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
Gov. Robertson
Gov. Shepardson
Gov. Mitchell
Gov. Daane
Gov. Maisel
Gov. Brimmer
Minutes of the Board of Governors of the Federal Reserve System on Monday, September 12, 1966. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Broida, 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. Solomon, Adviser to the Board
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mrs. Semia, Technical Assistant, Office of the Secretary
Mr. Morgan, Staff Assistant, Board Members' Offices
Mr. Furth, Consultant

Messrs. Brill, Koch, Partee, Garfield, Williams, Axilrod, Smith, Eckert, Ettin, Gehman, Rosenblatt, Thompson, Trueblood, and Wernick of the Division of Research and Statistics

Messrs. Sammons, Hersey, Irvine, Wood, Dunn, Emery, Gekker, Gemmill, Hayes, Klein, Lee, and Maroni of the Division of International Finance

Economic review. The Division of International Finance discussed selected foreign financial developments and the U.S. balance of payments, after which the Division of Research and Statistics reported on trends in the domestic economy, with special reference to production and prices, the labor market, gross national product, and consumer instalment credit.
The comments were based to some extent on material that had been distributed in preparation for the September 13 meeting of the Federal Open Market Committee. Copies of the relevant documents have been placed in the Committee's files.

All members of the staff then withdrew except Messrs. Sherman, Kenyon, Broida, Bakke, Young, Solomon, Molony, Fauver, and Brill, and Mrs. Semia, and the following entered the room:

Mr. Solomon, Director, Division of Examinations
Mr. Hexter, Associate General Counsel
Messrs. O'Connell and Shay, Assistant General Counsel
Messrs. Leavitt and Thompson, Assistant Directors, Division of Examinations
Miss Hart, Senior Attorney, Legal Division
Messrs. Egertson, Supervisory Review Examiner, and Lyon, Review Examiner, Division of Examinations

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

Letter to The Peoples-Liberty Bank and Trust Company, Covington, Kentucky, approving the establishment of a branch in Crestview Hills.

Letter to the Department of Justice regarding its request for bank holding company applications and related data.

Reports on competitive factors. After discussion, reports to the Comptroller of the Currency on the competitive factors involved in
proposals to merge into The Planters National Bank and Trust Company, Rocky Mount, North Carolina, (1) Bank of Coleraine, Colerain, North Carolina, and (2) First National Bank in Ayden, Ayden, North Carolina, were approved unanimously for transmittal to the Comptroller. The conclusion in each report stated that the proposed merger would not have adverse competitive effects.

Absorption of exchange charges (Item No. 3). The Board recently had had several discussions of the implications of a communication dated August 23, 1966, from the Comptroller of the Currency to all national banks stating his view that they had the right, if not the duty, to absorb exchange charges in the same manner as their nonmember competitors. It had been Governor Robertson's suggestion that the Board formally bring to the attention of the Secretary of the Treasury the conflict of the Comptroller's view with the long-standing position of the Board regarding absorption of exchange charges, as well as the Comptroller's failure to observe the prescribed interagency clearance procedures. A draft of such a letter dated September 6 had been discussed by the Board, and a second draft, dated September 9, also had been distributed.

At today's meeting Governor Robertson reviewed for the benefit of Chairman Martin a conference the Board had had with Chairman Randall and Director Sherrill of the Federal Deposit Insurance Corporation looking toward possible reconciliation of the differing positions of the Corporation and the Board in regard to absorption of exchange charges. The
Corporation was now exploring several possibilities, and another meeting was to be held with Messrs. Randall and Sherrill in the near future. However, there was also the question of expressing to Secretary Fowler the view of the Board on the course pursued by the Comptroller in disregard of the prescribed procedures.

Governor Mitchell reiterated the preference he had expressed during earlier discussion for a brief letter and suggested language that might be used.

Governor Robertson commented that if the Board preferred a brief letter along the lines Governor Mitchell had described he would support such an approach. He thought the important thing was that a letter, of whatever kind could be agreed upon, be sent.

After further discussion a letter in the form attached as Item No. 3 was approved unanimously.

Interlocking relationships under Clayton Act (Item No. 4). There had been distributed a memorandum dated September 7, 1966, from the Legal Division regarding interlocking relationships between Michigan Bank, National Association, Detroit, Michigan, and Livonia National Bank, Livonia, Michigan. In 1953 the Board had taken the position that simultaneous service by an individual as a director of a bank in Detroit and of Livonia National was prohibited under section 8 of the Clayton Act, on the ground that Detroit and Livonia were "adjacent" within the meaning of paragraph 5 of that section. In a letter of March 3, 1966, to the
President of Michigan Bank the Comptroller of the Currency stated his view that interlocking service between Michigan Bank and Livonia National was not prohibited. The Board, in a letter to the Federal Reserve Bank of Chicago approved on July 6, a copy of which was sent to Michigan Bank, again took the position that under section 8 interlocking service between a bank in Detroit and one in Livonia was not permissible, and in a letter sent pursuant to action on August 16 the Board informed the Comptroller of its intention to enforce its view and invited his comments. (Enforcement measures provided in section 11 of the Clayton Act contemplated service of a complaint stating charges and giving notice of a hearing, with an opportunity at the hearing for the defendant to show cause why the Board should not issue a cease and desist order.)

The Comptroller replied in a letter of August 24, 1966, reiterating his disagreement with the Board's position and expressing the view that if the Board undertook enforcement action "it would be entirely appropriate and, indeed, necessary and commendable for the parties involved to test your position in the appropriate legal forum. In the event of a court test, we would of course support our position which we have previously communicated to the banks."

The Legal Division concluded that the Comptroller's position was based on two faulty premises, as described in the memorandum. To lay a foundation for issuing the complaint provided for by the statute, the
Division recommended that the Board send a further letter to the officers whose service was in question, with copies to their banks, the Federal Reserve Bank of Chicago, and the Comptroller of the Currency, again stating the Board's views and requesting that the situation be corrected. A draft letter in those terms was attached.

In introductory comments the Legal Division indicated that the sending of the proposed letter would be a procedural step to preclude any claim that the Board's intentions had not been understood.

At Governor Shepardson's instance there ensued a discussion of the geographical situations involved in certain previous opinions by the Board relating to interlocking relationships under the Clayton Act. The Legal Division expressed the view that the present question fell precisely within the scope of a footnote to Regulation L, Interlocking Bank Directorates under the Clayton Act, which had always been in the Regulation and which defined the terms "adjacent" and "contiguous" for purposes of the Regulation.

Governor Mitchell questioned how much would be accomplished by the proposed enforcement proceedings. The two banks were effectively controlled by the same interests, and that control was not dependent upon the interlocking relationships. In light of that fact, the Board's action might be regarded as little more than a tactic of harassment. The interests controlling these banks, and others, used such devices to circumvent Michigan State law prohibiting Statewide branch banking, and apparently the Michigan authorities were not doing anything to stop them.
Discussion of the point raised by Governor Mitchell included comments by the Legal Division that Congress had enacted a law prohibiting interlocking relationships and had given the Board responsibility for enforcing it. If the Board thought the law should be changed, that view should be communicated to Congress; but so long as the law was in effect, it should be enforced. Moreover, in the earlier stages of the present case the Board had taken a position and indicated an intention to act accordingly, and it seemed doubtful that the Board should now retreat in the absence of evidence that the position originally taken was in error. While no one could foretell with certainty how a court test of the matter might result, the Legal Division believed there was greater likelihood that the Board would be upheld than that it would be reversed.

From further discussion it developed to be the consensus that the Board should stand on what it considered to be the proper interpretation of the law. Although the implications of the point made by Governor Mitchell were recognized, it was believed to be incumbent upon the Board to enforce the law according to its best judgment as to what the law required.

The letters to the two bank officers whose interlocking service was in question (Messrs. Stanford C. Stoddard and Frank R. Welsher) were thereupon approved. A copy of the letter sent to Mr. Stoddard is attached as Item No. 4.
Pending legislation. Governor Robertson stated that he would like to know the views of the Board as to certain points that might be raised during his testimony tomorrow before the Senate Committee on Banking and Currency regarding H.R. 14026, which would provide flexible authority for Federal supervisory agencies to set maximum rates on deposit-type accounts, expand the permissible range of reserve requirements on member bank time deposits, and authorize the Federal Reserve System to buy and sell obligations of all Federal agencies. He surmised that the Committee would request comments especially on the amendments that had been made by the House of Representatives. One of these amendments placed a one-year limitation on the proposed new legislation, and another expressed the "sense of Congress" that interest rates should be reduced to the maximum extent feasible in the light of prevailing money market and general economic conditions.

Governor Robertson proposed, for reasons that he outlined, to recommend that the new authorities contained in the bill not be limited to one year; the Congress could always review the situation at the end of a year without providing for automatic termination. He believed, however, that the "sense of Congress" statement should be limited to one year. This would all be within the general context of endorsing the legislative proposals, consistent with the position taken earlier by the Board.

The ensuing discussion indicated general agreement by the other members of the Board with the approach Governor Robertson had suggested.
The meeting then adjourned.

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

**Appointment**

Margery Fisher as Research Assistant, Division of Research and Statistics, with basic annual salary at the rate of $6,451, effective the date of entrance upon duty.

**Salary increases, effective September 12, 1966**

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<tr>
<th>Name and title</th>
<th>Division</th>
<th>Basic annual salary</th>
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<td>Isaac V. Banks, Jr., Programmer</td>
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<td>Christine C. de Fontenay, Programmer</td>
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<td>James E. Miller, Programmer</td>
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<td>5,331 - 5,867</td>
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<td>(&quot;Trainee&quot; deleted from title)</td>
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Signed:

[Signature]

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

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by The Peoples-Liberty Bank and Trust Company, Covington, Kentucky, of a branch in the Blue Grass State Plaza on Dixie Highway at Dudley Pike, Crestview Hills, Kenton County, Kentucky, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)
The Honorable Edwin M. Zimmerman,  
Acting Assistant Attorney General,  
Antitrust Division,  
Department of Justice,  
Washington, D. C. 20530  

Dear Mr. Zimmerman:  

This refers to your letter of August 22, 1966, addressed to Chairman Martin requesting that your Department be furnished copies of applications filed with the Board under section 3(a) of the Bank Holding Company Act of 1956, as amended by Public Law 89-485, July 1, 1966, and that in connection with such applications you be furnished with copies of any reports and recommendations relating to such applications filed with the Board by other bank agencies pursuant to section 3(b) of the Act, as well as any other information relating to the proposal which the Board may deem appropriate for your purposes.  

Pursuant to your request, commencing with the next application filed under section 3(a) of the Act, a copy of each such application filed will be enclosed with the Board's letter advising your Department of its receipt. Further, pursuant to your request, in each instance where the views and recommendation of a bank supervisory authority are requested on an application pursuant to section 3(b) of the Act, such authority will be requested to furnish the same in duplicate and will be advised that one copy thereof is intended for the use of your Department. In the absence of objection by a supervisory authority to the Board's furnishing to you a copy of views and recommendation submitted, the same will be forwarded upon receipt by the Board. The Board's staff has been further directed to make available to your Department such additional information relating to each application that is considered pertinent to, and appropriate in the light of, the Department's statutory functions.  

Very truly yours,  

(Signed) Merritt Sherman  

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

Dear Joe:

As I understand Louis Robertson mentioned to you the other day, the Board's attention has been called to the Comptroller of the Currency's communication to national banks of August 23, 1966, in which the position was taken that national banks "have the right--if not the duty--to absorb exchange charges for their customers in the same manner and in the same amounts as ... their nonmember bank competition."

The position stated by the Comptroller relates to an area that lies solely within the Board's statutory authority, and it is contrary to the long-standing position of the Board in respect to the absorption of exchange charges. Apart from the substance of the issue, since the matter was not cleared through the Coordinating Committee on Bank Regulation, we would appreciate your advice before taking any further action.

Sincerely yours,

(Signed) Bill

Wm. McC. Martin, Jr.
September 12, 1966

Mr. Stanford C. Stoddard, President,  
Michigan Bank National Association,  
Guardian Building,  
Detroit, Michigan 48226  

Dear Mr. Stoddard:

In a letter of July 7, 1966, forwarded to you by the Federal Reserve Bank of Chicago with a covering letter of July 11, 1966, you were advised of the view of the Board of Governors that Livonia, Michigan is adjacent to Detroit, Michigan, within the meaning of section 8, paragraph 5, of the Clayton Act (15 U.S.C. § 19) and section 212.2(d)(5) of the Board's Regulation L, "Interlocking Bank Directorates Under the Clayton Act" (12 CFR 212.2(d)(5)) so that, no other exception applying to permit the service, an officer, director, or employee of your bank, the head office of which is located in Detroit, is forbidden to serve at the same time as an officer, director, or employee of Livonia National Bank, which has offices in Livonia. You have also been furnished with a copy of a factual memorandum dated March 30, 1966, by counsel for the Reserve Bank, in regard to the matter.

The Board understands that you and Mr. Frank R. Welsher, also an officer and director of your bank, are now serving as directors of Livonia National Bank. The Board's letter requested that steps be taken promptly to terminate such service, and the covering letter of July 11, 1966, asked that you advise counsel for the Reserve Bank when the interlocking services in question had been terminated. No such advice has been received.

Section 11 of the Clayton Act (12 U.S.C. § 21) charges the Board with the duty of enforcing section 8. Accordingly, unless the violation described above is terminated forthwith, the Board will have
no alternative but to commence an enforcement proceeding under that section, and the Board requests therefore that steps be taken by October 12, 1966, to correct the situation.

Identical letters are being sent to Mr. Welsher, to Michigan Bank, N.A., and to Livonia National Bank, with copies to Mr. Hodge, General Counsel of the Federal Reserve Bank of Chicago and to the Comptroller of the Currency.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.