

Minutes for August 5, 1966

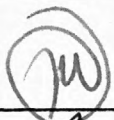

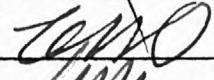

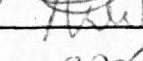
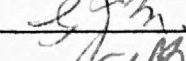
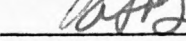
To: Members of the Board

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	<u></u>
Gov. Robertson	<u></u>
Gov. Shepardson	<u></u>
Gov. Mitchell	<u></u>
Gov. Daane	<u></u>
Gov. Maisel	<u></u>
Gov. Brimmer	<u></u>

Minutes of the Board of Governors of the Federal Reserve System on Friday, August 5, 1966. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Robertson, Vice Chairman
Mr. Shepardson
Mr. Mitchell
Mr. Daane

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Young, Senior Adviser to the Board and
Director, Division of International Finance
Mr. Holland, Adviser to the Board
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Solomon, Director, Division of Examinations
Mr. Leavitt, Assistant Director, Division of
Examinations
Mr. Furth, Consultant

Messrs. Brill, Koch, Partee, Axilrod, Gramley,
Ettin, Fry, and Kelty, and Mrs. Peskin and
Miss Stockwell of the Division of Research
and Statistics

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

Money market review. Mr. Axilrod commented on the current Treasury refinancing, other developments in the Government securities market, and bank credit trends, following which Mr. Baker reviewed developments with respect to the pound sterling, System foreign currency operations, and the London gold market. Copies of the materials distributed in connection with the staff presentations have been placed in the Board's files.

After discussion based on the reports all members of the research staff withdrew from the room except Messrs. Brill, Koch, Partee, and Sammons. Mr. Furth also withdrew at this point and the following entered:

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Mr. Cardon, Legislative Counsel
Mr. Hackley, General Counsel
Mr. Kakalec, Controller
Mr. Byrne, Director, Division of Data Processing
Mr. Kiley, Assistant Director, Division of Bank Operations
Mr. Kern, Assistant Director, Division of Administrative Services
Mr. Rowe, Chief, Economic Graphics Section, Division of Data Processing

Discount rates. The establishment without change by the Federal Reserve Bank of Boston on August 1 and by the Federal Reserve Banks of New York, Philadelphia, and San Francisco on August 4, 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.

Time for establishment of branch (Item No. 1). Unanimous approval was given to the application of The Peoples-Liberty Bank and Trust Company, Covington, Kentucky, for an extension of time within which to establish a branch in the vicinity of Fourth Street and Madison Avenue. A copy of the letter sent pursuant to this action is attached as Item No. 1.

Graphics presentation conference. The recommendation contained in a distributed memorandum dated August 3, 1966, from the Division of Data Processing that a two-day System-wide graphics presentation conference be held at the Board's offices was approved unanimously, along with the contemplated expenses to the Board that would be involved. It was understood, however, that the Division would reconsider the suggested

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dates (September 29-30, 1966) to determine whether some change might be desirable in view of the Fund-Bank meetings and other activities scheduled in Washington during the week in question.

Messrs. Kakalec, Byrne, Kiley, Kern, and Rowe then withdrew.

Gold loan. After consideration of a distributed memorandum from Mr. Young dated August 4, 1966, and oral comments by Mr. Young in supplementation thereof, unanimous approval was given to the granting by the Federal Reserve Bank of New York to the Central Bank of Costa Rica of a loan or loans on gold up to a total of \$2 million, subject to the following conditions:

- (a) to be made up to 98 per cent of the value of gold bars set aside in the vaults of the Federal Reserve Bank of New York under pledge to the Reserve Bank;
- (b) to mature in 3 months with option to repay at any time before maturity, advances to be made in multiples of \$500,000 and repayments in multiples of \$100,000;
- (c) to bear interest at the discount rate of the Reserve Bank in effect on the date on which such loan or loans were made;
- (d) to be requested and made at any time during a period of 30 days beginning with the date of the Central Bank's acceptance of the terms and conditions.

It was understood that the usual participation in any such loan or loans would be offered by the New York Reserve Bank to the other Federal Reserve Banks. It was also understood that advice of the Board's action would be sent to the New York Bank by wire.

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Unemployment in construction industry. There had been distributed, with a transmittal memorandum from Mr. Koch dated August 3, 1966, a memorandum from Mr. Wernick of the Board's research staff dated July 29 dealing with unemployment in construction. Submission of the memorandum was responsive to a suggestion by Board members during the staff economic review at the meeting on July 25 that a brief paper be prepared on this subject and that Congressmen Reuss and Ullman might be interested in receiving copies in view of the concern they had expressed on recent occasions.

After consideration it was decided (1) that the memorandum would be edited in certain respects for purpose of clarification; (2) that a copy of the edited memorandum would be sent to Congressman Reuss with a personal note from Vice Chairman Robertson highlighting some of the main points in the memorandum; and (3) that another copy of the memorandum would be left with Congressman Ullman or his staff by Mr. Cardon. A copy of the memorandum, as transmitted, has been placed in the Board's files.

Secretary's Note: Copies of the memorandum were subsequently delivered to both Congressmen, at Vice Chairman Robertson's request, by Mr. Cardon.

Dividend rate limitations (Item No. 2). Toward the conclusion of yesterday's hearing before the Senate Banking and Currency Committee on legislation to broaden the authority to prescribe maximum rates

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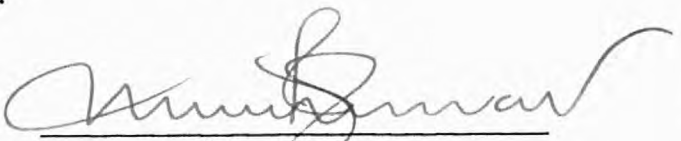
payable on deposit-type savings, and related proposals, Senator Proxmire raised a question concerning the effect of imposing dividend rate limitations on savings and loan associations. It was understood that the point of inquiry was whether and in what way the introduction of such ceilings could improve the home mortgage market. A draft of letter to Committee Chairman Robertson relating to Senator Proxmire's question was distributed at this meeting.

Suggestions were made for changes in the format of the draft reply, following which unanimous approval was given to a letter in the form attached as Item No. 2 with the understanding that copies would be sent to the Secretary of the Treasury, the Chairman of the Federal Deposit Insurance Corporation, and the Chairman of the Federal Home Loan Bank Board since those parties were also preparing letters on the same subject.

The meeting then adjourned.

Secretary's Notes: Attached as Item No. 3 is a copy of a letter sent today to the Secretary of the Retirement System of the Federal Reserve Banks reflecting action taken by the Board on July 25, 1966.

Governor Shepardson today approved on behalf of the Board a letter to the Federal Reserve Bank of Boston (copy attached as Item No. 4) approving the appointment of John S. Morneault as assistant examiner.


Secretary

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Item No. 1
8/5/66

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



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 5, 1966

Board of Directors,
The Peoples-Liberty Bank
and Trust Company,
Covington, Kentucky.

Gentlemen:

The Board of Governors of the Federal Reserve System extends to January 26, 1967, the time within which The Peoples-Liberty Bank and Trust Company, Covington, Kentucky, may establish a branch in the vicinity of the intersection of Fourth Street and Madison Avenue, Covington, Kentucky.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

Item No. 2
8/5/66BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTONJAMES LOUIS ROBERTSON
MEMBER OF THE BOARD

August 5, 1966.



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

Dear Mr. Chairman:

This letter is in response to the question raised by Senator Proxmire at yesterday's hearings before your Committee concerning the effect of imposing maximum dividend rate limitations on savings and loan associations. As I understand the point of inquiry, it concerns whether and in what way the introduction of effective dividend rate ceilings on savings and loan associations could improve the home mortgage market.

The Board believes there are fundamental considerations of equity that argue for comparable regulation for commercial banks and savings and loan associations, especially with respect to those segments of their activity in which they compete directly for the saver's dollar. There have been periods in the past when banks, under regulatory restraint as to interest rates they could pay on deposits, have found themselves operating at a substantial disadvantage vis-a-vis savings and loan associations offering much higher rates for savings. Such circumstances could easily recur in the absence of a more even-handed regulatory posture with respect to the two types of institutions.

Sharp diversions of savings flows from one outlet to another and intensive competitive escalation of interest rates have sometimes developed as a consequence of extremely aggressive promotion of high-interest-rate accounts by a relatively few large savings and loan associations. Such an aggressive rate policy, when followed by such savings and loan associations, can be just as stimulative of "rate war" competition as if the rate actions had been initiated by commercial banks.

Some of the funds attracted by overly aggressive associations are likely to be drawn from smaller community savings and loan associations, thereby curtailing the latter's ability to finance

The Honorable A. Willis Robertson

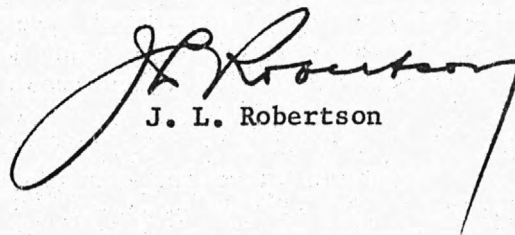
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local home purchases. At the same time, the funds gained by such aggressive competitors may not go entirely to finance home mortgages, for there has been a tendency for some of the larger savings and loan associations to funnel a considerable portion of their loanable funds into other than family home financing, namely, financing income-producing apartment houses and a variety of commercial construction.

Considering all the issues involved, the set of proposals embodied in the legislative suggestion conveyed by the Board to your Committee and endorsed by all the Federal agencies involved is regarded by the Board as an integrated package of actions, of which the provision for controlling maximum dividend rates by savings and loan associations is regarded as an essential feature.

Sincerely,



J. L. Robertson

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

Item No. 3
8/5/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 5, 1966

Mrs. Valerie R. Frank, Secretary,
Retirement System of the
Federal Reserve Banks,
Federal Reserve Bank of New York,
New York, New York. 10045

Dear Mrs. Frank:

The Board of Governors has approved increasing the benefits under the Board Plan of the Retirement System of the Federal Reserve Banks in order to conform with increased benefits provided in Public Law 89-504, signed by the President July 18, 1966.

A. Effective July 18, the law provides the following changes:

1. Permits retirement at a full annuity at age 55 after 30 years' service and at age 60 after 20 years' service.
2. Eliminates the requirement that a child be dependent upon a Federal-employee parent in order to receive a survivor annuity, and raises from 21 to 22 the maximum age for student survivors to receive annuity payments.
3. Permits the widow of a Federal employee to continue receiving her survivor annuity if she remarries after attaining age 60; or to have her annuity reinstated in the event a remarriage prior to age 60 is terminated, if certain conditions set out in the Act are met.

B. Effective July 31:

Increases the maximum age limit from 21 to 22 for health insurance coverage for student children.

Mrs. Valerie R. Frank

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C. Effective September 1, 1966:

Increases, by 10 per cent, the annuities of widows and widowers of Federal employees who died or whose retirement was based on a separation from service prior to October 11, 1962.

It will be appreciated if you will bill the Board for the amount of the actuarial estimates necessary to fund these increases.

Very truly yours,

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

Merritt Sherman,
Secretary.

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BOARD OF GOVERNORS
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Item No. 4
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ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



August 5, 1966

Mr. Luther M. Hoyle, Jr., Vice President,
Federal Reserve Bank of Boston,
Boston, Massachusetts. 02106

Dear Mr. Hoyle:

In accordance with the request contained in Mr. Aubrey's letter of August 2, 1966, the Board approves the appointment of John S. Morneault as an assistant examiner for the Federal Reserve Bank of Boston. Please advise the effective date of the appointment.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.