirements that had been proposed.

Governor Maisel again emphasized that, apart from monetary policy considerations, he felt it highly desirable to take action at this time from the psychological standpoint, to counter the impression that the Board was a captive of the money market banks with respect to the problems that had arisen in the area of large denomination certificates.

Chairman Martin then asked if the members of the Board could agree on the proposal to bring promissory notes within the definition of deposits. He noted that this subject had been debated for many months, and some conclusion should be reached.

Governor Robertson pointed out that if promissory notes were not brought within the deposit definition, maximum interest rates could not be applied to funds derived from those notes. When Regulation Q ceilings were lower and banks were pushing against them, they had resorted to issuance of promissory notes in order to escape the reach of the Regulation in attracting funds. When the ceilings were raised banks were less impelled to use the note device, but now they were again pushing against the ceilings and this mode of escape easily could be reactivated. If the avenue was closed now, a burgeoning of promissory notes might be forestalled, but if it was left open, a lively recourse to notes could be far advanced before remedial action could be taken, because presumably it would be necessary again to go through the time-consuming process of publishing notice and considering comments received.

It seemed to him highly desirable that the promissory note action accompany the reserve requirement action.

In response to a question posed by Governor Mitchell, Mr. Hackley commented that the proposed definition would bring promissory notes within the definition of "deposits" for purposes of Regulations D and Q, with exceptions provided for borrowings from other banks, repurchase agreements, and subordinated notes with maturities of 2 years or more. He indicated also that another exception would be necessary to exclude presently outstanding notes. In response to a question whether republication of the proposal in the Federal Register for comment would be required, Mr. Hackley expressed the opinion that this would be unnecessary, since the present proposal was less restrictive than those that had been published earlier this year.

Continuing comments crystallized a disposition on the part of the Board to adopt the 1 per cent increase in reserve requirements that had been discussed, and also the extension of the definition of deposit to cover promissory notes.

The discussion then turned to procedural matters, especially the need to consult with the Federal Deposit Insurance Corporation, with a view to adoption by the Corporation of an amendment to its interest rate regulation corresponding to the expanded deposit definition in the Board's Regulation Q.

Discussion of the manner of release developed a consensus in favor of two press statements, one announcing the Board's actions relating to Regulations D and Q, and the other containing the findings of the time and savings deposit survey. It was understood that the latter press release would be revised to emphasize the findings that were basic to the Board's decisions. It was also understood that a revised draft of the press release relative to the survey, a draft of the press release announcing the Board's substantive actions, and drafts of the amendments to Regulations D and Q incorporating the technical revisions Mr. Hackley indicated would be necessary would be available for the Board's consideration on Monday, June 27. It was agreed also that the effective date of the promissory note amendments would be deferred until September 1, 1966, but that the amendments would apply to all promissory notes issued on or after the date of announcement that remained outstanding on or after the effective date.

At the conclusion of the discussion the Board approved unanimously an amendment to the Supplement to Regulation D that would increase from 4 per cent to 5 per cent reserve requirements against the amount of time deposits (other than savings deposits) in excess of $5 million at each member bank, effective with the reserve computation periods beginning July 14, 1966, for reserve city banks, and July 21, 1966, for all other member banks.

The Board also approved unanimously amendments to Regulations D and Q that would add a new paragraph bringing promissory notes, with the exception of three designated types of underlying transactions, within the coverage of the definition of deposit. The latter action was taken contingent upon the general concurrence of the Federal Deposit Insurance Corporation.

> Secretary's Note: At the meeting on June 27, 1966, the Board authorized the issuance of the amendments to Regulations D and Q and a press statement announcing their adoption. The statement and amendments were released later that day, word having been received that, while the Federal Deposit Insurance Corporation had no objection to adoption by the Board of the expanded deposit definition and immediate announcement of that action, the Corporation was not prepared to take similar action with respect to its interest rate regulation. The effective date for the promissory note amendments was set as September 1, 1966, such amendments to apply to all promissory notes issued on or after June 27 that remained outstanding on or after the effective date. Attached as Item No. 9 is a copy of the amendment to the Supplement to Regulation D relating to the increase in reserve requirements; attached as Item No. 10 is a copy of the amendments to Regulations D and Q relating to promissory notes; and attached as Item No. 11 is a copy of the related press release. At the meeting on June 27 the Board also approved a press statement announcing the results of the survey of time and savings deposits, which statement was released simultaneously with that regarding the amendments to Regulations D and Q.

The meeting then adjourned.

> Secretary's Note: Acting in the absence of Governor Shepardson, Governor Robertson today approved on behalf of the Board the following items:

Memorandum from the Division of Research and Statistics dated June 23, 1966, recommending the reestablishment of a Senior Economist position in the National Income, Labor Force, and Trade Section.

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

Appointment

Helen B. Fox as Clerk-Librarian, Division of Personnel Administration, with annual salary at the rate of $2,285 (half-time basis), effective the date of entrance upon duty.

Meritorious salary increases, effective July 3, 1966

Name and title	Division	Basic annual salary From	To
	Office of the Secretary		
Loretta D. Beale, Assistant Supervisor, Subject Files		$ 6,854	$ 7,046
Joan V. Caulfield, Senior Records Clerk		6,378	6,549
Eva Louise Jarvis, Minutes Clerk		4,797	4,953
Bernice T. Mann, Secretary		7,238	7,430
	Research and Statistics		
Darwin Beck, Economist		8,241	8,495
Reba C. Driver, Statistical Assistant		7,046	7,238
James B. Eckert, Chief, Banking Section		20,595	21,185
Patric H. Hendershott, Economist		10,987	11,355
Penelope Johnson, Statistical Assistant		5,352	5,523
Anita E. Perrin, Secretary		7,046	7,238
Bernard Shull, Senior Economist		19,415	20,005
Mary B. Wall, Statistical Assistant		6,549	6,720
	International Finance		
Pauline H. Major, Statistical Assistant		6,207	6,378
Peggy H. Reaves, Supervisor, Information Center		6,278	6,470
Judith S. Scully, Secretary		5,894	6,086
	Bank Operations		
Doris V. Bubb, Analyst		7,304	7,511
	Examinations		
John N. Lyon, Review Examiner		14,250	14,685
Thomas A. Sidman, Accountant-Analyst		15,188	15,696
Robert G. Sundberg, Review Examiner		14,250	14,685

Meritorious salary increases (continued)

Name and title	Division	Basic annual salary From	To
	Personnel Administration		
Jeanette E. Devlin, Personnel Records Technician		$6,854	$7,046
	Administrative Services		
Margaret E. Jenkins, Baker		4,201	4,330
Esmond C. Langley, Head Messenger		5,889	6,045
Barbara Fee McClelland, Composition Clerk		5,352	5,523
William L. McCoy, Guard		4,149	4,289
John H. McDonald, Guard		4,569	4,709
	Office of the Controller		
Jean S. Barber, Accounting Clerk		6,470	6,662
	Data Processing		
Mary P. Barlow, Statistical Assistant		6,662	6,854
Irma Gavin, Senior Draftsman		7,511	7,718
A. Helen Peery, Key Punch Operator		4,149	4,289
Mary Ann Rose, Clerk-Typist		4,289	4,429

Merritt Sherman
Secretary

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

Item No. 1
6/24/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 24, 1966

Board of Directors,
Pan American Bank of Miami,
Miami, Florida.

Gentlemen:

The Board of Governors of the Federal Reserve System approves, under the provisions of Section 24A of the Federal Reserve Act, a direct and indirect investment in bank premises of not to exceed $2,360,000 by Pan American Bank of Miami, Miami, Florida, for the purchase of the Pan American Building. This latter amount includes approximately $1,140,000 in cash to be provided by the bank in exchange for stock of PAB Building Corporation and $1,220,000 to be borrowed by PAB Building Corporation from sources other than subject bank.

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
6/24/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 24, 1966

Board of Directors,
Bank of White Sulphur Springs,
White Sulphur Springs, West Virginia.

Gentlemen:

The Board of Governors of the Federal Reserve System approves, under the provisions of paragraph 6 of Section 9 of the Federal Reserve Act and Section 5199(b) of United States Revised Statutes, the declaration of a dividend of $6,000 by Bank of White Sulphur Springs, White Sulphur Springs, West Virginia, to be paid June 30, 1966. This letter does not authorize any future declaration of dividends that would require the Board's approval under the foregoing statutes.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

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

Item No. 3
6/24/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 24, 1966

Mr. C. E. Bierbauer, Cashier,
Federal Reserve Bank of Chicago,
Chicago, Illinois. 60690

Dear Mr. Bierbauer:

This refers to your letter of June 9, 1966, regarding a penalty of $17.45 incurred by the Forest City Bank and Trust Company, Forest City, Iowa, on an average daily deficiency of $7,000 in reserves for the computation period ended March 2, 1966.

It is noted that: (1) the deficiency was apparently caused by an error in totaling several packages of paid Savings Bonds; (2) since paid Bonds are not verified by the Reserve Bank, and the Treasury was behind in its processing, the overstated amount was credited to the member bank on February 4 and not discovered until reported by the member bank over a month later; (3) due to the lapse of time your Bank inadvertently omitted making decrease adjustments on the bank's reserve analysis record; (4) the errors resulted in a deficiency for only one reserve computation period and a penalty of $17.45, which your Bank would have waived under Paragraph E had it not used this authority in June 1964; and (5) the member bank has a good record of maintaining reserves.

In the circumstances, the Board authorizes your Bank to waive assessment of the penalty of $17.45 due for the reserve computation period ended March 2, 1966.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 4
6/24/66

OFFICE OF THE CHAIRMAN

June 27, 1966

The Honorable Robert N. C. Nix,
Chairman,
Subcommittee on Census and Statistics,
Committee on Post Office and Civil Service,
House of Representatives,
Washington, D. C. 20515

Dear Mr. Chairman:

In response to your request of May 18, 1966, there is submitted herewith a report by the Board of Governors of the Federal Reserve System, together with appendix material, relating to electronic data processing systems as we know them today compared with three years ago.

I trust your Subcommittee will find this material helpful in conducting its study.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Enclosures.

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

Item No. 5
6/24/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 27, 1966.

Dear Sir:

The indicated number of copies of the following forms are being forwarded to your Bank under separate cover for use of State member banks and their affiliates in submitting reports as of the next call date. A copy of each form is attached.

Number of
copies

Form FR 105 (Call No. 180), Report of Condition of State member banks including Schedule B for reporting U. S. Government and Federal agency securities by issue.

Form FR 105e (Revised February 1966), Publisher's copy of report of condition of State member banks.

Form FR 105e-1 (Revised February 1966), Publisher's copy of report of condition of State member banks.

Form FR 220 (Revised March 1952), Report of affiliate or holding company affiliate.

Form FR 220a (Revised March 1952), Publisher's copy of report of affiliate or holding company affiliate.

The forms to be used for this call are similar to those used for the December 1965 report. Form FR 105 includes the schedules on the reverse which had been eliminated for the Spring call and a separate Schedule B for reporting the par value of U. S. Government direct and guaranteed securities and Federal agencies securities not guaranteed, by issue. A minor change has been made in the loan Schedule A to eliminate the item for reporting Commodity Credit Corporation certificates of interest and several memoranda items have also been deleted. The same form (except for the elimination of the memoranda items) is being printed by the Federal Deposit Insurance Corporation for distribution to insured nonmember State banks.

The Comptroller of the Currency will use a form for national banks that is substantially similar to that used for the December 1965 call date. Changes corresponding to those made in the State member forms have been made. A new item under assets, immediately preceding the Federal funds sold item, will include securities purchased under resale agreements and under liabilities, a new item immediately preceding the Federal funds purchased item, will cover securities sold under repurchase agreements. The last four memoranda items on repurchase/resale transactions will be replaced with new items to collect information on: (1) the market value of the total securities portfolio; (2) on certificates of deposits issued and outstanding in denominations of, (a) over $100,000 and, (b) under $100,000; (3) on the loan/deposit ratio; (4) on the amount of one-half dollar coin, (a) included in the bank's total currency and coin figures and, (b) held by the bank as collateral.

The Comptroller will not require national banks to report on the new issue Schedule B for this call and it again will be necessary for the Reserve Banks to collect this Schedule from national member banks. The need for this information for all insured commercial banks described in the Board's letter of December 27, 1965 transmitting December 31 call forms, continues.

Efforts to eliminate item 2 of Schedule F, "Deposits accumulated for payment of personal loans" from the condition report were not successful. Although the Board of Governors of the Federal Reserve System has ruled (31 F.R. 8060, June 8, 1966) that where the agreement between the bank and borrower is such that instalment payments on loans are irrevocably assigned to the bank and cannot be reached by the borrower or his creditors such payments are not subject to the reserve requirements of Regulation D, they are, nevertheless, deposits under the Federal Deposit Insurance Act and must, therefore, be included as deposits in Reports of Condition. However, funds which are received by the bank for immediate application to the reduction of an indebtedness to the receiving bank, or under condition that the receipt thereof immediately reduces or extinguishes such an indebtedness, shall not be reported as deposits even though recorded on separate accounts on the books of the bank.

Special instructions for reporting certificates of participations in pools of loans made by Federal agencies should be included with the covering letter for this call. Certificates of interest in Commodity Credit Corporation pools of farm production loans will no longer be reported as "Loans to farmers," and certificates of participation issued by the Export-Import Bank should no longer be reported as "All other loans." Reporting banks holding these instruments should include them in item 4--"Securities of Federal agencies and corporations not guaranteed by the United States," on the face of the report, and in the appropriate item in Schedule B. It might also be useful to mention that Federal National Mortgage Association certificates of participation and the new CCC participations should continue to be included in the same agency securities item and in the appropriate item in Schedule B.

Condition report instructions to national banks will include instructions similar to the above for reporting holdings of participation certificates. With respect to reporting on Schedule B, national and State member banks should be asked to verify: (1) that the individual U. S. Government and Federal agency security issues held by the bank are reported at par; (2) that the two "Total par value" items reflect the total of individual issues shown at par; and (3) that the two "Total book value" items agree with the corresponding items on the face of the report of condition for the same date.

The Reserve Banks will not be requested to make the usual biennial survey of branch deposits at member banks operating branches outside the head office city. The Federal Deposit Insurance Corporation will conduct a Summary of Deposits survey as of June 30. It is understood that the Corporation will release data for public use similar to that published by the Board in the booklet "Bank Deposits by Counties and Standard Metropolitan Areas" following previous surveys. It is also understood that the survey data for individual banks and branches will be made available to the System in the form of punched cards or magnetic tape records. It is assumed that the same policy constraints on disclosure of unpublished individual bank and branch deposit information will apply to the forthcoming FDIC survey as have applied to earlier deposits by counties surveys. It is also understood that an attempt will be made to collect some branch data from noninsured banks for statistical purposes.

The FDIC survey proposes to be much broader and more detailed than previous branch deposits surveys. They will collect a four-way size of deposits and number of accounts break for nine deposit items from all branches rather than four deposit items from branches outside the head office city only. Because of differences in deposits classifications, the FDIC survey data will not be comparable with data previously collected.

Because the changes in the national bank report form are relatively minor, it will be possible to use existing processing procedures and instructions with some modifications for the forthcoming June call. It will be necessary to hand edit the two new items on the face of the report and provide special keypunch instructions to operators. Editing and keypunching of Schedule B for State member and national banks will also be done at the Reserve Banks. These procedures will be covered in a technical memorandum to be forwarded by the Board's Division of Data Processing.

Very truly yours,

Merritt Sherman,
Secretary.

Enclosures

TO THE PRESIDENTS OF ALL
FEDERAL RESERVE BANKS

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

Item No. 6
6/24/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 27, 1966.

Dear Sir:

Replies have been received to the Board's letter of April 1, 1966, concerning a proposal by Booz, Allen and Hamilton, Inc., for the development of a work-measurement program. At the present time, Richmond, Kansas City, and San Francisco have tentatively indicated that they would join with St. Louis in contracting for this service. Boston has not yet reached a decision as the proposal is still under consideration. Excluding Dallas, the remaining six Banks decided not to participate in the undertaking, at least at this time, partly because such participation would conflict with other projects that are currently underway. The value of work-measurement as a technique for measuring performance was generally recognized by the Reserve Banks.

The Board's interest in the proposed work-measurement program is of a two-fold nature. From a general point of view, information from various sources indicates that more and more large banks, insurance companies, and other private concerns with activities at least somewhat comparable to those of the Federal Reserve Banks are successfully using work-measurement programs to combat rising costs by improving employee productivity. The Board believes that similar programs would be equally effective among the Reserve Banks.

More specifically, the Board feels that it should have--and that the management of the individual Banks would want to have--improved procedures for comparing the effectiveness of activities on both an intra- and inter-Bank basis. It believes that effectiveness ratings, which are part of the proposed work-measurement program, would be a desirable move towards this objective.

The Board expected some difference of opinion among the Banks with respect to the desirability of undertaking on short notice a work-measurement program of the scope proposed by the consultants. It is gratified that Richmond, St. Louis, Kansas City, and San Francisco have indicated an interest in this project and will be pleased to have those Banks proceed with the execution of appropriate contracts with Booz, Allen and Hamilton, Inc., for the purpose. It is looking to the Division of Bank Operations to coordinate the individual Reserve Bank programs, including Board representation therein where appropriate.

In the case of the Reserve Banks that have indicated they do not wish to participate, at least at this time, it is not the intention of the Board to question their decision. However, the Board hopes that as work pressures and other circumstances permit, these Banks will review their decision and that they may at a later date join in the work-measurement program. It would expect them to follow the progress of the program at the participating Banks and to take this experience into account when re-examining their position. Enclosed is a set of questions and comments thereon which may be helpful in clarifying any misunderstandings that may exist regarding the work-measurement proposal.

It is quite possible that other approaches to the problem of providing a basis for comparing the effectiveness of operations at various Reserve Banks may also have merit, and the Board would be happy to receive any comments or suggestions your Bank may care to offer in this regard.

Very truly yours,

Merritt Sherman

Merritt Sherman,
Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

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

Item No. 7
6/24/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 12, 1966.

Mr. Harold A. Bilby,
Vice President,
Federal Reserve Bank of New York,
New York, New York. 10045

Dear Mr. Bilby:

On June 24, 1966, you and I talked by telephone regarding a question that had been discussed by Mr. Treiber with me on the preceding day as to termination of a certain lease in one of the buildings recently acquired by the Federal Reserve Bank of New York pursuant to the Board's authorization for such purchases in its letter of October 26, 1964. The Board had subsequently written to your Bank under date of April 27, 1965, authorizing it, under certain circumstances, to terminate leases in the buildings acquired, and it asked that if the cost of terminating or substantially shortening any such lease would be significantly larger than $25,000 the Board be advised in advance of completion of the agreement.

Following the discussion between Mr. Treiber and myself on June 23, the Board was apprised at its meeting on June 24 of a situation in which your Bank wished to proceed promptly with termination of a lease that might involve a cost of around $80,000 to $100,000. You were advised on the 24th that the Board would have no objection to your Bank's proceeding to terminate or substantially shorten tenancies in the buildings acquired where the costs would not be substantially larger than $100,000.

As was indicated in our conversation of June 24, the Board understands that your Bank would not contemplate an aggressive campaign to terminate leases but that, as stated in the Board's letter of April 27, 1965, you would proceed whenever such terminations could be effected advantageously, and you would continue to have in mind that this authorization would apply only to leases having a relatively long term to run or which, in your Bank's judgment, might be "bothersome." Obviously, there would be no need for taking any action with respect to leases that will expire within the next couple of years.

This letter is for the purpose of confirming our telephone conversation of June 24.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 8
6/24/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 24, 1966.

Mr. William F. Treiber,
First Vice President,
Federal Reserve Bank of New York,
New York, New York. 10045

Dear Mr. Treiber:

This is in response to your letter of June 22, in which your Bank, in behalf of all member banks in the Second Federal Reserve District that make advances to Savings Banks Trust Company in accordance with your Bank's "Plan to Assist Savings Banks in Meeting Extraordinary Withdrawals" (June 22, 1966), requests the Board of Governors to grant permission, pursuant to section 201.5(b) of Regulation A, for your Bank to accept as security for advances to such member banks, under said Plan, assets acquired by them from said Trust Company.

The Board of Governors hereby grants to such member banks permission to use assets acquired from Savings Banks Trust Company in accordance with said Plan as security for advances from the Federal Reserve Bank of New York.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

TITLE 12 - BANKS AND BANKING

Item No. 9
6/24/66

CHAPTER II - FEDERAL RESERVE SYSTEM

SUBCHAPTER A - BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

[Reg. D]

PART 204 - RESERVES OF MEMBER BANKS

Reserve percentages

1. Effective as to member banks in reserve cities at the opening of business on July 14, 1966, and as to all other member banks at the opening of business on July 21, 1966, § 204.5 [Supplement to Regulation D] is amended to read as follows:

§ 204.5 Supplement.

(a) Reserve percentages. Pursuant to the provisions of section 19 of the Federal Reserve Act and § 204.2(a) and subject to paragraph (b) of this section, the Board of Governors of the Federal Reserve System hereby prescribes the following reserve balances which each member bank of the Federal Reserve System is required to maintain on deposit with the Federal Reserve bank of its district:

(1) If not in a reserve city--

(i) 4 per cent of its savings deposits, plus

(ii) 4 per cent of its other time deposits up to $5 million and 5 per cent of such deposits in excess of $5 million, plus

(iii) 12 per cent of its net demand deposits.

(2) If in a reserve city (except as to any bank located in such a city which is permitted by the Board of Governors of the Federal Reserve System, pursuant to § 204.2(a)(2), to maintain the reserves specified in subparagraph (1) of this paragraph)--

(i) 4 per cent of its savings deposits, plus

(ii) 4 per cent of its other time deposits up to $5 million and 5 per cent of such deposits in excess of $5 million, plus

(iii) 16-1/2 per cent of its net demand deposits.

(b) Counting of currency and coin. The amount of a member bank's currency and coin shall be counted as reserves in determining compliance with the reserve requirements of paragraph (a) of this section.

2a. This amendment is issued pursuant to the authority granted to the Board of Governors by section 19 of the Federal Reserve Act to change reserve requirements to prevent injurious credit expansion or contraction (12 U.S.C. 462b). The only change is to increase the reserves that must be maintained against time deposits (other than savings deposits) in excess of $5 million from 4 per cent to 5 per cent.

b. There was no notice and public participation with respect to this amendment as such procedure would result in delay that would be contrary to the public interest and serve no useful purpose. (See § 262.1(e) of the Board's Rules of Procedure (12 CFR 262.1(e)).) 1/

Dated at Washington, D. C., this 27th day of June, 1966.

By order of the Board of Governors.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

1/ The following correction notice was subsequently sent to the Federal Register: "The document amending ¶ 204.5 [Supplement to Regulation D] published in the Federal Register of July 2, 1966 (31 F.R. 9103) is corrected by changing '(See ¶ 262.1(e) of the Board's Rules of Procedure (12 CFR 262.1(e)).)' to read 'The effective dates were deferred for less than the thirty-day period referred to in section 4(c) of the Administrative Procedure Act because the Board found that the general credit situation and the public interest compelled it to make the action effective no later than the dates adopted.'"

TITLE 12 - BANKS AND BANKING

Item No. 10
6/24/66

CHAPTER II - FEDERAL RESERVE SYSTEM

SUBCHAPTER A - BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

[Reg. D and Reg. Q]

PART 204 - RESERVES OF MEMBER BANKS
PART 217 - PAYMENT OF INTEREST ON DEPOSITS

Certain promissory notes

1. Effective September 1, 1966, § 204.1 and § 217.1 are amended as follows:

(a) Paragraphs (f), (g), (h), and (i) of § 204.1 are redesignated as paragraphs (g), (h), (i), and (j), respectively.

(b) A new paragraph (f) is inserted as follows:

§ 204.1 Definitions.
§ 217.1 Definitions.

* * * * *

(f) Deposits as including certain promissory notes. For the purposes of this part, the term "deposits" shall be deemed to include any promissory note, acknowledgment of advance, due bill, or similar instrument that is issued by a member bank principally as a means of obtaining funds to be used in its banking business, except any such instrument (1) that is issued to another bank, (2) that evidences an indebtedness arising from a transfer of assets that the bank is obligated to repurchase, or (3) that has an original maturity of more than two years and states expressly that it is subordinated to the claims of depositors. This paragraph shall not, however, affect the status, for purposes of this part, of any instrument issued before June 27, 1966.

2a. This amendment is issued under the Board's authority to prevent evasions of the purposes of section 19 of the Federal Reserve Act (12 U.S.C. 461). It is designed to bring within the coverage of Regulations D and Q promissory notes and similar instruments of the type that banks have developed in recent years as a means of obtaining funds for use in the ordinary course of their banking business.

b. Notices of proposed rule making with respect to this amendment were published in the Federal Register of January 26, 1966 (31 F.R. 1010) and of April 2, 1966 (31 F.R. 5320). The amendment was adopted by the Board after consideration of all relevant material, including responses received from interested persons pursuant to those notices.

Dated at Washington, D. C., this 27th day of June, 1966.

By order of the Board of Governors.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

Item No. 11
6/24/66

2291

For immediate release. June 27, 1966.

The Board of Governors of the Federal Reserve System announced today two actions designed to moderate further growth of bank credit and deposits: an increase in reserve requirements against certificates and other forms of time deposits, and an extension of regulations regarding reserve requirements and interest on deposits to shorter-term promissory notes of banks.

Reserve requirements were increased from 4 per cent to 5 per cent against the amount of time deposits (other than savings deposits) in excess of $5 million at each member bank. The increase will become effective with the reserve computation periods beginning July 14, 1966, for reserve city banks, and July 21, 1966, for all other member banks.

It is estimated that this action will increase required reserves by more than $400 million--approximately $350 million at reserve city banks and $70 million at other member banks. All told, about 950 larger member banks throughout the country--primarily those issuing savings certificates and other certificates of deposit (CD's) in large volume--are expected to be affected by this increase in requirements. The action should exercise a tempering influence on bank issuance of time certificates of deposit. The measure will also serve to apply a moderate additional measure of restraint upon the expansion of banks' loanable funds and thus reinforce the operations of other instruments of monetary policy in containing inflationary pressures.

At the same time, the Board acted to bring shorter-term bank promissory notes and similar instruments under the regulations governing reserve requirements and payment of interest on deposits. This action would not apply to Federal funds transactions, interbank borrowings, transfers of assets with agreements to repurchase, or bank notes for capital purposes that have a maturity of more than two years and are subordinated to claims of depositors. The action will become effective September 1, 1966 and will apply to all promissory notes covered by the action that are issued on or after June 27, 1966, and are outstanding on or after the effective date. Promissory notes and other instruments of the type covered by the action have come into use only in the last few years and the volume outstanding at present is small. The purpose of the Board's action is to prevent future use of these instruments as a means of circumventing statutory and regulatory requirements applicable to bank deposits.

Attached are the texts of the amendments to the Supplement to the Board's Regulation D, Reserves of Member Banks, and to Regulation Q, Payment of Interest on Deposits, which implement this action.