

Minutes for July 22, 1966

To: Members of the Board

From: Office of the Secretary

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

It is proposed to place in the record of policy actions required to be kept under the provisions of section 10 of the Federal Reserve Act an entry covering the item in this set of minutes commencing on the page and dealing with the subject referred to below:

Page 10 Disapproval of rates on discounts and advances established by Federal Reserve Bank of Philadelphia.

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

M

Governor Robertson

R

Governor Shepardson

CS

Governor Mitchell

CM

Governor Daane

DD

Governor Maisel

873

Governor Brimmer

BB

Minutes of the Board of Governors of the Federal Reserve System on Friday, July 22, 1966. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Broida, Assistant Secretary
Mr. Bakke, 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. Solomon, Director, Division of Examinations
Miss Eaton, General Assistant, Office of the Secretary
Mr. Morgan, Staff Assistant, Board Members' Offices
Mr. Furth, Consultant

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

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

Money market review. Mrs. Peskin reported on conditions in the Government securities market, following which there was a discussion of System operations in relation to the directive issued by the Federal Open Market Committee at its last meeting. Mr. Eckert reported on expansion of bank credit, concluding with comments based on data in a table of perspective on bank reserve utilization, copies of which had been distributed. Mr. Keir reviewed developments with respect to mutual savings banks and savings and loan associations, and also made supplemental

7/22/66

-2-

observations on the outlook in long-term securities markets. Mr. Hayes then concluded with a report on foreign exchange markets and a review of the new British economic program. In addition to the perspective on bank reserve utilization, tables had been distributed on the money and capital markets, financial and monetary indicators, and activity at Federal Home Loan Banks, along with a chart on the spreads between bill yields and lending rates to dealers.

Following discussion of the various reports, all members of the staff except Messrs. Sherman, Kenyon, Bakke, Solomon (Adviser), Molony, Cardon, Fauver, Koch, Partee, and Solomon (Examinations), and Miss Eaton withdrew from the meeting and the following entered the room:

Mr. Hackley, General Counsel
Mr. Hexter, Associate General Counsel
Mr. Shay, Assistant General Counsel
Mr. Via, Senior Attorney, Legal Division
Mr. Egertson, Supervisory Review Examiner, Division of Examinations

Ratification of actions. Actions taken at the meeting of the available members of the Board on July 20, 1966, as recorded in the minutes of that meeting, were ratified by unanimous vote.

Amendments to articles of association (Item No. 1). Unanimous approval was given to a letter to Bank of California International Corporation, San Francisco, California, approving amendments to its articles of association to transfer the home office from San Francisco to No. 2 Wall Street, New York, New York, and to change the name of the corporation to Bank of California International. A copy of the letter is attached as Item No. 1.

7/22/66

-3-

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

Purchase of assets and assumption of liabilities of National State Bank of Plainfield, Plainfield, New Jersey, by The National State Bank, Elizabeth, New Jersey

Because of the disparity in size of the two banks and the number of competing banks in the intervening area between participants' nearest offices, acquisition of National State Bank of Plainfield by The National State Bank, Elizabeth, N.J., would eliminate no effective competition. The overall competitive effect of the proposal would not be adverse.

Merger of The Dillsburg National Bank, Dillsburg, Pennsylvania, into The Harrisburg National Bank and Trust Company, Harrisburg, Pennsylvania

The proposed merger of The Dillsburg National Bank, Dillsburg, Pennsylvania, into The Harrisburg National Bank and Trust Company, Harrisburg, Pennsylvania, would eliminate a small amount of competition presently existing between the two institutions and further concentrate area banking resources in large banks. It would not, however, materially alter the competitive picture in the relevant banking area and the overall effect on competition would not be significantly adverse.

Merger of First Citizens State Bank, Monroeville, Indiana, into Fort Wayne National Bank, Fort Wayne, Indiana

Consummation of the proposed merger of Fort Wayne National Bank, Fort Wayne, Indiana, and First Citizens State Bank, Monroeville, Indiana, would eliminate the minor competition existing between the two banks and would further increase the size of the second largest bank in the area. However, it would not alter significantly the size of the charter bank relative to others in the county. On balance, it does not appear that consummation of the proposal would have a significantly adverse effect on competition.

7/22/66

-4-

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

The proposed acquisition of Othello First National Bank by Old National Bank of Washington, Spokane, a subsidiary of Old National Corporation, Spokane, a registered bank holding company, would have no adverse effects on competition.

Interpretations of Regulation Q (Item No. 2). On July 15, 1966, the Board announced that the Supplement to Regulation Q (Payment of Interest on Deposits) would be amended, effective July 20, to provide that a member bank may pay interest on multiple maturity time deposits made after that date at a rate not exceeding: (1) 5 per cent, if 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; or (2) 4 per cent, if 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.

Following announcement of this action, certain questions of interpretation had arisen, and there had been distributed a memorandum from Mr. Hackley dated July 21, to which was attached a draft of letter to Reserve Bank Presidents answering these questions, and a memorandum from Mr. Hexter of the same date discussing one of the questions in detail.

Mr. Hackley described the questions involved and the proposed answers, basing his remarks substantially upon the text of the draft letter.

7/22/66

-5-

First, the amendment to the Supplement to Regulation Q made inapplicable previous interpretations of the Board to the effect that, if a time deposit had alternative maturities, the maximum interest rate depended upon the alternative actually elected by the depositor. Now, the interest rate applicable to the minimum maturity specified in the instrument would govern, regardless of the actual duration of the deposit.

Second, with respect to contracts entered into prior to July 20 for time deposits, open account, the appropriate maximum interest rates specified in the amendment would apply to deposits under such contracts made after that date, unless the terms of a particular contract precluded modification and obligated the bank to accept deposits in the account at a specified rate of interest for the duration of the contract.

Third, a certificate of deposit issued prior to July 20, providing for automatic renewal every 90 days and specifying a 5 per cent rate of interest, may not be amended after that date to provide a higher rate of interest, since the new arrangement would not result from the automatic renewal feature; it would, in effect, be a new contract of deposit, subject to the interest-rate limitation specified in the amended Regulation.

Finally, interest credited after July 20 on principal sums received before that date in a time deposit, open account, need not be regarded as a new "deposit," but may be assimilated with the pre-July 20

7/22/66

-6-

deposits for purposes of determining the appropriate interest rate. In connection with this proposed interpretation, Mr. Hexter's memorandum pointed out that adoption of the recommendation would have the effect of slowing down, to some extent, the rate of decrease in the aggregate volume outstanding of multiple maturity deposits bearing interest in excess of the rate permissible on new deposits under the amended Regulation. On the other hand, this consideration seemed to be outweighed by the advantage of flexibility that would be afforded banks in meeting the complex problems of adjustment presented in connection with the July 20 amendment.

With respect to the proposed interpretation embodied in the fourth point mentioned above, Governor Brimmer expressed reluctance to follow the recommendation because, as to interest credited, the depositor had the option of withdrawing it or leaving it on deposit. If it were withdrawn and redeposited in a time deposit, open account, it would be subject to a rate of interest applicable to post-July 20 deposits and interest thereon, whereas if left on deposit and treated in the same manner as the underlying pre-July 20 deposit it could be subject to a higher rate. As a policy matter he would question the proposed interpretation. However, he was sympathetic to the administrative problems that banks would be faced with in implementing the Board's July 15 action, and on balance he would be willing to accept the Legal Division's recommendation for that reason.

7/22/66

-7-

Governor Shepardson observed that one objective of the July 15 action had been to dampen flows of funds among savings institutions. Since the proposed interpretation would serve to stabilize deposits to some extent, he felt the result would be consistent with the policy action.

Governor Robertson added that since the question involved only treatment of interest paid on interest accumulated on pre-July 20 deposits, and since the aggregate dollar amount involved would be relatively insignificant, he did not think too much would be gained by imposing upon banks the burden of requiring them to regard such credits as new deposits for purpose of the Regulation.

The letter to the Presidents of the Federal Reserve Banks was then approved, in the form attached to these minutes as Item No. 2. Subsequently, the interpretations were also transmitted to the Federal Register for publication.

Members of the staff who had been particularly concerned with the foregoing items withdrew at this point.

Rates of interest on deposits. The Vice Chairman reported that he had attended a meeting yesterday afternoon at the Treasury, with representatives of various other interested agencies also present, to consider a letter that might be transmitted to Chairman Patman of the House Banking and Currency Committee to clarify the position of the Treasury and the Administration on the question of certificates of deposit

7/22/66

-8-

and the question of stand-by authority for the Home Loan Bank Board to set maximum rates on share accounts.

The Vice Chairman reviewed the language of a preliminary draft of letter that had been considered, and the changes made as a result of the meeting. He pointed out that the revised draft of letter would set forth the following objectives: (1) grant to the Federal Reserve Board flexible authority to establish different categories of deposits for interest rate limitations; (2) give the same authority to the Federal Deposit Insurance Corporation; (3) grant stand-by authority to the Home Loan Bank Board to set maximum rates of interest on the share accounts of savings and loan associations. The proposed letter would indicate that if this approach was adopted the Administration would recommend to the respective agencies that a ceiling of not more than 5 per cent be placed on interest rates on all time deposits and on dividends on share accounts in amounts less than \$100,000. It would state that the recent action of the Federal Reserve in reducing the maximum interest rates payable on certain time deposits indicated a concern with the problem and that the Board's request for more flexible legislative authority indicated a willingness to take whatever steps were necessary to effectively cope with that problem. The letter would go on to express the opinion that such legislation, implemented by appropriate administrative action, would protect a part of the local savers' market for the homebuilding industry and tend to stabilize the rate

7/22/66

-9-

structure within the financial community. The letter would express the view that a legislative 4-1/2 per cent ceiling to cover all certificates of deposit, irrespective of size, could be disruptive and unpredictable, that the establishment of an administrative ceiling of 5 per cent on time and savings deposits and share accounts of \$100,000 or less would have a minimum disruptive impact on the money markets, and that an administrative ceiling such as suggested would preserve highly desirable flexibility to meet unforeseen and unusual conditions. The letter would also state that the Home Loan Bank Board, the Federal Deposit Insurance Corporation, and the Federal Reserve Board concurred in this legislative proposal.

Governor Robertson explained that the bill that would be submitted with the letter was substantially the same as the legislative proposal submitted to the Congress by the Board on July 15. Therefore, he had felt that he could speak for the Board in concurring in the legislative proposal. In this connection he noted that at one stage the proposed bill contained a provision, to which he had objected, requiring the Board to consult with the Comptroller of the Currency before establishing maximum rates of interest on deposits; this provision was subsequently deleted.

The other members of the Board indicated that they agreed that it was appropriate for the letter to state that the Board concurred in the legislative proposal.

7/22/66

-10-

Discount rates. The establishment without change by the Federal Reserve Banks of New York and San Francisco on July 21, 1966, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

The Vice Chairman commented that President Hayes had advised that in view of the financial program announced on Wednesday by the Government of the United Kingdom and in view of the position of the pound sterling in the exchange markets, both before and after that announcement, the directors of the New York Reserve Bank were of the view that a change in the discount rate at this time might jeopardize the success of the program, which had the full support of the United States Government. For that reason, and for that reason alone, the directors concluded that on balance it would be preferable not to increase the discount rate at this time.

A telegram had been received stating that the Board of Directors of the Federal Reserve Bank of Philadelphia, at a meeting yesterday, had established a rate of 5 per cent on discounts for and advances to member banks under sections 13 and 13a of the Federal Reserve Act, a rate of 5-1/2 per cent on advances to member banks under section 10(b), and a rate of 6 per cent on advances to individuals, partnerships, and corporations other than member banks under the last paragraph of section 13, such action being subject to review and determination by the Board of Governors.

7/22/66

-11-

In line with the decision reached by the Board of Governors on July 15 with respect to similar rates established by certain other Reserve Banks, the rates established by the directors of the Philadelphia Bank were disapproved by unanimous vote, with the understanding that appropriate advice would be sent to the Reserve Bank. The action taken by the Board of Governors meant that the rates on discounts and advances in the Philadelphia Bank's existing schedule automatically continued in effect.

The meeting then adjourned.

Secretary's Note: On July 21, 1966,
Governor Shepardson approved on behalf
of the Board the following items:

Letter to the Federal Reserve Bank of Chicago (copy attached as Item No. 3) approving the appointment of William B. Lossie, Jr., as assistant examiner.

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

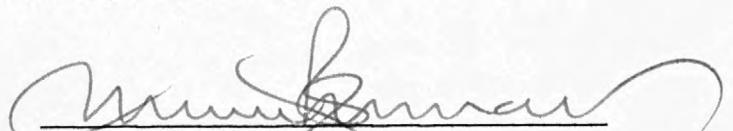
Appointment

Patricia Ann Willis as Statistical Clerk, Division of Research and Statistics, with basic annual salary at the rate of \$4,641, effective the date of entrance upon duty.

Salary increases

Lola A. Buckley, Telephone Operator, Division of Administrative Services, from \$5,409 to \$5,733 per annum, effective August 1, 1966.

Mary E. Johnson, Telephone Operator, Division of Administrative Services, from \$6,045 to \$6,378 per annum, with a change in title to Chief Telephone Operator, effective August 1, 1966.


Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 1
7/22/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 22, 1966.

Bank of California
International Corporation,
400 California Street,
San Francisco, California. 94120

Gentlemen:

As requested in your letter of June 24, 1966, the Board of Governors grants approval to amendments to the Articles of Association of Bank of California International Corporation to effect the transfer of the home office from San Francisco to No.2 Wall Street, New York, New York, and to change the name of the Corporation to Bank of California International.

Please advise the Board of Governors, through the Federal Reserve Bank of San Francisco, the date your home office is removed to No.2 Wall Street, New York, and the date on which the change of name of your Corporation becomes effective.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

Item No. 2
7/22/66

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

S-2000

2629

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 22, 1966.



Dear Sir:

Enclosed is a statement containing certain interpretations of the Supplement to Regulation Q, as revised effective July 20, 1966, which will be published in the Federal Register and the Federal Reserve Bulletin.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Merritt Sherman".

Merritt Sherman,
Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

2630

Maximum Interest Rates on Multiple
Maturity Time Deposits

The Board has considered the following questions regarding the interpretation of the Supplement to Regulation Q, as revised July 20, 1966, relating to maximum rates of interest payable by member banks on time and savings deposits:

1. Under the Supplement, a member bank may pay interest at a rate not exceeding 5 per cent on a multiple maturity time deposit made on or after July 20 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; and it may pay interest at a rate not exceeding 4 per cent on a multiple maturity deposit 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. Accordingly, if a deposit is payable, at the depositor's option, either after 90 days' notice or after 30 days' notice, the maximum interest rate permitted under the Supplement is 4 per cent, whether the deposit is paid after 90 days' or 30 days' notice. In this respect, the revised Supplement makes inapplicable previous interpretations of the Board (e.g., 1953 Federal Reserve Bulletin 721) to the effect that, if a deposit has alternative maturities, the maximum interest rate depends upon the alternative actually elected by the depositor.

2. Question has been raised as to the applicability of the revised Supplement to time deposits, open account, under contracts

2631

entered into prior to July 20, 1966. As stated in the revised Supplement, the 5 per cent and 4 per cent maximum rates apply to multiple maturity time deposits received on or after July 20, 1966. If, as is usually the case, a contract evidencing a time deposit, open account, provides that the contract may be cancelled or terminated by the bank or that the rate of interest is subject to change by the bank on its own initiative or in order to comply with regulations of the Board, the bank must take action as soon as possible to bring the contract within the requirements of the revised Supplement with respect to deposits received on or after July 20, 1966. In this connection, attention is called to section 217.3(b) of Regulation Q, which provides that "every member bank shall take such action as may be necessary, as soon as possible consistently with its contractual obligations, to bring all of its outstanding certificates of deposit or other contracts into conformity with the provisions" of Regulation Q. Only in the rare case in which a contract entered into prior to July 20, 1966, obligates the bank to accept deposits in the account and pay a specified rate of interest thereon, without any right to modify such obligations, may the bank pay the contract rate of interest on deposits received after that date if such rate is higher than the maximum rate prescribed by the Supplement for the particular type of multiple maturity deposit.

3. Question has been raised as to whether a certificate of deposit issued prior to July 20, 1966, providing for automatic renewal every 90 days and specifying a 5 per cent interest rate, may be amended after that date to provide for an interest rate in excess of 5 per cent.

With respect to deposits received before July 20, 1966, the Supplement permits continued payment of interest at the rate being paid on that date, but it precludes any increase in the rate on such deposits above the maximum prescribed for deposits received on or after that date. Accordingly, the bank could not, under the revised Supplement, pay interest at a rate in excess of 5 per cent on or after July 20. (This principle applies also to time deposits, open account.)

4. Interest credited after July 20, 1966, on multiple maturity time deposits received before that date need not be regarded as a "deposit" received on or after that date but may be assimilated to the underlying pre-July 20 deposits on which the bank may continue to pay the rate of interest specified in the contract.

July 22, 1966.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 3
7/22/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



July 21, 1966

Mr. Leland M. Ross, Vice President,
Federal Reserve Bank of Chicago,
Chicago, Illinois. 60690

Dear Mr. Leland:

In accordance with the request contained in your letter of July 18, 1966, the Board approves the appointment of William B. Lossie, Jr. as an assistant examiner for the Federal Reserve Bank of Chicago. Please advise the effective date of the appointment.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.