FR 609

Minutes for July 14, 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 WM

Gov. Robertson R

Gov. Shepardson

Gov. Mitchell GM

Gov. Daane

Gov. Maisel SJM

Gov. Brimmer AFB

Minutes of the Board of Governors of the Federal Reserve System on Thursday, July 14, 1966. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Robertson, Vice Chairman
Mr. Shepardson
Mr. Daane 1/
Mr. Maisel
Mr. Brimmer

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Bakke, Assistant Secretary
Mr. Young, Senior Adviser to the Board and Director, Division of International Finance
Mr. Solomon, Adviser to the Board
Mr. Molony, Assistant to the Board
Mr. Cardon, Legislative Counsel
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Johnson, Director, Division of Personnel Administration
Mr. Hexter, Associate General Counsel
Mr. Shay, Assistant General Counsel
Mr. Hooff, Assistant General Counsel
Mr. Daniels, Assistant Director, Division of Bank Operations
Miss Wolcott, Technical Assistant, Office of the Secretary
Messrs. Forrestal and Sanders and Miss Hart, Senior Attorneys, Legal Division
Mr. Ring, Technical Assistant, Division of Bank Operations
Mr. McClintock, Supervisory Review Examiner, Division of Examinations

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

1/ Entered meeting at point indicated in minutes.

Item No.

Letter to County Bank of Santa Cruz, Santa Cruz, California, approving the establishment of a branch at Bay and High Streets and commenting on the bank's capital position. 1

Letter to the Federal Reserve Bank of Chicago approving the payment of salary to Jack P. Thompson as Vice President at the rate fixed by the Bank's Board of Directors. 2

In connection with Item No. 2, it was noted that Mr. Thompson was retiring shortly under optional provisions of the Civil Service Retirement Plan and therefore would be receiving a Civil Service annuity in addition to his salary as a Reserve Bank officer. Members of the Board indicated that they saw no reason from a policy standpoint to object to arrangements of such kind.

Report on competitive factors. A report to the Federal Deposit Insurance Corporation on the competitive factors involved in the proposed merger of Prentiss County Home Bank, Booneville, Mississippi, with The Bank of Tupelo, Tupelo, Mississippi, was approved unanimously for transmittal to the Corporation. The conclusion stated that:

> There appears to be little, if any, competition existing between Prentiss County Home Bank, Booneville, and The Bank of Tupelo; and the overall effect of the proposal on competition would not be adverse.

Denver Branch building (Item No. 3). In a letter dated November 5, 1965, the Board authorized the Federal Reserve Bank of Kansas City to proceed with the preparation of detailed plans and specifications for a proposed Denver Branch building, in accordance with preliminary plans and specifications as they might be amended in consideration of suggestions made by the Board's Consulting Architect and the Division of Bank Operations. The Board also suggested that the design be revised to assure that adequate consideration had been given to security at the first floor level against riot and civil commotion. Subsequently, revisions were made and, pursuant to Board approval on May 4, 1966, the security features of the plans and specifications of the building were reviewed by a representative of the Secret Service.

There had now been distributed a memorandum from the Division of Bank Operations dated July 11, 1966, relating to a letter of June 22 with which the Federal Reserve Bank of Kansas City had submitted revised plans and specifications along with a renewed request for authority to call for bids. Attached was a draft of telegram to the Bank that would grant such authority.

In commenting on the situation, Mr. Farrell underscored the acute need for additional working space at the Denver Branch and noted that the Bank management had stated that no unusual inflationary pressures were indicated in the construction industry in Denver.

Following discussion, unanimous approval was given to the proposed telegram. A copy is attached as Item No. 3. It was agreed, however, that it would be desirable to obtain, as a matter of record, information from the Bank on the main reasons for the difference of

$686,000 between current cost estimates and the estimates furnished with the preliminary plans in October 1965.

<u>Classification of Christmas Club accounts and related matters (Item No. 4)</u>. At yesterday's meeting there had been discussion of a distributed memorandum, dated July 11, from the Legal Division relating to the question whether Christmas Club accounts should be classified as "savings deposits" or as "other time deposits" in determining reserve requirements under the Board's June 27, 1966, amendment to the Supplement to Regulation D (Reserves of Member Banks) and to a similar question in connection with Regulation Q (Payment of Interest on Deposits). Alternative courses of action that might be followed and the reasoning underlying each course were set out in the memorandum. However, final action had been deferred at the request of Governor Brimmer.

Subsequently, there had been distributed a memorandum dated July 13 from the Legal Division submitting: (1) a proposed telegram to the Reserve Banks regarding the classification of Christmas Club accounts as "savings deposits"; and (2) a draft of proposed amendments to Regulations D and Q that would redefine "savings deposits" in the manner recommended in the Legal Division's memorandum of July 11, as discussed at the July 13 meeting. The memorandum also recommended that the proposed amendments be published in the Federal Register for comment and that copies be sent to the Federal Deposit Insurance Corporation, the Comptroller of the Currency, and the Federal Reserve

Banks with requests for their views. It was further suggested that copies of the Legal Division's memorandum of July 11 be furnished the Reserve Banks as background information.

At the beginning of the discussion, Governor Brimmer indicated that after further study he concurred in the recommendations contained in the Legal Division's July 13 memorandum. Comments then centered upon the timing of submission of the proposed amendments to the Federal Register.

It was agreed that the draft notice of proposed rule making would be sent to the Federal Deposit Insurance Corporation and to the Comptroller's Office for comment, and that the text would not be sent to the Federal Register until advice had been received from the Corporation whether it wished to propose a similar amendment to its regulation concerning interest paid by nonmember insured banks.

No objection was interposed to the suggestion of the Legal Division that copies of the July 11 memorandum be furnished the Reserve Banks.

Unanimous approval was then given to the proposed telegram to the Reserve Banks. A copy is attached as Item No. 4.

Regulation T (Item No. 5). Miss Hart reported that several inquiries had been received from mutual fund dealers who anticipated that, as a result of the airline strike, they might not receive payment from some "special cash account" customers within the seven business days required by section 220.4(c)(2) of Regulation T (Credit by Brokers, Dealers, and Members of National Securities Exchanges). Under section 220.4(c)(6) of that Regulation, an extension of time could be granted by appeal to the appropriate committee of a national securities exchange or national securities association; in the cases in question, however, the dealers were neither members of a stock exchange nor of the National Association of Securities Dealers, and therefore had no recourse for waiver of the time requirement. This meant that failure of the customer to make payment as prescribed would necessitate reversal of the transaction.

To correct this situation during the present emergency, Miss Hart proposed that a wire be sent to the Reserve Banks authorizing them to act as the "appropriate committee" for purposes of section 220.4(c)(6) of Regulation T.

Following discussion, unanimous approval was given to a telegram to the Reserve Banks in the form attached as Item No. 5, with the understanding that the staff would also prepare for submission to the Board a definitive amendment to Regulation T providing for resort to this procedure with respect to mutual funds under circumstances that would warrant waiver of the time requirement by a national securities exchange or association.

Governor Daane entered the room at this point and all members of the staff except Messrs. Sherman, Kenyon, Young, Solomon (Adviser), Molony, Cardon, and Hackley withdrew.

Rates of interest on deposits. The Vice Chairman stated that he would like to report on certain meetings and conversations he had had yesterday afternoon and this morning. With respect to the proposed action to lower the maximum rate payable by member banks on time deposits with multiple maturities, he could say that such action had the whole-hearted support of the Council of Economic Advisers and, he believed, the Secretary of the Treasury also. As to the Board's proposal for legislation that would provide broadened rate regulatory powers for the Board, the Federal Deposit Insurance Corporation, and the Home Loan Bank Board, it had now been announced publicly that the Secretary of the Treasury had recommended legislation that would place a temporary statutory ceiling on all certificates of deposit up to $100,000 and would provide discretionary authority for the Board and the Federal Deposit Insurance Corporation to fix different interest rate ceilings for different kinds of time deposits, along with authority for the Home Loan Bank Board to fix ceilings on dividends payable by savings and loan associations.

The Vice Chairman said he had sent copies of the Board's proposed regulation relating to multiple maturity time deposits and copies of the Board's legislative proposal to the Chairman of the Home Loan Bank Board and to the Chairman of the Federal Deposit Insurance Corporation. He understood that the directors of the Corporation were going to meet this afternoon, after which they would advise whether the Corporation was willing to go along with the regulation (in its applicability to nonmember insured banks) and with the legislative proposal.

The Vice Chairman went on to say that he hoped the Board could issue an announcement tomorrow concerning the regulation and include in the announcement a statement concerning the legislative proposal, with notation in the latter regard that the proposal was being submitted after consultation with the Federal Deposit Insurance Corporation and the Home Loan Bank Board. It would be helpful, of course, if it developed that the legislative proposal could also have the support of the Secretary of the Treasury and the Council of Economic Advisers. He then requested that the Board's staff begin the drafting of a press release that might be issued tomorrow, along with letters to the Chairmen of the appropriate Congressional Committees transmitting the legislative proposal.

Governor Maisel suggested the possibility of withholding an announcement temporarily to determine whether agreement would be obtained from other quarters, and Governor Brimmer indicated that he would not want to delay beyond tomorrow. He felt that the initiative should be taken by the Board in a timely fashion. After further discussion of the question of timing, there was general agreement that it would be desirable to proceed tomorrow and that the Board would meet at 9:00 a.m. for consideration of the matter in the light of developments by that time.

Discount rate. The Vice Chairman then stated that it appeared that the Board would have before it for consideration tomorrow telegrams from some Federal Reserve Banks advising that the directors of those Banks had increased the discount rate, subject to review and determination by the Board. In his opinion the actions by the directors would involve rate increases of 1/2 of 1 per cent. He then said that he had discussed the situation with the Council of Economic Advisers and the Secretary of the Treasury in order to receive any views they might care to express. He had reported to the Board yesterday one conversation with the Secretary, and later the Secretary had advised that he continued to be opposed to a 1/2 per cent discount rate increase. The Secretary indicated that he would be more inclined to favor the alternative proposal that Governor Robertson had outlined to him on a personal basis whereby the Board would determine, if necessary, a rate of 5-1/2 per cent, with an announcement along the lines that he (Governor Robertson) had suggested yesterday. After thorough study, however, the Secretary had concluded on balance that he would not favor such a course of action. He felt that the shock to the market would be great, market rates would be likely to move higher, and the action would not be effective in curbing inflationary psychology. Accordingly, the Secretary hoped that no action would be taken to increase the discount rate at this time.

The Council, Governor Robertson said, held the view that a 1/2 percentage point increase would be a waste of power and serve no purpose, that it would not quiet uncertainties in the market, and that the better course would be to police the discount window strictly. The Council had doubts about going to 5-1/2 per cent at this stage, partially on the ground that it would be difficult to move down from that level. In substance, the Council strongly favored retaining the present discount rate, and indicated that the President did also.

The Vice Chairman said it was his own view that either the present discount rate should be maintained or the rate should be raised high enough to have a definite impact. He was personally convinced that the expansion of credit must be curbed. He believed it might be desirable if the discount rate were raised one full point, with an announcement that the Board had no intention of raising Regulation Q ceilings. Such an operation had not been tried, however, and he could not say with assurance that it would be the right thing to do. Consequently, he came out in his thinking to the conclusion that the issue was not great enough to warrant a break with the Administration and a repetition of the situation that occurred last December. Accordingly, he would be opposed to any discount rate increase now. This, however, did not in any way diminish his feeling that the Board must do the best possible job of curbing the flow of reserves into the banking system. It must discourage any further expansion of bank credit at recent rates. The banks, in his opinion, were not doing the job they ought to do. They still felt that the Board would raise Regulation Q ceilings, although the issuance of the regulation on multiple maturity time deposits should have some effect in diminishing that expectation.

Governor Shepardson said he felt more than ever that the Board must issue an announcement, in connection with the regulation and the legislative proposal, which would make clear what the action and the proposal implied. He also raised the question whether the announcement should not contain some indication of the type of action that the Board might be likely to take if the proposed legislation were enacted.

The Vice Chairman brought out that it would hardly be feasible to commit the Board in advance on that point, especially since some members were away at this time. On the other hand, the announcement could bring out that the purpose of proposing the legislation was to express concern that the necessary powers be made available in order to take such action as seemed appropriate to deal with whatever problems might develop. It could reflect a desire to curb bank credit expansion without further rate escalation.

Governor Daane commented that he might well come out eventually at the same point as the Vice Chairman on the discount rate. This was an important decision for the Board, however, and he was unhappy about the situation because he felt there was a good case for approving a 1/2 per cent increase if the Board was advised that directors of Federal Reserve Banks had taken such action.

Governor Robertson commented that one of the factors influencing his thinking was the action that had just been announced to increase the

British Bank rate from 6 per cent to 7 per cent. In this connection he read an explanatory cable that had been received from the Bank of England. He noted that it could be argued that the British action should be allowed to exert its full effect and not be weakened by offsetting action here.

Governor Daane said that he felt the market was expecting a 1/2 per cent discount rate increase. If such an increase was made, it should have some effect in clearing the air and removing uncertainty. At least this was his opinion, although the Treasury did not agree. He believed that the market had already discounted such a move in large measure, and that there was practically no danger of any market reaction other than to regard the increase as a technical adjustment of the discount rate to market rates. Viewed in the longer run, such action would also be useful in relation to other instruments of monetary policy. The Federal Reserve had turned the screw on credit availability through open market operations, and many times in the past it had followed with a discount rate increase when the relationship to market rates got clearly out of line. Other things being equal, he felt that this would be appropriate action to take now.

In addition, Governor Daane said, he was apprehensive that a feeling was growing around the world that this country was not too much concerned about its balance of payments. A discount rate increase would reflect the existence of such concern. Even though the action itself might be of minimal importance from the balance of payments standpoint, it would indicate that the central banking system was still operative and was doing what it should be doing. As to the British Bank rate increase, it could be argued abroad that the Federal Reserve, by not taking discount rate action, was not responding as a central bank should. Such an appraisal would react adversely to the dollar in foreign exchange markets.

In summary, Governor Daane said, he had considerable sympathy for taking affirmative action on any Reserve Bank proposal for a 1/2 per cent discount rate increase. Like the Vice Chairman, however, he was not certain whether the taking of such action would be worth a disruption of Governmental relationships. The move perhaps was not quite that urgent; the current rate relationships probably could continue for a few more weeks without great danger. Further, he thought there was something to be said for avoiding action at this time if it involved a substantial split within the Board itself. This might be exaggerated in the press and have certain harmful effects.

Governor Maisel expressed the view that continued adherence to a theory that the discount rate had to be changed because of market relationships or in light of balance of payments relationships would not be in the System's best interest. This was not the way the System should be operated, and the System would not succeed in its objectives. In the past there had been a tendency to look at changes in the discount rate primarily on the basis of technical considerations, but in his view that was not appropriate. He agreed with Governor Shepardson that the availability of credit should be tightened, but he felt that the Board had not done enough thinking about alternative types of action. Compared with other central banks, the Federal Reserve had been loath to use a variety of tools. For example, consideration might be given to the use, for domestic purposes, of a mechanism such as the voluntary foreign credit restraint program. Or the Board might consider steps similar to those taken at various times by the British authorities, including the limiting of amounts of loans of certain types. Instead, the thinking had been directed mainly along traditional lines. He felt definitely that the Board should not think of the discount rate in terms of the technical problem of bringing it into line with market rates. If Reserve Banks were to come in with proposals for a discount rate increase, he would like to see them rejected publicly. He did not imagine that the Board members would go along with such a course, but he felt that it would be the best thing the Board could do. It would then be known publicly that the Board was not in favor of changing the discount rate.

Governor Daane said he had been using the word "technical" in the sense that the System's policy instruments were interrelated. When the System kept turning the screws on the side of restricting the availability of credit, it did not seem appropriate to leave the discount rate--which was an important rate--out of consideration. He rejected the view that the use of the discount rate was limited to an announcement effect. The discount rate had an important role in the market that should not be ignored.

Governor Maisel said he did not feel there was any misunderstanding in terms of language. There was, however, disagreement as to the use of the discount rate in a period such as the present.

Governor Brimmer said he hoped that discount rate increases would not come in from Federal Reserve Banks. If they did, however, he would vote against them on the ground that the price to be paid was too high. He shared the concern that had been expressed about taking such action in the face of the views expressed elsewhere in Government, even though he felt those views were wrong.

As to other aspects of the matter, Governor Brimmer said that in his judgment it was the Board's responsibility to manage the central banking system as it stood and to use the instruments presently available to it. He tended to agree with the view that it would be desirable if other kinds of guidelines were available, but currently they were not available. Therefore, the System must be managed as constituted in the present law and regulations.

Continuing, Governor Brimmer said he would not shy away from using the discount rate as one of the tools in the System's kit. He would want to use it if the circumstances were different, and he hoped that it would be possible to come back to it, for the rate served a useful purpose in the market. The Government securities market should not be injured; it was the principal instrument available to the System for affecting the availability of credit. There had recently been an example of the difficulty confronting the Account Manager because of the uncertainties in the market: last Friday, the Account Manager could not sell $100 million of Treasury bills for foreign accounts. There was a need to restore confidence and induce the dealers again to take positions in their stock in trade. A discount rate increase of 1/2 per cent would be helpful in that direction.

Governor Brimmer went on to say that he did not agree that a one point increase would necessarily convince people that the System had moved as far as it was going to move. In his opinion such an increase would create too much of a shock, and it should be remembered that the discount rate was a delicate instrument. On the other hand, he would not be averse, other things being equal, to moving up 1/2 per cent now with another 1/2 per cent increase later. It was simply not possible to talk the dealers into taking positions. If he was wrong about the vital role of the dealers, perhaps that would change his mind, but he was not convinced he was wrong.

The immediate question, Governor Brimmer concluded, was what to do if discount rate increases came in from Reserve Banks. As he read the sentiment around the table, it was felt that it would be risky to engage again in a controversy such as occurred last December. He agreed, although he shared Governor Daane's view that a rate increase could have a calming effect on the market.

Governor Maisel commented that he was not convinced that the System did not have other instruments at its disposal. He urged that a careful study be made of the possibilities. Selective controls were being used in the foreign field, and he thought they should be considered also for use in the domestic field, although he would not necessarily suggest using them today. The System, he felt, had not given enough consideration to whether such instruments should be used or not.

Governor Brimmer observed that in the past such instruments had been used in conjunction with general credit controls. As he recalled, nobody had then said that the discount rate should be held down and credit rationed as an alternative.

Governor Daane commented that unusual success had been experienced with the voluntary foreign credit restraint program. However, the experience with the voluntary credit restraint program in the early 1950's had been dismal, and under current circumstances he thought the results would be even more dismal if a similar program were attempted now.

Governor Brimmer said that the Board should not delude itself. The Federal Reserve could not keep turning the screws on the availability side and then try to talk rates down. It ought to be prepared to pay the price on the rate side, if necessary, to deter the growth of credit.

Governor Daane agreed that the System could not tighten the screws further on availability and at the same time hope to keep rates steady, against the background of strong credit demands.

Governor Maisel then commented that he was simply suggesting that the Board go back and look at the whole question. What he was talking about was the long history of monetary policy and related central bank action. The Board should review the history of what had been done in various countries.

The Vice Chairman remarked that he thought the exchange of views had been helpful and that no member of the Board was committed to a position pending further discussion tomorrow if discount rate increases should come in from Reserve Banks. He then invited comments from the staff.

Mr. Young reviewed current international developments, with particular reference to the position of sterling. He noted, among other things, that the initial market reaction to the increase in the British Bank rate had been disappointing. Also, in the London market there had been a steady rise in the price of gold recently, with a considerable volume of trading. A pending question was whether South Africa would become subject to sanctions by the Security Council of the United Nations, and this had substantial economic ramifications. An international crisis centering around sterling seemed to be in process of formation, and the forces underlying it seemed to be strong. Thus, the entire international financial situation was explosive and would bear close watching.

On the question of the mechanisms that might be resorted to in terms of meeting the purely domestic problem, Mr. Young suggested that the point might be approaching when it would be necessary to consider all kinds of selective controls in addition to general controls. However, the volume of borrowing at the Reserve Bank discount windows had not been extremely high. While the number of banks affected was increasing, the discount mechanism did not tend to be an effective over-all restraint until more banks were involved than had been the case so far. Thus, there was some elbowroom for moving toward a deeper net borrowed reserve position without discount rate action.

There were a lot of contingencies, both internationally and domestically, that tended to make a decision on discount rate action difficult, Mr. Young added. The market had acquired a tightness that made the discount rate look out of line, and there ought to be a reasonable relationship to market rates. One should not overemphasize the importance of the discount rate in the market, nor should one underestimate it from the technical standpoint.

Mr. Solomon expressed the view that it would be necessary to adjust the discount rate at some time in the not too distant future, but he was not certain when that point would be reached. As to the points raised in the preceding exchange of comments between Board members on the use of the discount rate instrument, he noted that a rate increase had an announcement effect, which sometimes was desirable and other times not. It was not always possible to determine what the announcement effect would be. He was now preparing for the Board's consideration a memorandum containing a proposal for a procedure that might help to avoid undue announcement effects when such were not wanted. As to the matter of eliminating uncertainties, he noted that it was always possible for rumors to get started in the market that tended toward forcing a rate increase simply by virtue of the market itself deciding that the rate should be raised. The System should not be in the position of having the market dictate its policies. One got into difficulties if he leaned too heavily on the argument that the market expected a discount rate increase, and that this must be done to eliminate uncertainty. It was always possible to take alternative actions. As to the relationship between the availability of credit and rates, the open market instrument--which was the major instrument of policy--determined the availability of bank reserves. But what was done on the availability side also had an effect on market rates. The System was working not only on the availability of credit but also on the rate structure when it used open market operations.

Turning to the thought that the System should not offset the impact of the British Bank rate change, Mr. Solomon advanced the view that if the System acted immediately such action might be regarded by the foreign exchange markets as saying that the Federal Reserve felt so uncertain and so worried about the U.S. position that it could not permit the British, even though they were in dire straits, to move up without following them. The markets thus might interpret the U.S. position as very weak. As to the possibility of a sterling crisis ahead, Mr. Solomon observed that even if sterling was not in trouble there might be a gold crisis ahead. The two problems might come together at the same time.

Governor Shepardson then said he felt that in the present set of circumstances any discount rate change should definitely take the form of a 1 per cent increase, and that a 1/2 per cent increase would simply result in people waiting for the other shoe to fall. In light of the total situation--including the views of the Administration, which could not be ignored, and the international situation--he questioned whether the Federal Reserve should do anything on the discount rate at this particular point, even admitting that the rate was considerably out of line with market rates and that at some point the gap had to be closed. At the same time he realized the position the dealers were in, and that it might not be possible to get them to take positions.

This all raised the question, Governor Shepardson said, whether the use of the reserve requirement instrument should not be considered. The Board was preparing to take action in the Regulation Q area and to make a statement that would reflect the purpose of the action, along with the reasons for seeking legislation to provide for broadened regulatory control over deposit interest rates. A possible further move toward the tightening of credit availability would be to raise reserve requirements.

The tightening of credit availability, Governor Shepardson added, would certainly put more pressure on the discount window. Perhaps the Board should issue a statement to the Federal Reserve Banks emphasizing the general principles that it felt the Reserve Banks should be following in the administration of the discount window under present circumstances. In view of the possibilities for using other tools at the Board's disposal, he felt that discount rate action probably should be deferred for the moment. At such time as rate action was taken, however, the move should be of adequate magnitude.

Mr. Molony observed at this point that from the comments around the table it seemed rather clear that the Board would not be inclined to approve tomorrow any increased discount rates that might be established by Reserve Banks. He raised the question whether the Board would want to communicate informally to the Banks that it would seem untimely to consider a discount rate increase just now, perhaps citing the British Bank rate action as a reason.

This possibility was discussed by the Board and some reasons were advanced in favor of such a procedure, including the fact that thus far the Reserve Bank Presidents and directors presumably had no particular reason to believe that the Board's attitude toward a discount rate increase might be negative. Therefore, some informal communication of attitude at this time could have the effect of avoiding what might seem to be an impasse within the System. Comment also was made regarding the possibility of a leak, which might be misleading to the market if interpreted in terms that the Board was unalterably opposed to a change in the discount rate.

Questions were raised regarding procedures followed in somewhat similar situations in the past, and it was noted that on a number of occasions the Board had held discount rate proposals for some period of time without action. It was also mentioned that, while a definite negative action by the Board presumably would be recorded in the record of policy actions contained in the Board's Annual Report, there was no precedent for a press release if the Board failed to approve discount rates established by Reserve Banks.

Arguments against communicating a Board attitude to Reserve Banks at this time included the view that there was much to be said for having the Reserve Bank directors exercise their own judgment and for the burden of determination then to rest upon the Board. As to the risk of a possible leak, it was noted that it would seem unfortunate if word were to get out that the Board had in any sense requested Reserve Banks not to act to increase the discount rate.

There was general agreement, however, that if Reserve Banks established a higher discount rate and the Board did not approve such rate, an explanation of the reasons should be sent to the Reserve Banks.

There followed further discussion of the content of the announcement proposed to be issued tomorrow concerning the action on multiple maturity time deposits and the Board's legislative proposal, after which it was understood that a draft would be available for the Board's consideration when it met at 9:00 a.m. tomorrow.

The meeting then adjourned.

Secretary's Notes: Governor Shepardson today approved on behalf of the Board a request from Michael D. Sherman, Division of Research and Statistics, for permission to work part-time as an economic assistant for a local firm of transportation consultants.

Governor Shepardson also approved on behalf of the Board a request from Paul C. Kainen, Division of Research and Statistics, for permission to teach a course in introduction to art at a local school.

Secretary

Item No. 1
7/14/66

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 14, 1966

Board of Directors,
County Bank of Santa Cruz,
Santa Cruz, California.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by County Bank of Santa Cruz, Santa Cruz, California, of a branch in the vicinity of the intersection of Bay and High Streets, Santa Cruz, California, provided the branch is established within one year from the date of this letter.

The Board notes that your bank's capital position is somewhat less than satisfactory and urges that serious consideration be given to strengthening the bank's capital structure so that continued growth of the bank will be on a sound basis.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-minth extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

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

Item No. 2
7/14/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 14, 1966

CONFIDENTIAL (FR)

Mr. Charles J. Scanlon, President,
Federal Reserve Bank of Chicago,
Chicago, Illinois. 60690

Dear Mr. Scanlon:

The Board of Governors approves the payment of salary to Mr. Jack P. Thompson as a Vice President of the Federal Reserve Bank of Chicago at the rate of $23,000 per annum for the period October 1 through December 31, 1966. This is the rate fixed by your Board of Directors as reported in your letter of July 1.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Item No. 3
7/14/66

TELEGRAM
LEASED WIRE SERVICE

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

July 14, 1966.

CLAY - KANSAS CITY

Referring your letter April 18, Board authorizes calling for bids for construction of building for Denver Branch on basis of revised specifications and plans referred to in Mr. Boysen's letter of June 22, 1966.

(Signed) Merritt Sherman

SHERMAN

Item No. 4
7/14/66

TELEGRAM
LEASED WIRE SERVICE

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

July 14, 1966

President, all Federal Reserve Banks

Question has been raised whether Christmas club accounts should be classified as savings deposits or other time deposits for purposes of reserve requirements under amended supplement to Regulation D. Footnote 2 in Regulation D expressly states that Christmas club and vacation club accounts constitute time deposits, open account. Consequently, such accounts must be classified as other time deposits for purposes of reserve requirements. Likewise, by reason of similar footnote in Regulation Q, such accounts must be classified as time deposits, open account, rather than savings deposits for purposes of that Regulation.

Board is considering certain amendments to Regulations D and Q, one of which would classify Christmas club and vacation club accounts as savings deposits. Copy of proposed amendments to be published in Federal Register for comment will be sent you shortly.

(Signed) Merritt Sherman

Sherman

Item No. 5
7/14/66

TELEGRAM
LEASED WIRE SERVICE

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

2528

July 14, 1966.

Presidents, all Federal Reserve Banks

Board has received several inquiries from mutual fund dealers who fear that they may not receive payment from some customers within seven business days, as required by section 4(c)(2) of Regulation T, due to airline strike or other circumstances that would justify extensions of that period, but are neither NASD nor stock exchange members and apparently are unable to obtain extensions from the committees referred to in section 4(c)(6). In such cases Board authorizes your Bank to act as "appropriate committee" for purposes of section 4(c)(6). Suggested forms and procedure follow.

(Signed) Merritt Sherman

Sherman