

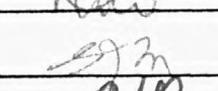
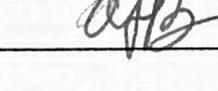
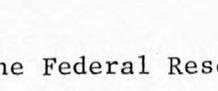
Minutes for September 13, 1966

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. 1/

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>

1/ Meeting with Presidents of the Federal Reserve Banks.

A meeting of the Board of Governors of the Federal Reserve System with the Presidents of the Federal Reserve Banks was held at the Federal Reserve Building in Washington, D. C., at 12:20 p.m. on Tuesday, September 13, 1966.

All of the members of the Board were in attendance at the meeting, along with all of the Reserve Bank Presidents except that the St. Louis Bank was represented by First Vice President Lewis. Other attendance from the Board and the Reserve Banks was essentially the same as at the meeting of the Federal Open Market Committee that preceded this joint meeting.

Direct verification. President Wayne, Chairman of the Conference of Presidents, noted that a summary of the topics considered by the Conference on September 12, 1966, had been distributed. Included in the summary was a statement of the Presidents' views with respect to the proposal contained in the Board's letter of August 17, 1966, that the System undertake direct verification of assets and liabilities at each examination in instances where State member banks did not have satisfactory internal controls and audit programs. In light of the comments in the summary of topics and the fact that the Board members had not yet had an opportunity to study them, President Wayne suggested that it would seem appropriate to defer a joint discussion of the subject until a later date.

It was agreed that the Board would consider the comments of the Conference and formulate its own views, after which the subject would be discussed by the Board with the Presidents.

Memo

Board of Governors
of the Federal Reserve System

Date

Time

To

From

Tel. No./Ext.

*Meeting with
L.B. Banks Associates*

- | | |
|---|--|
| <input type="checkbox"/> Please call | <input type="checkbox"/> As per conversation |
| <input type="checkbox"/> Returned your call | <input type="checkbox"/> For your information/approval |
| <input type="checkbox"/> Will call again | <input type="checkbox"/> Note and return |
| <input type="checkbox"/> See (phone) me re attached | <input type="checkbox"/> For comments and suggestions |
| | <input type="checkbox"/> Preparation of reply |

Message

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Study of State and national bank structure. President Wayne noted that the summary of topics also referred to the consideration given by the Presidents' Conference to a report of the Ad Hoc Subcommittee on Bank Charters dated August 1966, and that the Presidents would like to discuss this subject with the Board on some appropriate occasion.

Absorption of exchange charges. President Wayne said that the Presidents would appreciate being brought up to date on developments in the area of absorption of exchange charges, in light of the communication of August 23, 1966, in which the Comptroller of the Currency advised national banks that they had the right, if not the duty, to absorb exchange charges in the same manner as their nonmember bank competition.

Governor Robertson reviewed briefly the long history of efforts to discourage the charging of exchange and to resolve the problem created by the differing views of the Board and the Federal Deposit Insurance Corporation on whether the absorption of exchange charges represented an indirect payment of interest on demand deposits. He noted that the Comptroller's letter accentuated the problem of inequity as among the several classes of banks. One possibility was for the Board to adopt the position of the Federal Deposit Insurance Corporation that absorption of exchange would not amount to an indirect payment of interest on demand deposits, while another possibility was to see what could be done in the way of obtaining support from the Corporation.

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The Board had met last week with Chairman Randall and Director Sherrill and found that they would be reluctant to have the Board change its position because they felt that that would encourage nonpar banking. Instead, they indicated that they would like to explore ways and means of combating the practice of charging exchange. They felt that something might be done through exercising the Corporation's powers over nonmember insured banks in such a way as to discourage nonpar banking, perhaps, for example, by adopting a position that no nonpar bank would be granted deposit insurance or the right to establish branches.

The hope was, Governor Robertson said, that some basis could be worked out for solving the current problem within a reasonable period of time and without encouraging a growth of nonpar banking. The Board had agreed to meet again with Messrs. Randall and Sherrill to see what conclusions they had reached.

President Galusha said that no nonpar banks were being chartered in Minnesota. The former Commissioner of Banks had initiated this restriction, which was being continued by the present Commissioner. In addition, there was evidence that the nonpar banks were moving, under urging from the present Commissioner, to correct the existing situation. A bill was being prepared that would have the effect of phasing out nonpar banking by 1970, in return for which the nonpar banks were seeking certain concessions from the State Banking Department. If legislation should be enacted in Minnesota,

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it was understood that South Dakota might follow. At present, however, matters were in delicate balance.

President Galusha also commented that the Minneapolis Reserve Bank was continuing the quiet campaign against nonpar banking that it had started a year or so ago. Among other things, Governor Brimmer had performed a service by discussing the subject in his speech in Minneapolis earlier this year. All in all, there was a strong likelihood that the proposed bill would be introduced, and it would seem advantageous if there was no official System expression until the Minnesota legislature had had a chance to consider the matter. Any indication that the Board would relax its position on exchange absorption would diminish the pressure for the legislation, because without much doubt the large Twin City banks would then begin to absorb exchange.

Governor Robertson inquired whether it would be desirable for the Board to reaffirm its present position, and President Galusha suggested that it would be preferable just to let him carry back to the heads of the major Twin City banks an indication that there was a sense of urgency and that they should throw their support behind State legislation to eliminate nonpar banking. He thought that that would be more effective than any public announcement.

Question was raised whether the Reserve Banks had had inquiries from banks following the issuance of the Comptroller's letter, and President Galusha said the Minneapolis Bank had received no request

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that the System take any action. President Wayne said some questions had come up in the Fifth and Sixth Districts, with the hope being expressed generally that if the Board did anything it would reaffirm its present position. President Irons said that to the best of his knowledge no questions had been raised by Eleventh District banks since the Comptroller's announcement, and he had not heard that any national bank was contemplating the absorption of exchange. President Patterson said one State member bank in Louisiana had asked for forms to apply for withdrawal from System membership. Also, a large national bank in Atlanta had expressed concern about the large cost that would be involved should developments make it necessary for that bank to absorb exchange charges.

President Wayne suggested that the Board not be influenced unduly by rumors that banks in various places might be planning to absorb exchange, because such rumors usually proved to be unfounded. President Clay said he had received some inquiries from bankers who were concerned about the possibility of a change in the Board's position. He felt that the inquiries probably were motivated by a desire for reassurance that the Board would continue its present position and that the banks concerned would not be left in a poor competitive position. President Wayne said his reply to the inquiries he had received was that so far as he knew the Board had not given consideration to changing its position at this time.

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In reply to a question, President Galusha said he felt that an announcement by the Federal Deposit Insurance Corporation of steps such as mentioned by Messrs. Randall and Sherrill would be more effective than any action on the part of the Federal Reserve, because in his territory the Corporation was in a much different position from the Federal Reserve vis-a-vis nonpar banks. A statement by the System might simply harden attitudes, but anything that could be done to keep pressure on the nonpar banks would be desirable. Representatives of the Minneapolis Reserve Bank had been referring to the subject of nonpar banking in talks around the District, and there had been articles in the Bank's publications, all with a view to putting across the idea that changes taking place in the banking industry left no room for nonpar banking.

Governor Robertson asked whether the Reserve Banks would know whether any banks in their Districts had shifted to the practice of exchange absorption, and President Wayne replied that the Reserve Banks would no doubt become aware of the development if exchange charges were absorbed in any substantial amount. Presidents Patterson and Irons agreed, and President Galusha said there had been no such instances in the Ninth District.

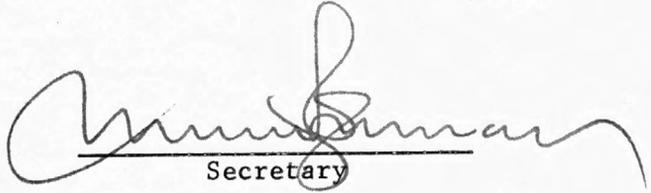
President Wayne said he assumed the Board would like to be kept informed of any significant developments in the respective

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Reserve districts, and Chairman Martin replied in the affirmative.

The meeting then adjourned.


Secretary