

Minutes for July 15, 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 dealing with the subjects referred to below:

Page 1 Disapproval of discount rates established by certain Federal Reserve Banks.

Page 10 Amendments to Regulation Q, Payment of Interest on Deposits, and the Supplement thereto.

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

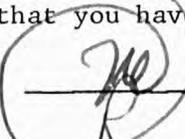
Governor Shepardson

Governor Mitchell

Governor Daane

Governor Maisel

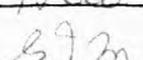
Governor Brimmer

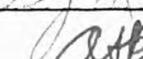


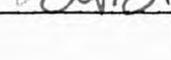












Minutes of the Board of Governors of the Federal Reserve System on Friday, July 15, 1966. The Board met in the Board Room at 9:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
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. Koch, Deputy Director, Division of Research and Statistics

Discount rates (Item No. 1). Telegrams had been received from the Federal Reserve Banks of New York, Cleveland, Chicago, and St. Louis advising that the directors of those Banks, at meetings yesterday, had established a rate of 5 per cent on discounts and advances to member banks under sections 13 and 13(a) of the Federal Reserve Act, subject to review and determination by the Board of Governors. The directors of those Banks had also established a rate of 5-1/2 per cent on advances to member banks under section 10(b). The New York and Cleveland Banks had established a rate of 6-1/2 per cent on advances to individuals, partnerships, and corporations, other than member banks, under the last paragraph of section 13, while the Chicago and St. Louis Banks had established a rate of 6 per cent.

1/ Withdrew from meeting at point indicated in minutes.

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Telegrams also had been received advising that the directors of the Federal Reserve Banks of Richmond, Atlanta, Minneapolis, and Dallas had established without change the rates on discounts and advances in their existing schedules.

Governor Shepardson stated that in the light of the discussion at yesterday's Board meeting, including all of the points brought out at that time, he would not favor approving a discount rate increase of 1/2 per cent. He felt that any increase should be in a larger amount. However, in the absence of any information beyond that available at yesterday's meeting, he concluded that the Board should not approve a discount rate increase at this time. He said this on the assumption that the Board was going to move to lower the maximum rate payable by member banks on multiple maturity time deposits and that it was going to propose to the Congress legislation giving broader authority to the Board, the Federal Deposit Insurance Corporation, and the Home Loan Bank Board to govern the rate practices of banks and savings and loan associations. He also assumed, in that connection, that the Board would issue a press statement along the lines of the draft that had been distributed.

Governor Shepardson raised the question whether it would be appropriate to add to the proposed announcement a paragraph stating in essence that in light of the moves described therein and other considerations, the Board had decided not to increase the discount rate at

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this time. There might even be included a statement that, while discount rate increases had been received from several Reserve Banks, the Board had decided not to approve them. With four Banks having established a 5 per cent rate, he thought it inevitable that sooner or later there was going to be some leak. Accordingly, it might be better for the Board to make an announcement.

Governor Daane said he had mixed feelings. Other things being equal, he thought a discount rate increase would be the right action to take. He had studied the market aspects of the matter and, contrary to Treasury opinion, believed it would be helpful to the market and to the Treasury to increase the discount rate. Such action would give the market a basis whereby it could accept Treasury financing at a suitable price. In the absence of such action, he believed the Treasury might find itself in difficulty. A knowledgeable market observer had told him recently that for the first time in his (the observer's) experience in the Government securities market, he did not have in mind a program for the Treasury in advance of a refunding. In that kind of situation, Governor Daane said, he felt that a discount rate increase would be a stabilizing market factor; it should help to clear the air and it would keep the discount rate meaningful in relation to market rates. He could not follow the logic of the argument that the System could continue to push on the monetary brake through open market operations, or by other means, without doing anything about a rate that was significant in the market.

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On the international side, Governor Daane commented that it would be helpful to maintain a posture of concern about the balance of payments. In short, he would favor a discount rate increase on all economic grounds. His reluctance to push for an increase stemmed from the fact that such action appeared to risk a disruption of Governmental relationships just as undesirable as the break last December. Even though he felt it would be in the best interests of the Administration if this move were made, he did not think the net gain from a rate increase would be sufficient to risk such a disruption. A rate increase, he noted, still should be possible in mid-August between the dates of Treasury financings. Accordingly, while he would favor a discount rate increase in principle, he would be inclined to go along with the other members of the Board in disapproving such action at this time.

Governor Daane added that he would not want to say anything about the discount rate in the press release. While there was a chance of leaks, he did not believe it would help the market to make an announcement. Instead, such an announcement might simply create more uncertainty.

Governor Maisel said he thought the Board must make up its mind about its objectives and goals. If the main goal was to fight inflation, this must be done through a coordinated program. The Board, in his opinion, had been slow in trying to do this and finding the best way. An increase in the discount rate at this time would defeat the total objective, although it might help one or two of the sub-objectives. Therefore, he would be opposed to approving a discount rate increase.

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Governor Brimmer noted that since he had spoken at some length yesterday on the question of a discount rate change at this time, he would not repeat his reasoning in detail. Ordinarily he would support an increase in the rate of the magnitude now proposed. However, in view of the recent increase in the British Bank rate and in light of the other moves that the Board anticipated making, including the request for broadened legislative authority to moderate rate competition, he would favor not approving a discount rate increase at this point. At the same time, he wanted to make it clear that he did not feel this foreclosed the issue far into the future. The Board would have to face the question of a rate change in the relatively near future in order to bring the discount rate more in line with market rates. If the measures he hoped the Board would announce today were taken with regard to time deposit rates, the atmosphere might calm down a bit, and it would be more advantageous to deal with the discount rate under such conditions.

Governor Brimmer said he would not like to see the Board simply reject the proposals for a rate increase and tell the Reserve Banks nothing. Instead, he would like the Board to tell the Banks that it was not acting on a rate change at this particular time. He would not tell them that the Board would not act in the near future or, on the other hand, that it would take action. He would simply say that the Board could not approve at this time. This would leave the way open for the Board to discuss with the management of the Banks the question of the timing and size of a rate change, and a collision with the

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Administration might be avoided. Since this was a marginal case, and the avoidance of a collision with the Administration or with the Reserve Banks would be useful, he would not be in favor of making a public announcement that the Board had rejected proposed rate increases. The making of such an announcement might simply excite the market further and set up expectations that the Board would in fact get back to this at some early date. He would advise the Reserve Banks of reasons for the Board's position, but not the general public.

Asked whether he favored disapproving the four Reserve Bank actions or simply holding them over without action, Governor Brimmer said he was hoping that they might just be laid over.

Mr. Sherman observed that the Board could, if it wished, advise the Reserve Banks, either formally or informally, that it was not prepared to act at this time on the rate increase, which would mean that the existing rates on discounts and advances would automatically remain in effect.

Governor Daane indicated that he would be prepared to go along with such a procedure if it appeared to be a reasonable option.

Governor Shepardson then noted that there was rather widespread expectation that something would be done today. If the Board simply held the rate proposals in abeyance and made no announcement, the uncertainty would continue. If the Board took action to disapprove the proposed rates and made a statement to such effect, this would indicate

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that the Board was going to try other approaches. Such an announcement would not commit the Board regarding what action it might or might not take in the future, but it would indicate that the Board was holding a discount rate move in abeyance until it reviewed other developments.

In further discussion, Governor Brimmer said he had understood that a failure to act would in effect kill the rate proposal without formally rejecting it. If this was not the case, he would favor taking formal action to reject the proposed rate increase.

Governor Maisel said he would like to have various options explored in greater detail and considered more fully by the Board. He thought there would be more latitude to do this if the Board took the positive step of rejecting the current rate proposals. The effect would be to clear the air and dispel rumors. Any further rumors would at least start with the fact that the current rate proposals had been rejected. On whether to include this in the Board's press statement, he was inclined to think that this ought to be done but he did not feel strongly on the matter. If others had strong feelings to the contrary, he would be willing to go along. However, he did feel strongly that the Board ought to take action and notify the four Banks concerned that the Board was not willing to approve a rate increase at this time.

The Vice Chairman expressed the view that delay on the part of the Board would simply create more uncertainty in the minds of the Reserve Bank directors, particularly in view of the issues that were involved.

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President Hayes, he said, had called on the telephone yesterday and stated that his directors wanted him to report that their action was motivated by the absence of an affirmative fiscal policy on the part of the Government. No mention was made of any motivation such as undue difficulty in the operation of the discount window.

The Vice Chairman believed that the Board should act on the proposed rates and state specifically in a letter to the Reserve Banks that it had taken this action. Such a letter could cite the close proximity to the British Bank rate action and a desire not to have that move offset by action here. The letter could also state that although the discount rate was out of touch with market interest rates, this was neither hampering monetary restraint nor causing insurmountable difficulties in the operation of the discount window; and that consequently, in the Board's view, there was not a sufficient case for changing the discount rate at this time.

Governor Daane stated that if unanimous action seemed desirable, he would be willing to join in a disapproval of the rate increase. However, his vote would not rest on the British Bank rate action or on an argument that adjustment to market rates was not needed. He would have only one real reason for disapproval, namely, that the gain from a rate change at this time was not worth the price in terms of the effect on relationships within the Government.

Governor Brimmer pointed out that he had set forth at yesterday's meeting a number of grounds that he considered valid for an action

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disapproving a rate change at this time, if the view of the Board was against a procedure whereby the Board would simply fail to take any action on the proposed rates. In his comments yesterday, he had referred not only to the British Bank rate increase but to a variety of other reasons why he would like to see the Board wait before approving a discount rate change.

A vote then was taken on whether to approve the rates on discounts and advances established by the directors of the New York, Cleveland, Chicago, and St. Louis Banks, and such rates were disapproved by unanimous vote. The effect of this action was that the rates in the existing schedules of those Banks automatically continued in effect.

Unanimous approval was given to the establishment without change by the Federal Reserve Banks of Richmond, Atlanta, Minneapolis, and Dallas on July 14, 1966, of the rates on discounts and advances in their existing schedules, with the understanding that appropriate advice would be sent to those Banks.

The Vice Chairman then turned to the question of what, if anything, should be said to the four Reserve Banks that had established a 5 per cent discount rate. It was his feeling that the directors would react better if they had some idea of the reasons for which the Board members had reached the conclusion to disapprove. If these reasons could be enumerated, with indication that for one or more of them the individual Board members considered a rate increase unwise at this time, he felt that this would be helpful.

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It was noted, in this connection, that the reasons for the action presumably would be reported fully in the policy record of the Board's Annual Report, and it was understood that a draft of policy record entry would be prepared for the Board's consideration.

Governor Daane then said he agreed that it would make sense to relay to the directors some explanation of the Board's decision. He hoped that the explanation would be relatively brief, however, because the differences in the reasoning of the individual Board members would appear to make the composition of such a letter rather difficult. He repeated that on economic grounds he felt the case for positive action was clear and conclusive.

It was then agreed that a letter to the Presidents of the four Reserve Banks enumerating reasons why Board members had concluded against approving a discount rate increase at this time would be drafted and that it would be sent after clearance with members of the Board. (This letter would supplement telegraphic advice of the Board's action.) It was understood that copies of the letter would be sent to the Presidents of the other Federal Reserve Banks for their information.

A copy of the letter subsequently sent pursuant to this understanding is attached as Item No. 1.

Interest rates on time deposits (Items 2-4). Consideration then was given to the proposed action to amend Regulation Q, Payment of Interest on Deposits, and the Supplement thereto, for the purpose of

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lowering the maximum rates payable by member banks henceforth on time deposits with multiple maturities. Revised copies of the proposed amendments, prepared by the Legal Division, had been distributed under date of July 14, 1966.

At this meeting there were distributed copies of a draft of letter to the Chairmen of the Congressional Banking and Currency Committees advising of the multiple maturity time deposit action and submitting draft legislation that would broaden existing authority to regulate interest rates payable by insured banks on time and savings deposits and extend parallel authority to the Federal Home Loan Bank Board with respect to dividend rates payable by savings and loan associations.

There had been distributed, under date of July 14, a draft of press statement announcing the action with respect to multiple maturity time deposits and also the fact that broader authority to govern the rate practices of banks and savings and loan associations was being requested.

The Vice Chairman summarized conversations that he had had with the Chairman of the Federal Deposit Insurance Corporation and the Chairman of the Home Loan Bank Board yesterday regarding the proposed action and the proposed legislation. The Vice Chairman also summarized the reactions of these gentlemen and indicated that there would appear to be no objection, if the Board so desired, to indicating that the proposed legislation was being submitted after consultation with them. It

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appeared possible, the Vice Chairman thought, that the proposed legislation would eventually be supported by the Treasury and the Council of Economic Advisers.

Mr. Hackley then discussed certain proposed further changes in the draft amendments to Regulation Q and the Supplement thereto. After he had explained the purpose of these further changes, they were agreed to by the Board.

Question arose as to when the Regulation Q amendments should be made effective, it being pointed out that the amendments should be in the hands of member banks by the effective date but that an effective date too far removed would allow banks to take some advantage of the situation. After discussion, there was agreement with a suggestion by the Vice Chairman that the amendments be made effective July 20, 1966.

Mr. Hackley noted that the press release, as drafted, stated that the Board was considering a further change in Regulation Q to strengthen the penalty for payment of time deposits before maturity in order to make more certain that such deposits would not, like savings deposits, in effect be paid on demand. He suggested that this language be eliminated from the press release. It could then be determined whether the Federal Deposit Insurance Corporation would go along with publishing in the Federal Register for comment a similar notice of rule making applicable to nonmember insured banks. There was agreement with this suggestion.

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Mr. Hackley then stated that he understood the directors of the Federal Deposit Insurance Corporation were meeting this morning. He left the room to report to representatives of the Corporation the revised text of the amendments to Regulation Q and the Supplement thereto.

The proposed amendments to Regulation Q and the Supplement thereto with respect to the maximum rates payable on multiple maturity time deposits were then approved unanimously, effective July 20, 1966. (A copy of the amendments, in form subsequently published in the Federal Register, is attached as Item No. 2.)

It was agreed unanimously that there should be published in the Federal Register for comment a proposed amendment to Regulation Q to strengthen the penalty for payment of time deposits before maturity.

It was also agreed unanimously that there should be published in the Federal Register proposed amendments to Regulation Q and Regulation D, Reserves of Member Banks, relating to the definition of savings deposits, as discussed at the meeting on July 14, 1966.

It was understood that the publication of the proposed amendments referred to in the foregoing two paragraphs would be deferred to permit the Federal Deposit Insurance Corporation an opportunity to determine whether it wished to publish for comment similar amendments to its regulations relating to nonmember insured banks.

The Board then turned more specifically to consideration of the proposed press statement, which it was understood would be modified to

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the extent necessary to conform to the final version of the Regulation Q action with respect to multiple maturity time deposits.

Governor Shepardson said he would agree that the press statement should not contain any comment about what the Board might or might not do in the future. However, he again raised the question whether there would not be some advantage in making reference in the press release to the Board's action with respect to the discount rate.

Governor Daane expressed the judgment that it would be unwise to say anything in the press release. If this were done, questions might be raised regarding the reasons for the Board's action, and the announcement might tend to excite the market rather than being helpful.

Governor Robertson agreed, saying that if the Board announced it was not taking action to approve a higher discount rate the question would come up as to when the Board might take such action. His thought would be to follow the Board's general practice of letting its actions speak for themselves. Also, the mere fact that no discount rate action was announced would be some indication to more sophisticated observers of a Board attitude.

Governor Brimmer indicated that he would have a strong view against making reference to the discount rate action.

Further on the press release, Governor Daane said he did not think the Board ought to overdramatize its action on multiple maturity time deposits. He thought it unwise to play this up too strongly as a

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credit policy action; the announcement effect might be exaggerated. Banks would still have certain adjustment options available, and loopholes might be found in the amendments. Therefore, indication that this was a significant reinforcement of the System's credit restraint program seemed to him to throw the matter out of perspective.

After some discussion of this point, Mr. Solomon suggested alternative language for the third paragraph of the proposed press statement, and Governor Daane's reaction to the revision was favorable. Other members of the Board also expressed agreement with it, although they had not all shared Governor Daane's concern about the original drafting.

There followed several additional suggestions for changes of a technical nature in the press statement.

Consideration then turned to the draft of letter to the Chairmen of the Congressional Banking and Currency Committees. Interrelationships between the letter and the press statement were noted, and it was understood that conforming changes in the respective documents would be made.

Mr. Molony, who had been called from the room, returned at this point and stated that a staff representative of the Federal Deposit Insurance Corporation had inquired by telephone whether the Board would be inclined toward a procedure whereby a joint Board-Corporation press release would be issued on multiple maturity time deposits and the two agencies would send joint letters to the Congressional Committee Chairmen on the proposed legislation. This possibility was considered, but

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it was pointed out among other things that delay might ensue in working out the mechanics of such a procedure. It was understood that Mr. Molony would suggest to the Corporation's representative who had inquired that a coordinated approach would seem preferable to a joint approach.

It was agreed, after further discussion, to drop from the draft letter to the Congressional Committee Chairmen a paragraph referring to consultation with various Government officials.

Unanimous approval then was given to a letter to the Chairman of the Senate Banking and Currency Committee in the form attached as Item No. 3. The letter sent to the Chairman of the House Banking and Currency Committee was similar in form.

Unanimous approval also was given to a form of press release, it being understood that the release would be issued shortly after the aforementioned letters had been transmitted to the Chairmen of the Congressional Committees. A copy of the press release in the form in which it was subsequently issued is attached as Item No. 4.

Secretary's Note: The Vice Chairman later informed the Secretary that he had talked with the Chairman of the Federal Deposit Insurance Corporation subsequent to this meeting and that the latter expressed a preference for not issuing a joint press statement or sending joint letters to the Congressional Committee Chairmen.

Governor Shepardson withdrew from the meeting at this point to begin an out-of-town trip and the following members of the staff entered the room:

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Messrs. Broida and Bakke, Assistant Secretaries
Mr. Solomon, Director, Division of Examinations
Mr. Shay, Assistant General Counsel
Miss Hart and Mr. Smith of the Legal Division
Mr. Furth, Consultant

Messrs. Partee, Axilrod, Eckert, Fry, Keir, and Kelty, and
Mrs. Peskin of the Division of Research and Statistics

Messrs. Sammons, Hersey, Baker, Gekker, Gemmill, and Hayes,
and Mrs. Junz of the Division of International Finance

Money market review. There were distributed tables affording perspective on the money market, capital markets, and bank reserve utilization; also on net savings flows at California State-chartered savings and loan associations for the recent period.

Mr. Kelty reported on the money market, following which Mr. Fry discussed projections of bank reserve utilization and Mr. Keir presented information on flows into and out of savings and loan institutions along with bond market developments. Mr. Gemmill then reviewed developments in the foreign exchange market.

Following the foregoing reports, all members of the staff except Messrs. Sherman, Kenyon, Bakke, Hackley, Solomon (Examinations), Shay, and Smith, and Miss Hart withdrew from the meeting. Messrs. Hexter, Associate General Counsel, and Hooff, Assistant General Counsel, entered the room.

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

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	<u>Item No.</u>
Letter to Continental International Finance Corporation, Chicago, Illinois, granting permission to purchase additional shares of Union Industrial Bancaria, Barcelona, Spain.	5
Letter to Congressman Charles E. Bennett enclosing, pursuant to his request, draft legislation for further amendment of the Bank Holding Company Act of 1956.	6
Letter to Chairman Robertson of the Senate Banking and Currency Committee regarding the voting of banks' own stock held in their trust departments.	7

In connection with Items 6 and 7, certain editorial changes were adopted in the draft letters presented for Board consideration prior to their approval. (The draft of Item No. 7 had been prepared in light of discussion at the Board meeting on July 1, 1966.)

Request for unpublished information. Pursuant to Board action on July 6, 1966, there was transmitted to Michigan Bank, National Association, Detroit, Michigan, a copy of a letter to the Federal Reserve Bank of Chicago ruling that Livonia, Michigan, was "adjacent" to Detroit, Michigan; that the services of Mr. Stanford C. Stoddard and Mr. Frank R. Welsher as officers and directors of Michigan Bank and as directors of Livonia National Bank, Livonia, Michigan, were, therefore, forbidden under section 8 of the Clayton Act, as implemented by the Board's Regulation L (Interlocking Bank Directorates under the Clayton Act); and that the interlocking services should be promptly terminated.

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In that letter, dated July 7, reference was made to a Board letter of August 19, 1953, ruling that Detroit and Livonia were "adjacent" for purposes of section 8 of the Clayton Act, and to a communication of April 13, 1966, from the Chicago Reserve Bank, transmitting to the Board a letter of April 11 with accompanying Memorandum of Counsel from the Detroit Branch, concerning the interlocking relationship here in question.

Messrs. Stoddard and Welsher had been advised by the Comptroller of the Currency, in a letter of March 3, 1966, that the interlocking services in question were not forbidden by the Clayton Act. Because of these conflicting advices, they planned to meet with the Comptroller early next week to discuss the matter, and Mr. Stoddard had requested copies of the Board's August 19, 1953, letter and the Chicago Reserve Bank's April 13, 1966, letter, with enclosures, to review in preparation for the conference.

Mr. Shay noted that since these materials were "unpublished information of the Board," under section 261.2 of the Board's Rules Regarding Information, Submittals, and Requests they could be furnished only if authorized by the Board.

Governor Robertson expressed reservation about complying with the request, in view of the fact that compliance might be regarded as setting a precedent for granting access to internal documents and staff memoranda in various areas of the Board's responsibilities.

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Mr. Shay observed, in reply, that the Board's letter of July 7 had referred to the materials Mr. Stoddard was seeking and, indeed, had quoted a portion of the Memorandum of Counsel from the Detroit Branch.

Governor Maisel said that, in keeping with the spirit of recent "freedom-of-information" legislation (Public Law 89-487), he would be inclined to accede to the request, since the material in question had provided basic information underlying the Board's ruling.

Governor Robertson noted that while he was not concerned about releasing factual information, he did have reservations about the desirability of regarding documents containing expressions of staff opinion or recommendations as being available for public scrutiny.

Governor Brimmer brought out that the Memorandum of Counsel from the Detroit Branch did include certain expressions of opinion and, since the substance of the Memorandum had been set forth in the Board's July 7 letter, he regarded the remaining contents as extraneous to the basic issue.

Governor Robertson then solicited staff views on the question, and Mr. Hexter observed that while valid arguments could be made in support of a decision either to release internal work product to or withhold it from the public, he would be inclined to favor making the material sought in this particular instance available to Mr. Stoddard.

Governor Daane concurred in this point of view.

Governor Brimmer commented that there was always the risk that if internal working documents were made public the information would be

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misquoted or misused. Furthermore, he did not subscribe to the view that the recently enacted "freedom-of-information" bill was justification for general compliance with requests for unpublished information; that law would not come into effect for another year and the applicability of its provisions remained unsettled. If the other members of the Board felt these particular documents should be released, he would go along, but the decision should rest upon an evaluation of the ad hoc situation. He suggested that in the future care be exercised not to quote unnecessarily from internal documents, and other members of the Board agreed.

Release of the documents requested by Mr. Stoddard was thereupon authorized, with the understanding that the point made by Governor Brimmer would be borne in mind in preparing correspondence in the future.

The meeting then adjourned.

Secretary's Note: Acting in the absence of Governor Shepardson, Governor Robertson today approved on behalf of the Board memoranda recommending the following actions relating to the Board's staff:

Appointments

Leslie M. Alperstein as Economist, Division of Research and Statistics, with basic annual salary at the rate of \$9,879, effective the date of entrance upon duty.

Joseph S. Zeisel as Senior Economist, Division of Research and Statistics, with basic annual salary at the rate of \$20,005, effective the date of entrance upon duty.

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Salary increases, effective July 17, 1966

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>Office of the Secretary</u>			
Mary Anne Lostaunau, Secretary		\$ 5,894	\$ 6,086
<u>Research and Statistics</u>			
Frank de Leeuw, Senior Economist (change in title from Economist)		16,204	17,645
Edward C. Ettin, Economist		14,680	15,188
Marylee H. Hair, General Assistant		5,702	5,894
George J. Konomos, Economist		7,479	7,733
Paul F. McGouldrick, Economist		12,510	12,945
J. Cortland G. Peret, Economist		14,250	15,188
Janice Peskin, Economist		9,879	10,619
Alfred J. Tella, Economist		11,723	12,510
Erling T. Thoresen, Economist		10,987	11,355
<u>Examinations</u>			
Edward W. Healey, Assistant Federal Reserve Examiner		7,733	7,987
Jerry B. Riley, Senior Federal Reserve Examiner		13,380	13,815
Louis William Zidek, Senior Federal Reserve Examiner		13,380	13,815
<u>Administrative Services</u>			
Garland R. Gaines, Mail Clerk		4,849	4,989
Mildred C. Harris, Charwoman		3,626	3,745
Betty Howard, Charwoman		3,626	3,745
Hampton L. Logan, Window Washer		4,160	4,368
William D. Ward, General Mechanic		5,200	5,470
<u>Office of the Controller</u>			
Frederick C. McGrady, Budget and Planning Assistant		5,894	6,476

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Transfers

Cheryl Dobbins, Statistical Clerk, Division of Research and Statistics, from budget position No. 18 to budget position No. 15 in the Capital Markets Section, with no change in basic annual salary at the rate of \$4,289, effective July 17, 1966.

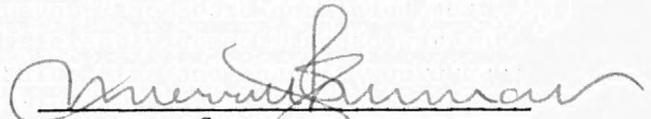
Gena Gander, from the position of Employee Relations Technician in the Division of Personnel Administration to the position of Employment Technician in that Division, with no change in basic annual salary at the rate of \$7,718, effective July 17, 1966.

Joseph H. Hoyle, from the position of Supervisor, Payroll and Disbursing, Office of the Controller, to the position of Employee Relations Technician, Division of Personnel Administration, with an increase in basic annual salary from \$8,132 to \$8,693, effective July 17, 1966.

Acceptance of resignations

Paul C. Kainen, Summer Assistant, Division of Research and Statistics, effective the close of business July 22, 1966.

H. F. Sprecher, Jr., Assistant Director, Division of Personnel Administration, effective the close of business July 22, 1966 (rather than the close of business July 15, 1966), with retirement effective July 23, 1966 (rather than July 16, 1966).


Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 1
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ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 16, 1966.

CONFIDENTIAL (FR)

(Letter to Presidents of the Federal Reserve Banks of New York, Cleveland, Chicago, and St. Louis; copies sent to eight other Reserve Bank Presidents.)

This supplements the Board's telegram of July 15, 1966, in which your Bank was advised that the Board had not approved the rates on discounts and advances established by your Board of Directors on Thursday, July 14. This action by the Board of Governors means, of course, that the rates in your Bank's existing schedule automatically continue in effect.

In considering the rates fixed by your Board of Directors, the Board of Governors was not unmindful of the arguments favoring a discount rate increase, including the fact that the current discount rate has fallen substantially out of alignment with market rates and that an increase might tend to remove uncertainties affecting the markets. For a variety of reasons, however, the Board concluded that on balance these arguments were not sufficiently compelling to warrant a discount rate increase at this particular time and that it would be better to preserve flexibility, especially in light of international uncertainties.

The several arguments against a rate increase were not necessarily accorded equal weight by each of the members of the Board. On the domestic side, however, there was some question whether a discount rate increase of 1/2 of 1 per cent would be sufficient to calm existing uncertainties, and therefore to provide a genuine stabilizing influence, or whether such an increase might simply promote speculation concerning the possibility of additional action being taken. Similarly, in view of the many crosscurrents prevailing in financial and credit markets, it appeared possible that the announcement effect of a discount rate change could be overemphasized and that such action might be misconstrued, with ramifications extending beyond the intended scope of the action.

There was also some feeling that the increase in the British Bank rate earlier this week, designed to strengthen the position of the U.K., should not be weakened by offsetting action here.

It was also noted that, even though the present discount rate was out of touch with market interest rates, this apparently was not hampering monetary restraint significantly or causing unsurmountable difficulties in the administration of the discount window.

As you have been advised, the Board yesterday announced changes in Regulation Q to lower the maximum rate that member banks may pay on time deposits with multiple maturities, and the Board has also sent to the Congress, with a recommendation for prompt consideration, legislative proposals to broaden regulatory powers over rate practices of banks and savings and loan associations.

The foregoing were among the considerations leading the Board to conclude on balance that action approving a discount rate increase would not be warranted at this particular time, and the Board wanted you and your directors to be informed.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

TITLE 12 - BANKS AND BANKING

Item No. 2
7/15/66

CHAPTER II - FEDERAL RESERVE SYSTEM

SUBCHAPTER A - BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

[Reg. Q]

PART 217 - PAYMENT OF INTEREST ON DEPOSITS

Maximum Rates of Interest

1. Effective July 20, 1966, § 217.1 is amended by inserting a new paragraph (g) as follows:

(g) Multiple maturity time deposit. - The term "multiple maturity time deposit" means any time deposit (1) that is payable at the depositor's option on more than one date, whether on a specified date or at the expiration of a specified time after the date of deposit (e.g., a deposit payable at the option of the depositor either three months or six months after the date of deposit), (2) that is payable after written notice of withdrawal, or (3) with respect to which the underlying instrument or contract or any informal understanding or agreement provides for automatic renewal at maturity.

2. Effective July 20, 1966, § 217.6 (Supplement to Regulation Q) is amended to read as follows:

§ 217.6 Maximum rates of interest payable on time and savings deposits by member banks.

Pursuant to the provisions of section 19 of the Federal Reserve Act and § 217.3, the Board of Governors of the Federal Reserve System hereby prescribes the following maximum rates ^{1/} of interest payable by

^{1/} The maximum rates of interest payable by member banks of the Federal Reserve System on time and savings deposits as prescribed herein are not applicable to any deposit which is payable only at an office of a member bank located outside of the States of the United States and the District of Columbia.

member banks of the Federal Reserve System on time and savings deposits:

(a) Time deposits. - (1) No member bank shall pay interest accruing at a rate in excess of 5-1/2 per cent per annum, compounded quarterly, ^{2/} regardless of the basis upon which such interest may be computed, on any time deposit, subject, however, to the provisions of subparagraphs (2) and (3) of this paragraph.

(2) No member bank shall pay interest accruing at a rate in excess of 5 per cent per annum, compounded quarterly, ^{2/} regardless of the basis upon which such interest may be computed, on any multiple maturity time deposit received on or after July 20, 1966, which is payable only 90 days or more after the date of deposit or 90 days or more after the last preceding date on which it might have been paid.

(3) No member bank shall pay interest accruing at a rate in excess of 4 per cent per annum, compounded quarterly, ^{2/} regardless of the basis upon which such interest may be computed, on any multiple maturity time deposit received on or after July 20, 1966, which is payable less than 90 days after the date of deposit or less than 90 days after the last preceding date on which it might have been paid.

(b) Savings deposits. - No member bank shall pay interest ^{2/} accruing at a rate in excess of 4 per cent per annum, compounded quarterly, regardless of the basis upon which such interest may be computed, on any savings deposit.

^{2/} This limitation is not to be interpreted as preventing the compounding of interest at other than quarterly intervals, provided that the aggregate amount of such interest so compounded does not exceed the aggregate amount of interest at the rate above prescribed when compounded quarterly.

3a. The purpose of these amendments is to decrease the rate of interest that member banks are permitted to pay on time deposits with alternative maturities or with provision for automatic renewal at maturity, defined as "multiple maturity time deposits". Formerly, member banks were permitted to pay interest up to 5-1/2 per cent per annum on any time deposit, irrespective of maturity. (A time deposit does not include a deposit contract that provides for payment in less than 30 days (§ 217.1).) Now, for multiple maturity time deposits with respect to which the depositor is permitted to withdraw his funds only after periods of 90 days or more, the maximum permissible rate is 5 per cent. For those such deposits with respect to which the depositor is permitted to withdraw his funds after periods of less than 90 days, the maximum permissible rate is 4 per cent.

b. The requirements of section 4 of the Administrative Procedure Act with respect to notice, public participation, and deferred effective date were not followed in connection with these amendments because the Board found that the general credit situation and the public interest compelled it to make the action effective no later than the date adopted. (12 U.S.C. 248(1), 371b, and 461.)

Dated at Washington, D. C. this 15th day of July, 1966.

By order of the Board of Governors.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

7/15/66

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

OFFICE OF THE VICE CHAIRMAN

July 15, 1966.



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

Dear Mr. Chairman:

On behalf of the Board of Governors, I am submitting a draft of legislation broadening existing authority to regulate interest rates payable by insured banks on time and savings deposits, and extending parallel authority to the Federal Home Loan Bank Board with respect to rates payable by savings and loan associations.

I am also enclosing a copy of a statement that will be released shortly, announcing action by the Board of Governors to amend Regulation Q so as to lower the ceiling on rates payable by member banks on certain kinds of "consumer-type" certificates of deposit. You will notice that a 5 per cent ceiling will apply to "multiple maturity" deposits of 90 days or more, and that a 4 per cent ceiling is imposed for "multiple maturity" deposits of less than 90 days. The purpose of this amendment is to help forestall excessive interest rate competition among financial institutions in conditions, such as those now existing, when monetary policy is aimed at curbing the rate of expansion of bank credit.

Separate ceilings are imposed on "multiple maturity" deposits in an effort to differentiate between money market CD's and consumer-type deposits. Obviously, the "multiple maturity" concept is not ideally suited for this purpose, but it is, in our judgment, the best alternative available under existing law. It may be that the only effective means for accomplishing the purposes we seek in the current situation is to differentiate on the basis of amount of deposit, even though, as you know the Board has reservations about such an approach except as a temporary expedient. Accordingly, we hope that your Committee will give prompt consideration to broadening the existing law as proposed in the enclosed draft.

The Honorable A. Willis Robertson -2-

At the same time, we doubt the efficacy of attempting to prevent a rate war by limiting rates payable only by banks. The draft legislation therefore includes authority for imposition of rate ceilings by the Federal Home Loan Bank Board. Under the proposal, ceilings for both banks and savings and loan associations would not be mandatory, but could be imposed or placed on a stand-by basis by the appropriate agency, after consultation with the others, in the light of existing conditions.

Sincerely yours,

(Signed) J. L. Robertson

J. L. Robertson.

Enclosures

Draft of Bill for Regulation of
Interest and Dividend Rates on Deposits
and Share Accounts

A BILL

To provide for the more flexible regulation of maximum rates of interest or dividends payable by banks and certain other financial institutions on deposits or share accounts, and for other purposes.

Be it enacted by the Senate and House of Representatives of
the United States of America in Congress assembled, That the first sentence of the thirteenth paragraph of section 19 of the Federal Reserve Act (12 U.S.C. 371b) is amended to read as follows: "The Board of Governors of the Federal Reserve System may from time to time, after consulting with the Board of Directors of the Federal Deposit Insurance Corporation and the Federal Home Loan Bank Board, limit by regulation the rates of interest which may be paid by member banks on time and savings deposits: Provided, That any regulation prescribed by the Board of Governors with respect to the payment of deposits and interest thereon by member banks in effect prior to the effective date of this Act shall continue in effect unless and until the Board of Governors, after consultation with the other agencies above named, shall modify or rescind such regulation. The Board may prescribe different rate limitations for different classes of deposits, for deposits of different amounts or with different maturities or subject to different conditions regarding withdrawal or repayment, according to the nature or location of member banks or their depositors, or according to such other reasonable bases as the Board may deem desirable in the public interest."

SEC. 2. The second and third sentences of section 18(g) of the Federal Deposit Insurance Act (12 U.S.C. 1828(g)) are amended to read as follows: "The Board of Directors may from time to time, after consulting with the Board of Governors of the Federal Reserve System and the Federal Home Loan Bank Board, limit by regulation the rates of interest or dividends that may be paid by insured nonmember banks (including insured mutual savings banks) on time and savings deposits: Provided, That any regulation prescribed by the Board of Directors with respect to the payment of deposits and interest thereon by member banks in effect prior to the effective date of this Act shall continue in effect unless and until the Board of Directors, after consultation with the other agencies above named, shall modify or rescind such regulation. The Board of Directors may prescribe different rate limitations for different classes of deposits, for deposits of different amounts or with different maturities or subject to different conditions regarding withdrawal or repayment, according to the nature or location of insured nonmember banks or their depositors, or according to such other reasonable bases as the Board of Directors may deem desirable in the public interest."

SEC. 3. The Federal Home Loan Bank Act is amended by adding after section 5A thereof (12 U.S.C. 1425a) the following new section:

"Sec. 5B. The Board may from time to time, after consulting with the Board of Governors of the Federal Reserve System and the Board of Directors of the Federal Deposit Insurance Corporation, limit by regulation the rates of interest or dividends on deposits, shares, or

withdrawable accounts that may be paid by members, other than those the deposits of which are insured in accordance with the provisions of the Federal Deposit Insurance Act, and by institutions which are insured institutions as defined in section 401(a) of the National Housing Act: Provided, That any regulation prescribed by the Board with respect to the payment of deposits and interest thereon by member banks in effect prior to the effective date of this Act shall continue in effect unless and until the Board, after consultation with the other agencies above named, shall modify or rescind such regulation. The Board may prescribe different rate limitations for different classes of deposits, shares, or withdrawable accounts, for deposits, shares, or withdrawable accounts of different amounts or with different maturities or subject to different conditions regarding withdrawal or repayment, according to the nature or location of such members or institutions or their depositors, shareholders, or withdrawable accountholders, or according to such other reasonable bases as the Board may deem desirable in the public interest."

July 13, 1966.



FEDERAL RESERVE

press release

Item No. 4
7/15/66

2562

For immediate release.

July 15, 1966.

The Board of Governors of the Federal Reserve System today lowered the maximum rate that the System's member banks may pay henceforth on those time deposits that have multiple maturities.

At the same time, the Board asked Congress for broader authority--for itself, the Federal Deposit Insurance Corporation, and the Federal Home Loan Bank Board--than is now available to govern the rate practices of banks and savings and loan associations.

The purpose of both steps is to help forestall excessive interest rate competition among financial institutions in conditions, such as those now existing, when monetary policy is aimed at curbing the rate of expansion of bank credit.

The action taken under present legislative authority prescribes, effective July 20, 1966, a maximum rate of 5 per cent on new multiple maturity deposits of 90 days or more, and 4 per cent for those of less than 90 days. Outstanding multiple maturity deposits will not be affected by the lower maximum rates.

Previously, member banks were authorized to pay as high as 5-1/2 per cent on multiple maturity time deposits. The term "multiple maturity time deposit" is defined in the Board's Regulation Q as: "any time deposit (1) that is payable at the depositor's option

-2-

on more than one date, whether on a specified date or at the expiration of a specified time after the date of deposit (e.g., a deposit payable at the option of the depositor either three months or six months after the date of deposit), (2) that is payable after written notice of withdrawal, or (3) with respect to which the underlying instrument or contract or any informal understanding or agreement provides for automatic renewal at maturity."

No change was made in the ceilings respecting time deposits having a single maturity (now set at 5-1/2 per cent) or passbook savings accounts (now set at 4 per cent).

Prompt consideration of the legislative proposals to broaden the rate regulatory powers of the three supervisory agencies was asked by the Board in letters to the Chairmen of the Senate and House Banking and Currency Committees.

These proposals would empower the three supervisory agencies to prescribe different rate limitations for different classes of accounts, for accounts of different amounts or with different maturities or subject to different conditions regarding withdrawal or repayment, according to the nature or location of the institutions or the account holders or on any other reasonable basis.

In the letters to the Congressional Committee Chairmen, the Reserve Board pointed out that its action today under its present powers would cover only "consumer type" certificates of deposits ("CD's") in member banks.

"Separate ceilings are imposed on 'multiple maturity' deposits in an effort to differentiate between money market CD's and consumer-type deposits," the Board said. "Obviously, the 'multiple maturity' concept is not ideally suited for this purpose, but it is, in our judgment, the best alternative available under existing law. It may be that the only effective means for accomplishing the purposes we seek in the current situation is to differentiate on the basis of amount of deposit, even though, as you know, the Board has reservations about such an approach except as a temporary expedient. Accordingly, we hope that your Committee will give prompt consideration to broadening the existing law as proposed in the enclosed draft.

"At the same time, we doubt the efficacy of attempting to prevent a rate war by limiting rates payable only by banks. The draft legislation therefore includes authority for imposition of rate ceilings by the Federal Home Loan Bank Board. Under the proposal, ceilings for both banks and savings and loan associations would not be mandatory, but could be imposed or placed on a stand-by basis by the appropriate agency, after consultation with the others, in the light of existing conditions."

Attached is the text of the amendements to Regulation Q, Payment of Interest on Deposits, implementing the Board's action.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 5
7/15/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 15, 1966.



Continental International Finance Corporation,
231 South LaSalle Street,
Chicago 90, Illinois.

Gentlemen:

In accordance with your request of June 30, 1966, the Board of Governors grants consent for your Corporation to purchase and hold an additional 1,867 ordinary shares, par value Pesetas 500 each, of Union Industrial Bancaria, Barcelona, Spain, at a cost of approximately US\$16,000, plus Interest Equalization Tax of approximately \$2,400, provided such stock is acquired within one year from the date of this letter.

The foregoing consent is given with the understanding that the investment now being approved, combined with other foreign loans and investments of your Corporation, Continental Bank International, and Continental Illinois National Bank and Trust Company of Chicago, 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. The Board considers that compliance with the priorities expressed in Guideline 4 would require that total nonexport credits to developed countries in Continental Western Europe not exceed the amount of such loans and investments as of the end of 1965, unless this can be done without inhibiting the bank's ability to meet all reasonable requests for priority credits within the over-all target.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 6
7/15/66

OFFICE OF THE VICE CHAIRMAN

July 15, 1966

The Honorable Charles E. Bennett,
House of Representatives,
Washington, D. C. 20515

Dear Mr. Bennett:

In the absence of Chairman Martin, there has been referred to me for reply your letter of June 22, 1966, in which you requested the Board's assistance in drafting legislation for introduction by you that would effect certain further amendments to the Bank Holding Company Act of 1956 (as amended by Public Law 89-485). Enclosed is a draft of a bill that would (1) substitute a one-bank definition of "bank holding company" for the present two-bank definition, and (2) repeal the partial exemption of bank holding companies which are labor, agricultural, or horticultural organizations and which are exempt from taxation under Section 501 of the Internal Revenue Code of 1954.

Sincerely,

(Signed) J. L. Robertson

J. L. Robertson.

Enclosure



To amend the Bank Holding Company Act of 1956, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That subsection (a) of section 2 of the Bank Holding Company Act of 1956 (12 U.S.C. 1841(a), as amended by Public Law 89-485) is amended by striking the words "each of two or more banks" wherever such words appear and inserting in lieu thereof the words "any bank".

SEC. 2. The first sentence of subsection (a) of section 3 of the Bank Holding Company Act of 1956 (12 U.S.C. 1842(a), as amended by Public Law 89-485), is amended to read as follows:

"It shall be unlawful, except with the prior approval of the Board, (1) for any action to be taken that causes any bank to become a bank holding company or any other company to become a bank holding company with respect to more than one subsidiary bank; (2) for any action to be taken that causes a bank to become a subsidiary of a bank holding company; (3) for any bank holding company to acquire direct or indirect ownership or control of any voting shares of any bank if, after such acquisition, such company will directly or indirectly own or control more than 5 per centum of the voting shares of such bank; (4) for any bank holding company or subsidiary thereof, other than a bank, to acquire all or substantially all of the assets of a bank; or (5) for any bank holding company to merge or consolidate with any other bank holding company."

SEC. 3. The first sentence of subsection (c) of section 4 of the Bank Holding Company Act of 1956 (12 U.S.C. 1843(c), as amended by Public Law 89-485) is amended by striking the words "shall not apply to any bank holding company which is a labor, agricultural, or horticultural organization and which is exempt from taxation under section 501 of the Internal Revenue Code of 1954, and such prohibition shall not, with respect to any other bank holding company" and inserting in lieu thereof the words "shall not, with respect to any bank holding company".

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 7
7/15/66

OFFICE OF THE VICE CHAIRMAN

July 15, 1966



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

Dear Chairman Robertson:

This refers to your letter of June 13, 1966, to Chairman Martin with respect to the voting by a State member bank of trust holdings of the bank's own stock. The answers to your specific questions are:

(1) The Federal Reserve System considers this practice undesirable and has tried by persuasion to encourage State member banks to eliminate, as far as possible, the voting of such stock except by direction or instructions from others;

(2) The Board has in the past not regarded this situation as needing regulations or legislation to place restrictions on State member banks similar to those applicable to national banks under section 61 of Title 12 of the United States Code; and

(3) The Board does not have statutory authority at the present time to control this practice by regulation.

In the absence of Federal law, the Board has been guided principally by State statutes in supervising the exercise of trust powers by State member banks. Where the States permit banks to vote trust holdings of their own stock, Federal Reserve examiners discuss with the management the potential conflict of interest and possible liability aspects involved.

The Board is not averse to legislation along this line that would extend the applicability of present statutes but, if such is introduced, the Board believes that it should be made

The Honorable A. Willis Robertson -2-

applicable to all commercial banks and should except stock that is held in a fiduciary capacity on the date the law becomes effective. With respect to any such possible legislation, it is assumed that the Congress would wish to give serious consideration to the question of encroachment of Federal law upon the exercise of trust powers which may be viewed as primarily a matter of concern to the respective States.

Sincerely,

(Signed) J. L. Robertson

J. L. Robertson.