

Minutes for August 8, 1966

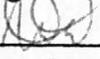
To: Members of the Board

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.

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|-----------------|--|
| 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 Monday, August 8, 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. Brimmer

Mr. Sherman, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Bakke, Assistant Secretary  
Mr. Young, Senior Adviser to the Board and  
Director, Division of International Finance  
Mr. Holland, 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. Brill, Director, Division of Research and  
Statistics  
Mr. Farrell, Director, Division of Bank Operations  
Mr. Solomon, Director, Division of Examinations  
Mr. Sammons, Associate Director, Division of  
International Finance  
Mr. Daniels, Assistant Director, Division of  
Bank Operations  
Messrs. Goodman and Leavitt, Assistant Directors,  
Division of Examinations  
Mrs. Semia, Technical Assistant, Office of the  
Secretary  
Miss Hart, Senior Attorney, and Mr. Shuter,  
Attorney, Legal Division  
Mr. Ettin, Economist, Division of Research and  
Statistics  
Mr. Egertson, Supervisory Review Examiner,  
Division of Examinations

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

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|  | <u>Item No.</u> |
|--|-----------------|
| Letter to The First National Bank of Chicago, Chicago, Illinois, approving the establishment of a branch in Frankfurt am Main, Federal Republic of Germany.  | 1               |
| Letter to the Secretary of the Treasury regarding discontinuance of further production of \$2 bills and use of remaining stocks of that denomination.  | 2               |
| Letter to Peter R. Tritsch, Law Offices of Mark M. Horblit, Boston, Massachusetts, regarding his request that the Board participate as amicus curiae in the case of Bronner v. Goldman, et al.   | 3               |
| Letter to Chairman Mills of the House Committee on Ways and Means regarding a proposed amendment to H.R. 11257, a bill relating to income tax treatment of certain distributions pursuant to the Bank Holding Company Act of 1956, as amended. | 4               |

Application of Central State Bank. A memorandum from the Division of Examinations dated August 3, 1966, and other pertinent papers had been distributed in connection with the application of Central State Bank, Elkader, Iowa, to acquire the assets and assume the liabilities of Volga State Bank, Volga, Iowa. The Division recommended approval.

Following summary comments by Mr. Egertson, the application was approved unanimously, with the understanding that an order and statement reflecting this decision would be drafted for the Board's consideration.

Messrs. Sammons, Daniels, Goodman, Shuter, and Egertson and Miss Hart then withdrew from the meeting.

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Bank lending practices survey. There had been distributed a memorandum dated August 3, 1966, in which the Division of Research and Statistics requested authorization to continue a modified version of the quarterly survey of changes in bank lending practices.

The memorandum noted that in the summer of 1964 the Board authorized a quarterly survey, to be conducted on an experimental basis for about one year. In late 1965 the Board authorized, and the Bureau of the Budget approved, extension of the survey until mid-1966, pending review of the results of previous surveys by an ad hoc System committee. This committee concluded that continuation of the survey would be desirable, for reasons set out in the memorandum, but suggested a number of changes calculated to improve the quality and scope of data collected:

(1) The sample of banks would be expanded to include all banks participating in the revised quarterly interest rate survey--an increase in coverage of from 80 to 125 banks--beginning in February 1967.

(2) The timing of the survey would be shifted from mid-March, June, September, and December to mid-February, May, August, and November. Because the new quarterly interest survey would not begin until February 1967, the Division recommended that, with Board and Budget Bureau approval, the new format of the lending practices survey be used with the old sample at the old survey dates in September and December 1966, with the new sample and timing beginning in February 1967.

(3) Questions regarding "aggressiveness" in seeking new loans and maximum maturity of term loans would be eliminated from the survey.

(4) Different terms would be used to describe the nature of changes in lending practices.

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(5) Questions would be added on prospective business loan demand over the next three months and on changes in general practices regarding consumer instalment loans, single-family mortgages, multi-family mortgages, and all other mortgage loans. Two open-ended questions (specified in the memorandum) also would be added.

(6) The practice of not releasing survey data to the general public would be continued, but aggregate data (national, geographical, and groups) would be made available, on request, to respondents, scholars, and graduate students with a serious interest in the subject matter.

(7) Small wording changes were suggested in individual questions, and in their order, for the sake of clarity and logical flow.

The recommendation that the survey be continued, with the suggested changes, had been favorably reviewed by the Committee on Current Reporting Series, the System Research Advisory Committee, and the Committee on Research and Statistics of the Conference of Presidents.

The memorandum discussed each of the proposed substantive changes and explained the proposal with respect to nonrelease of survey data to the general public as follows: "The reasoning of the subcommittee is that general publication of the survey results might contribute to misunderstanding and confusion, and that the political vulnerability of the answers received (if made public) might well jeopardize the voluntary reporting of this important information. The subcommittee does recommend that data be made available selectively to the academic community, and it should be noted also that most or all of the Federal Reserve Banks provide respondents with summary information from the

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survey. Accordingly, the Division recommends that the question of more general dissemination of survey results be reviewed by the Board as a policy matter."

Discussion of the matter focused principally on the question of release of survey results.

Governor Mitchell observed that he did not find the arguments advanced in support of restricting access to the data particularly persuasive.

Governor Brimmer noted that his views in favor of maximum availability of information to the public had been expressed on a number of prior occasions. With respect to the survey now being considered, he felt there should be a review of the data that would be collected to determine whether there was a form in which the figures could be released without compromising the interests of individual respondents. He would be opposed to making the survey data available to academicians or others on a selective basis. Accordingly, it was his feeling that consideration of the question at this meeting would be premature. In a broader context, he thought the survey results provided useful background information bearing on issues of monetary policy, and he felt that members of the Board should be free to use the data judiciously as circumstances warranted.

Governor Daane expressed agreement with the proposed survey revisions, but indicated concern that publication of data might inhibit the respondent banks. He regarded the survey principally as a helpful device for internal use.

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Governor Shepardson said he would not favor release of information only to selected persons.

At the conclusion of further discussion, it was understood that the staff would submit detailed recommendations on the question of publication or other release of the data, and that pending a Board decision no release of data would be made.

The revised format of the survey of changes in bank lending practices was thereupon approved unanimously, with the understanding that it would be submitted to the Bureau of the Budget for clearance in accordance with the usual procedure.

Current lending practices. At Governor Brimmer's suggestion, it was understood that there would be drafted for the Board's consideration a communication requesting the Federal Reserve Bank Presidents to make certain informal inquiries, particularly in preparation for discussion at the next meeting of the Federal Open Market Committee, concerning current lending practices of key banks in their respective districts.

Mr. Brill noted, in this general connection, that sometimes the Reserve Banks received requests from the Board for collection of information and felt at a disadvantage because of lack of background on the reasons why such information was desired. Members of the Board expressed the view that this problem should be borne in mind and that efforts should be made to improve channels of communication by whatever means were feasible in order to minimize the problem.

The meeting then adjourned.

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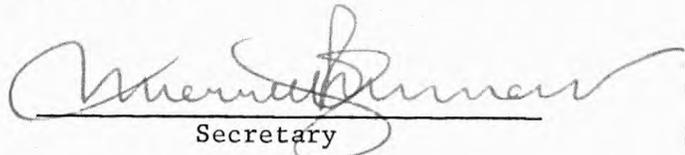
Secretary's Note: Governor Shepardson today approved on behalf of the Board memoranda recommending the following actions relating to the Board's staff:

Transfer

Susan J. Herron, from the position of Clerk-Typist in the Division of Personnel Administration to the position of Clerk-Typist in the Division of Research and Statistics, with no change in basic annual salary at the rate of \$4,413, effective upon assuming her new duties.

Acceptance of resignation

Robert J. Lawrence, Economist, Division of Research and Statistics, effective the close of business August 12, 1966.



Secretary

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 1  
8/8/66

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

August 8, 1966.



The First National Bank of Chicago,  
38 South Dearborn Street,  
Chicago, Illinois. 60690

Gentlemen:

The Board of Governors of the Federal Reserve System grants its permission to The First National Bank of Chicago, Chicago, Illinois, pursuant to the provisions of Section 25 of the Federal Reserve Act, to establish a branch in the City of Frankfurt am Main, Germany, and to operate and maintain such branch subject to the provisions of such Section and of Regulation M.

Unless the branch is actually established and opened for business on or before August 1, 1967, all rights granted hereby shall be deemed to have been abandoned and the authority hereby granted will automatically terminate on that date.

The foregoing permission is given with the understanding that funds provided by home office (whether in the form of allocated capital, advances, or otherwise) will not cause total loans and investments of your bank 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 non-export 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.

Please inform the Board of Governors, through the Federal Reserve Bank of Chicago, when the branch is opened for business, furnishing information as to the exact location of the branch. The Board should also be promptly informed of any future change in location of the branch within the City of Frankfurt am Main.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,  
Assistant Secretary.

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BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 2  
8/8/66

OFFICE OF THE VICE CHAIRMAN

August 8, 1966

The Honorable Henry H. Fowler,  
Secretary of the Treasury,  
Washington, D. C. 20220

Dear Joe:

Thank you for your letter of July 30, 1966, concerning discontinuance of further production of \$2 bills.

In view of the feelings expressed in your letter, we will ask the Federal Reserve Banks and Branches to issue whatever new \$2 bills they have on hand and whatever fit they may receive from circulation. We believe it would be undesirable, however, to attempt now to concentrate the remaining supply of new bills in a few areas. At the end of July, the 36 Reserve Bank offices reported having only \$437,000 in new \$2 bills on hand compared with \$1,789,000 at the beginning of the month. We fear that concentration of the few remaining new notes at certain offices would only prolong the undesirable circumstances under which some Federal Reserve offices would have a supply of new and fit \$2 bills, others only some fit bills, and most offices no new or fit.

We have no comments with respect to the proposed news release enclosed with your letter other than to suggest that a prompt release along this line seems desirable since some Federal Reserve offices have already exhausted their supply of new \$2 bills.

Sincerely,

(Signed) J. L. Robertson

J. L. Robertson

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

August 8, 1966

Mr. Peter R. Tritsch,  
Law Offices of Mark M. Horblit,  
84 State Street,  
Boston, Massachusetts. 02139

Dear Mr. Tritsch:

This is in response to your letter of June 23, 1966, to Mr. Hackley, General Counsel, requesting the Board to participate as amicus curiae in connection with a Petition for a Writ of Certiorari in the case of Bronner v. Goldman, et al.

There is involved here an issue of whether a loan to purchase securities arranged in violation of section 7 of the Securities Exchange Act of 1934 and section 220.7(a) of Regulation T (12 CFR 220.7(a)) is valid and collectible as between the borrower and a third party lender not subject to margin regulations. While the resolution of such issue in favor of the borrower might indirectly aid the effectiveness of the Board's regulations to some degree, the Board does not consider enforcement of its margin regulations through a private right of action against persons not directly subject to such regulations to be within the Board's area of responsibility.

Accordingly, while the Board appreciates the opportunity to consider the issues involved, it does not believe that it would be appropriate to file a brief in this matter.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

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BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 4  
8/8/66

OFFICE OF THE VICE CHAIRMAN

August 8, 1966

The Honorable Wilbur D. Mills,  
Chairman,  
Committee on Ways and Means,  
House of Representatives,  
Washington, D. C. 20515

Dear Mr. Chairman:

This is in answer to the question raised by Mr. Curtis during your Committee's consideration on August 3, 1966, of H.R. 11257, a bill relating to income tax treatment of certain distributions pursuant to the Bank Holding Company Act of 1956, as amended. Mr. Curtis' question relates to the effect of amending the bill by striking "September 23, 1965" in two places and inserting "April 12, 1965."

The effect of this change as we understand it would be to exclude from the benefits of the bill distributions of property acquired between the two dates. Mr. Curtis wishes to know whether the Board can inform the Committee as to how this would affect actual distributions that may take place. We now know of only two corporations that may wish to make distributions to shareholders that would be covered by the bill. These are Financial General Corporation and International Bank, which controls Financial General. Counsel for the two companies have informed us that they are considering plans under which Financial General will retain its banking interests and divest its nonbanking interests, and International Bank will divest control of Financial General. In neither case, as far as we are able to determine, will divestiture involve stock acquired between the two dates.

It should be understood that the Board cannot be certain that other corporations may not be affected, but we are not aware of any such situation.

Sincerely,

(Signed) J. L. Robertson

J. L. Robertson