

Minutes for July 6, 1966

To: Members of the Board

From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

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

Chm. Martin

Gov. Robertson

Gov. Shepardson

Gov. Mitchell

Gov. Daane

Gov. Maisel

Gov. Brimmer

Handwritten initials and signatures on lines next to the names of the Board members. The initials are: a circled 'M' for Martin, 'R' for Robertson, 'MS' for Shepardson, 'M' for Mitchell, 'D' for Daane, 'M' for Maisel, and 'AB' for Brimmer.

Minutes of a meeting of the available members of the Board of Governors of the Federal Reserve System on Wednesday, July 6, 1966. The meeting was held in the Board Room at 10:00 a.m.

PRESENT: Mr. Robertson, Vice Chairman  
Mr. Shepardson  
Mr. Maisel

Mr. Sherman, Secretary  
Mr. Bakke, Assistant Secretary  
Mr. Molony, Assistant to the Board  
Mr. Fauver, Assistant to the Board  
Mr. Hackley, General Counsel  
Mr. Brill, Director, Division of Research and Statistics  
Mr. Shay, Assistant General Counsel  
Mr. Sammons, Associate Director, Division of International Finance  
Mr. Leavitt, Assistant Director, Division of Examinations  
Miss Wolcott, Technical Assistant, Office of the Secretary  
Miss Hart and Mr. Robinson of the Legal Division  
Messrs. McClintock and Poundstone of the Division of Examinations

The following actions were taken subject to ratification at the next meeting of the Board at which a quorum was present:

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

Item No.

Letter to Chase International Investment Corporation, New York, New York, granting permission to acquire and hold shares of Corporacion Interamericana S.A., Mexico, D.F.

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	<u>Item No.</u>
Letter to all Federal Reserve Banks transmitting copies of revised pages of the report of examination of State member banks (FR 410) pertaining to consumer and real estate loans.	2
Letter to the Federal Reserve Bank of Chicago reaffirming the Board's August 1953 interpretation of the term "adjacent" as applied to the Detroit-Livonia, Michigan, area and requesting that steps be taken to terminate certain interlocking directorships thereby prohibited under section 8 of the Clayton Act and the Board's Regulation L.	3

With respect to Item No. 3, after ascertaining that the interlocking directorates under consideration were accomplished facts, Governor Shepardson inquired whether it was not the responsibility of the Board to initiate some action to bring about termination of the prohibited relationship. Mr. Shay replied that authority to do so was vested in the Board under section 11 of the Clayton Act. It was anticipated that as a first step the Federal Reserve Bank of Chicago would bring the matter to the attention of the member bank promptly with a view to effecting voluntary compliance. Accordingly, the letter to the Reserve Bank, as approved, included a request that the interlocking relationships be terminated promptly.

Messrs. Sammons, Shay, Robinson, McClintock, and Poundstone then withdrew from the meeting, as did Miss Hart.

Emergency credit facilities (Item No. 4). Pursuant to the discussion on July 1, 1966, of the possibility of unusual deposit drains

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on nonmember depository-type institutions, including mutual savings banks and savings and loan associations, and in light of consideration of the subject by the Board and the Presidents of the Federal Reserve Banks on June 28, 1966, a letter dated July 1 was sent to all Reserve Banks suggesting that as a matter of general policy the Reserve Banks be prepared to provide emergency credit facilities to such institutions in accordance with certain stated principles.

There had now been distributed a draft telegram to all Reserve Banks indicating that the contents of the July 1 letter had been communicated on a confidential basis to Chairman Horne of the Federal Home Loan Bank Board, who had responded with the suggestion that any Federal Reserve Bank facing the prospect of lending to a savings and loan association get in touch with the Home Loan Bank in the appropriate district to exchange information that might be mutually helpful. The telegram would convey the concurrence of the Board in the suggestion made by Chairman Horne, leaving to the judgment of the Reserve Bank concerned the precise manner of any such communication, keeping in mind that individual Home Loan Banks had no prior official notice of the suggested program.

Following discussion, unanimous approval was given to a telegram to all Federal Reserve Banks in the form attached as Item No. 4.

Termination of Regulation P (Item No. 5). Public Law 89-485, approved July 1, 1966, amended section 2 of the Banking Act of 1933,

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section 5144 of the Revised Statutes, and related statutes so as to eliminate therefrom the provisions pertaining to holding company affiliates and voting permits on which the Board's Regulation P (Holding Company Affiliates--Voting Permits) was based. (P. L. 89-485 repealed section 2(c) of the Banking Act of 1933, as amended by section 301 of the Banking Act of 1935.)

Accordingly, Regulation P was terminated by unanimous vote, effective July 1, 1966, with the understanding that the Federal Reserve Banks would be advised of such action and that pending applications for voting permits or for section 301 determinations would not be acted upon. A copy of the notice submitted for publication in the Federal Register is attached as Item No. 5.

At this point all of the members of the staff except the Secretary withdrew from the meeting.

+ Foreign travel for Mr. Katz. Governor Shepardson reported a recommendation from Mr. Holland, Adviser to the Board, that Mr. Katz of the Division of International Finance be authorized to extend his forthcoming official trip to Europe to include another visit to the Bank of England on or about July 25 for the purpose of supplementing interviews at that Bank regarding the discount study. On recommendation of Governor Shepardson, unanimous approval was given to the extension of Mr. Katz's trip as proposed. In this connection, however, note was taken of the numerous absences of staff officials, in connection particularly with

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foreign assignments, and the view was expressed that efforts should be made to arrange necessary foreign travel in a manner that would not either throw an undue burden on the staff or fail to provide adequate staff to meet the demands being made on a day-to-day basis by the Board in connection with current developments.

Professor Minsky--discount study paper. On recommendation by Governor Shepardson, pursuant to a memorandum from Mr. Holland dated June 30, 1966, the Board authorized commissioning Professor Hyman Minsky to prepare a paper on stability conditions in the financial system to be used in connection with the current study of the discount mechanism. In approving this recommendation, the Board also authorized payment of a fee of \$1,000 to Professor Minsky for time spent in preparing the paper with the understanding that any resulting budget overexpenditure was also authorized.

Foreign travel for Mr. Vergari of the Philadelphia Bank. Governor Shepardson reported that after exploratory arrangements with President Bopp of the Federal Reserve Bank of Philadelphia and with Vice President Vergari of that Bank, it was recommended that Mr. Vergari be authorized to accept an invitation from the Central Bank of Honduras to visit that Bank for a period of approximately two or three weeks to provide technical assistance in the mechanization of the Central Bank's operations. It was understood that the Central Bank of Honduras would reimburse the Philadelphia Bank for costs of travel, local maintenance, and any other



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direct costs associated with the project but that the Philadelphia Bank would not request reimbursement for Mr. Vergari's salary while on the mission. On Governor Shepardson's recommendation, the proposed mission was approved.

Wegematic Corporation settlement. Governor Shepardson reported that the settlement in the Wegematic case, reported to the Board on June 2, 1966, had now been paid in full (\$289,457). No explanation was made as to why Wegematic had made full settlement in advance, rather than to take advantage of the earlier arrangement under which payment would be made in instalments to 1970.

Computer sale. Governor Shepardson noted for the record that sale of the Board's computer to the Treasury Department had been completed prior to the end of June at a price of \$275,000, the Treasury Department having obtained the necessary authorization for use of funds to make the purchase. Date of delivery would be determined on the basis of receipt of the Board's new computer.

The meeting then adjourned.

Secretary's Notes: On July 5, 1966, Governor Shepardson approved on behalf of the Board a letter to the Federal Reserve Bank of Atlanta (copy attached as Item No. 6) approving the appointment of Robert M. Greene as assistant examiner.

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

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Letter to the Federal Reserve Bank of Dallas (copy attached as Item No. 7) approving the designation of Richard F. Carlson as special assistant examiner.

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

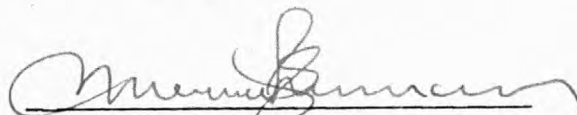
Salary increase

Sandra H. Cook, Clerk, Division of International Finance, from \$4,289 to \$4,641 per annum, effective July 17, 1966.

Acceptance of resignations

Carol Westley, Programmer-Trainee, Division of Research and Statistics, effective the close of business July 22, 1966.

Jane I. Hill, Statistical Assistant, Division of Research and Statistics, effective the close of business July 8, 1966.

  
Secretary



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 1  
7/6/66



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 6, 1966.

Chase International Investment Corporation,  
1 Chase Manhattan Plaza,  
New York, New York. 10005

Gentlemen:

As requested in your letter of June 9, 1966, the Board of Governors grants consent for your Corporation to acquire and hold 41,250 shares of the capital stock of Corporacion Interamericana S.A., Mexico, D.F., at a cost of approximately US\$330,000, provided such stock is acquired within one year from the date of this letter.

The foregoing consent is being given with the understanding that the investment now being approved, combined with other foreign loans and investments of your Corporation, The Chase Manhattan Bank (National Association), and Chase Manhattan Overseas Banking Corporation, will not cause the total of such loans and investments to exceed the guidelines established under the voluntary foreign credit restraint effort now in effect and that due consideration is being given to the priorities contained therein.

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  
7/6/66  
S-2002



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

August 3, 1966.

Dear Sir:

There are enclosed copies of revised pages (10(a), 12, 12(a), and 12(a)-F) of the report of examination (FR 410) which the Board has authorized for immediate use. A supply of the forms is being forwarded to you under separate cover; additional supplies may be obtained upon request.

The new page 10(a) is to be used in all examinations regardless of the size of the bank; it replaces the three consumer instalment loan pages (10(a), 10(b), and 10(c)) currently in use in certain size institutions. You will note that the new page 10(a) requires comments on all unsatisfactory aspects of the bank's policies and practices pertaining to consumer and floor-plan loans. As indicated on the page, however, if the examiner has no adverse comments regarding consumer or floor-plan loans, a statement to this effect should be made on the page.

The data to be reported in the schedule on the new page 10(a) include all consumer instalment loans, residential repair and modernization loans insured by the Federal Housing Administration, and other loans which are not necessarily on a regularly amortized basis but are readily identifiable as consumer loans. Since floor-plan loans are business loans rather than consumer credits, the consumer loan schedule should not include floor-plan loan data.

The new page 10(a) will require a slight change in the instructions for the preparation of form FR 209. The first sentence in footnote 16 on the back of the form is no longer applicable and the per cent of past due consumer loans for field 95 on the face of the form should be that per cent figure shown in the last column in the schedule on the new page 10(a). At the next revision of form 209, the footnote will be revised accordingly.

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The new pages 12, 12(a), and 12(a)-F replace pages 12, 12-F, 12-X and 12-X-F currently in use. The schedule shown on revised page 12 should include the total of all loans secured by mortgages, deeds of trust, and land contracts, or other liens on real estate, whatever the purpose, except loans indirectly representing bank premises or other real estate. The schedule should also include all real estate loans purchased from others under a resale agreement. It should exclude, however, loans made to holders of mortgages of third parties which have been pledged as collateral to the loans. These are excluded because the mortgage and not the real property involved has been pledged in support of the loan.

Ordinarily, loans only partially supported by the value of pledged real estate and actually predicated on the strength of the borrower's financial capacity and/or other supporting collateral should also be excluded from real estate loans. For example, a loan to a commercial firm for working capital purposes secured by a deed of trust on its plant should be included as a real estate loan where the value of the property supports the loan but excluded where it is substantially less than the amount of the loan. Loans obviously extended on the basis of other considerations should not be included in real estate loans.

The term "warehoused," as used in the schedule on the revised page 12, refers to real estate loans purchased from mortgage brokers, banks, life insurance companies, and other similar organizations, usually in large blocks, and for periods of up to approximately one year, or until the mortgages can be resold to permanent investors. The term excludes mortgages which actually have not been sold to the bank but only pledged as collateral. The total of loans in this latter category is to be shown in the space provided below the schedule.

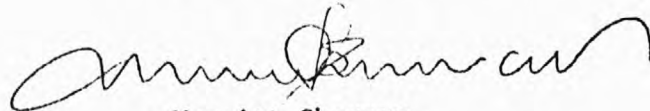
Real estate loans subject to adverse classification or special mention are to be shown on the appropriate page 11 or 11(c). Similar to page 10(a), a statement indicating no adverse comments should be included on page 12 where appropriate.

For both pages 10(a) and 12 all past due percentages should be expressed to two decimals.

Page 12(a) and its supplementary page 12(a)-F should not be included in the report if there are no real estate loans which fall in one of the four groups listed at the top of page 12(a) and are subject to special comment.

It will be noted that, compared with the page formerly in use, the revised page 12 requires more qualitative data regarding real estate loans and better provisions for presentation of critical comment on the unfavorable aspects of the mortgage portfolio. The revised page 10(a) is designed primarily to reveal all the unsatisfactory aspects of a bank's consumer loan department, any adverse trends in the account, and the volume and severity of past due loans. It eliminates two schedules and portions of a third and the several questions listed on the former consumer loan pages. This elimination, of course, is not to be construed as a reduction in the examiner's coverage of an instalment loan department. The questions eliminated and much of the scheduled data previously required will continue to be typical of the information assembled by the examiner for the purpose of appraising the consumer loan operation. The new page should permit the examiner to utilize his time more effectively in analyzing and appraising consumer loans, and require less time for responding to questions and completing schedules in the report. This should result in an improvement in the quality of consumer loan examinations.

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. 3  
7/6/66



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 7, 1966.

Mr. Paul C. Hodge,  
Vice President, General  
Counsel and Secretary,  
Federal Reserve Bank of Chicago,  
Chicago, Illinois. 60690

Dear Mr. Hodge:

This refers to your letter of April 13, 1966, forwarding a copy of a letter of April 11, 1966, from the Detroit Branch of your Bank, together with other materials, in connection with the interlocking service of Mr. Stanford C. Stoddard and Mr. Frank R. Welsher as officers and directors of Michigan Bank, National Association, of Detroit, and directors of Livonia National Bank, Livonia, Michigan.

In a letter of August 19, 1953, the Board expressed the view that Livonia was adjacent to Detroit within the meaning of section 8, paragraph 5, of the Clayton Act and section 212.2(d)(5) of Regulation L so that, no other exception applying to permit the service, an officer of The Detroit Bank, Detroit, Michigan, was forbidden to serve at the same time as a director of The Bank of Livonia, Livonia, Michigan, the predecessor of Livonia National Bank. Among the materials submitted with your letter was a letter of March 3, 1966, from the Comptroller of the Currency, expressing the opinion that Livonia is not contiguous or adjacent to Detroit, and that the interlocking service of Mr. Stoddard and Mr. Welsher is not forbidden by the statute. In view of this inconsistency, you have called the matter to the Board's attention.

Section 8, so far as it is relevant here, forbids any director or officer of any member bank of the Federal Reserve System to be at the same time a director or officer of any other bank organized under the National Bank Act, subject to certain specified exceptions, and subject to the provision that the Board may by regulation permit interlocking service with "not more than one other such institution". Section 11 of the Clayton Act places authority in the Board to enforce section 8,



where applicable to banks, and directs the Board, whenever it shall have reason to believe that any person is violating or has violated any of the provisions of that section, to institute administrative proceedings for that purpose.

It appears that the only one of the statutory or regulatory exceptions to the prohibition of the statute which might possibly apply to permit interlocking service between Michigan Bank and Livonia National Bank is that contained in paragraph 5 of section 8 providing that:

". . . the foregoing prohibition shall not apply in the case of any one or more of the following . . . A bank, banking association, savings bank, or trust company not located and having no branch in the same city, town, or village as that in which such member bank or any branch thereof is located, or in any city, town, or village contiguous or adjacent thereto."

Footnote 8 to Regulation L states that:

"The Board has interpreted the term 'contiguous' as referring to cities, towns, and villages whose corporate limits touch or coincide at some point, and has interpreted the word 'adjacent' as referring to cities and villages which, although not actually 'contiguous' within the above interpretation of that word, are located in such close proximity and are so readily accessible to each other as to be in practical effect a single city, town, or village, as for example, cities, towns, or villages separated only by a water-course, or a suburb of a city separated from that city by an intervening suburb."

In its letter of August 19, 1953, the Board stated that:

". . . it appears that Livonia and Detroit are both in Wayne County, Michigan; that Livonia, which lies to the north-west of Detroit, is an incorporated city of 36 square miles whose corporate limits are co-extensive with Livonia Township; that Redford Township separates Livonia from Detroit by a distance of approximately 1-1/4 miles at the closest point; that both Redford Township and Livonia are substantially populated and developed areas which lie within the Greater Detroit trading area; and that some of the principal roadways of Livonia, such as Five Mile Road on which The Bank of Livonia is located at number 33014 in the geographic center of Livonia, traverse both Livonia and Redford Township and extend into



Detroit. The distance along Five Mile Road from the eastern limits of Livonia to the western limits of Detroit is approximately 2 miles, and the distance along such Road from The Bank of Livonia to the western limits of Detroit appears to be approximately 5 miles."

At the time of the Board's 1953 interpretation, as now, The Bank of Livonia was the only unit bank in that city. The only other banking facilities within the city limits of Livonia were three branches of The National Bank of Detroit, but there were at least seven other banking offices within a radius of approximately seven road miles of The Bank of Livonia, one of which was a branch of The Detroit Bank. There were no banking offices in Redford Township.

At present, there are eight banking offices in Redford, three of Manufacturers National Bank, one of Detroit Bank and Trust Company, one of City National Bank, two of National Bank of Detroit, and one of Bank of the Commonwealth. There is no office of Michigan Bank in either Livonia or Redford.

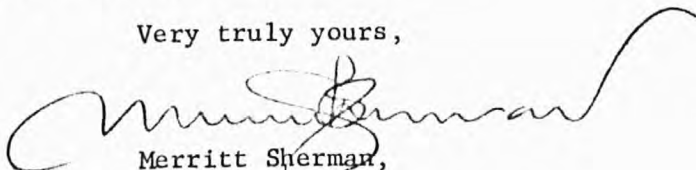
A memorandum from counsel for the Detroit Branch of your Bank states that although there has been substantial growth in population of both Livonia and Redford during the past thirteen years:

". . . there appears to be no change in the fact that the City of Detroit and the City of Livonia are separated only by a suburb or suburban area. In traveling from Detroit to Livonia through Redford Township, there appear to be no substantial differences or distinguishing characteristics, and from physical appearances it would be difficult or impossible to determine where one community ends and another begins. Existing roads and streets facilitate traveling through the entire area."

After reviewing the situation in the light of the materials enclosed with your letter, the Board agrees with your opinion that Livonia is still, as it was in 1953, "adjacent" to Detroit and therefore, the exception contained in section 8, paragraph 5 of the Clayton Act and section 212.2(d)(5) of Regulation L remains inapplicable. Accordingly, section 8 of the Clayton Act forbids interlocking service between Michigan Bank and Livonia National Bank, and the Board requests that steps be taken promptly to terminate the interlocking services of Messrs. Stoddard and Welsher.

An additional copy of this letter is enclosed, for your convenience in furnishing it to Michigan Bank.

Very truly yours,



Merritt Sherman,  
Secretary.

Enclosure

T E L E G R A M  
LEASED WIRE SERVICEItem No. 4  
7/6/66BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTON

July 6, 1966.

CONFIDENTIAL (FR)

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

In the interest of interagency coordination, the essential contents of the Board's letter of July 1, 1966, to the Federal Reserve Bank Presidents regarding emergency credit facilities were communicated on a confidential basis to Chairman Horne of the Federal Home Loan Bank Board. Chairman Horne responded with the suggestion that it might be helpful if any Federal Reserve Bank that faces the likely prospect of lending to a savings and loan association would contact the Federal Home Loan Bank in whose district the association is located in order to have the benefit of information or comments that the Home Loan Bank officials could convey concerning the prospective borrowing association, as well as to keep those officials informed on a confidential basis. Such a procedure would also help to avoid giving Federal Reserve credit assistance to a savings and loan association that sought to evade the disciplinary rules to which it is subject if it is a member of the Federal Home Loan Bank System.

The Board concurs in the suggestion made by Mr. Horne, leaving to the judgment of the Federal Reserve Bank concerned the precise manner of any such contact. Since no prior official notice of this program will have been conveyed to the individual Home Loan Banks, each Reserve Bank would need to explain to whatever degree it considered appropriate the purposes and procedures contemplated in the program for emergency credit facilities outlined in the Board's letter of July 1, 1966.

(Signed) Merritt Sherman

SHERMAN

MS:mcc

## TITLE 12 - BANKS AND BANKING

Item No. 5  
7/6/66

## CHAPTER II - FEDERAL RESERVE SYSTEM

## SUBCHAPTER A - BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

[Reg. P]

PART 216 - HOLDING COMPANY AFFILIATES;  
VOTING PERMITS

1. Effective July 1, 1966, Part 216 is terminated.

2a. This action results from enactment of Public Law 89-485.


Section 13 of that Act (80 Stat. 236) amended section 2 of the Banking Act of 1933 (12 U.S.C. 221a), section 5144 of the Revised Statutes (12 U.S.C, 61), and related statutes so as to eliminate therefrom the provisions pertaining to holding company affiliates and voting permits on which Part 216 was based.

b. The notice, public participation, and deferred effective date described in section 4 of the Administrative Procedure Act were not followed in connection with this action because such procedures would serve no useful purpose.

(Public Law 89-485; 80 Stat. 236.)

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

By order of the Board of Governors.



Merritt Sherman,  
Secretary.

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

Item No. 6  
7/6/66

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 5, 1966

Mr. R. M. Stephenson, Vice President,  
Federal Reserve Bank of Atlanta,  
Atlanta, Georgia. 30303

Dear Mr. Stephenson:

In accordance with the request contained in Mr. Sheffer's letter of June 28, 1966, the Board approves the appointment of Robert M. Greene as an assistant examiner for the Federal Reserve Bank of Atlanta, effective July 11, 1966.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.



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BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 7  
7/6/66



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 7, 1966

Mr. Thomas R. Sullivan, Vice President,  
Federal Reserve Bank of Dallas,  
Dallas, Texas. 75222

Dear Mr. Sullivan:

In accordance with the request contained in your letter of July 1, 1966, the Board approves the designation of Richard F. Carlson as a special assistant examiner for the Federal Reserve Bank of Dallas.

The authorization heretofore given your bank to appoint Mr. Carlson as an assistant examiner is hereby canceled.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.