

Minutes for September 14, 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

Gov. Robertson

Gov. Shepardson

Gov. Mitchell

Gov. Daane

Gov. Maisel

Gov. Brimmer

(W)
[Signature]
[Signature]
[Signature]
[Signature]
[Signature]
[Signature]

Minutes of the Board of Governors of the Federal Reserve

System on Wednesday, September 14, 1966. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Robertson, Vice Chairman
Mr. Shepardson
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. Solomon, Adviser to the Board
Mr. Molony, Assistant to the Board
Mr. Brill, Director, Division of Research and
Statistics
Mr. Solomon, Director, Division of Examinations
Mr. Harris, Coordinator of Defense Planning
Mr. Hexter, Associate General Counsel
Mr. O'Connell, Assistant General Counsel
Mr. Partee, Associate Director, Division of
Research and Statistics
Messrs. Daniels and Kiley, Assistant Directors,
Division of Bank Operations
Messrs. Goodman, Leavitt, and Smith, Assistant
Directors, Division of Examinations
Mrs. Semia, Technical Assistant, Office of the
Secretary
Messrs. Sanders, Senior Attorney, and Shuter,
Attorney, Legal Division
Messrs. Eckert, Chief, Banking Section, and Keir,
Chief, Capital Markets Section, Division of
Research and Statistics
Miss Ormsby, Economist, Division of Research and
Statistics
Messrs. Egertson and Maguire, Supervisory Review
Examiners, and Poundstone, Review Examiner,
Division of Examinations
Messrs. McIntosh and White, Technical Assistants,
Division of Bank Operations

9/14/66

-2-

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.

Item No.

Letter to The Merrill Trust Company, Bangor, Maine, approving the establishment of a branch in Lincoln.

1

Letter to Security Trust Company of Rochester, Rochester, New York, granting an extension of time to establish a branch in Penfield and commenting on the bank's capital position.

2

Letter to Bank of Keytesville, Keytesville, Missouri, waiving the requirement of six months' notice of withdrawal from membership in the Federal Reserve System.

3

Letter to the Federal Deposit Insurance Corporation regarding the application of Bank of Keytesville, Keytesville, Missouri, for continuation of deposit insurance after withdrawal from membership in the Federal Reserve System.

4

Reports on competitive factors. A report to the Federal Deposit Insurance Corporation on the competitive factors involved in the proposed merger of American Bank and Trust Co. of Pa., Reading, Pennsylvania, and Columbia Trust Company, Columbia, Pennsylvania, was approved unanimously for transmittal to the Corporation. The conclusion read as follows:

There is little, if any, competition existing between American Bank and Trust Co. of Pa., Reading, and Columbia Trust Company. Until recently, Columbia was served by three locally headquartered, comparatively small banks. If this transaction and the proposal involving the remaining bank in Columbia are consummated, Columbia will be served by branches of three large banks.

9/14/66

-3-

American Bank and Trust Co. of Pa. is presently by far the largest bank operating in its service area, and it would continue to be by far the largest institution in the service area of the resulting bank. However, since the proposal represents American Bank and Trust Co.'s expansion into a new area, the overall competitive effects do not appear to be significantly adverse.

A report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of The First National Bank of Boonville, Boonville, New York, into The Oneida National Bank and Trust Company of Central New York, Utica, New York, was approved unanimously for transmittal to the Comptroller. The conclusion read as follows:

There appears to be little, if any, competition existing between The First National Bank of Boonville and The Oneida National Bank and Trust Company of Central New York, Utica. While the proposed merger would increase the concentration of banking resources in the Oneida-Herkimer County area, the overall effect on competition would not be significantly adverse.

Consummation of the proposed transaction would represent a change in the nature of competition in Boonville as the remaining locally-headquartered bank would be in direct competition with a branch of a substantially larger institution in place of a bank of comparable size.

Requests by Internal Revenue Service (Items 5 and 6). There had been distributed a memorandum dated September 8, 1966, from the Legal Division regarding a request by the Acting Commissioner of Internal Revenue that his designee be permitted to examine certain parts of an examination report and other papers relating to the examination as of November 14, 1962, of Boston Overseas Financial Corporation, Boston,

9/14/66

-4-

Massachusetts, a wholly-owned subsidiary of First National Bank of Boston. The memorandum described the purpose for which the Internal Revenue Service desired the information requested, commented on the Board's practice in regard to supplying certain types of unpublished information to other Government agencies, and concluded with the recommendation that the Board grant the requested permission. A draft of letter to the Acting Commissioner of Internal Revenue reflecting that recommendation was attached.

After discussion the letter was approved unanimously. A copy is attached as Item No. 5.

Concurrently with consideration of the foregoing item, the Board discussed the implications of a situation, reported by Mr. O'Connell, in which the Internal Revenue Service had issued summonses to Valley Bank of Nevada, Reno, and Bank of Las Vegas, both in Nevada, calling for the production by each of the banks of four specified reports of examination, two of which were prepared by the State of Nevada and the other two by the Federal Reserve Bank of San Francisco. The latter reports were technically the property of the Board. Internal Revenue Service had indicated that the reports were needed for purposes of an investigation of the tax returns of the two banks. However, because of circumstances that Mr. O'Connell described, there seemed to be some reason to believe that the interest of Internal Revenue Service in the reports might be of a broader nature. The Federal Reserve Bank of San Francisco had expressed reservations whether the member banks should comply with the summonses in the

9/14/66

-5-

absence of a court order, and the Division of Examinations also had misgivings. It was understood that the Attorney General for the State of Nevada had advised the banks not to produce the reports of examinations made by the State authorities, on the ground that the summonses should have been directed to the State banking authorities rather than to the banks.

During discussion of various aspects of the problem there was general agreement that, while the Board should be cooperative, within reasonable limitations, with respect to requests by other Government agencies, it would be preferable that Internal Revenue Service obtain the information it needed through administrative arrangements in Washington rather than through action in the field.

In the course of further discussion, it was agreed that the most satisfactory approach to resolving the particular issue here involved would be for Governor Robertson to contact the Commissioner of Internal Revenue, explain the problem, request that the summonses be withdrawn, and assure him that the San Francisco Reserve Bank would cooperate in making available pertinent information from the examination reports in question.

Secretary's Note: Subsequent to a telephone conversation with the Commissioner of Internal Revenue, Governor Robertson addressed a letter to President Swan of the Federal Reserve Bank of San Francisco in the form attached as Item No. 6.

9/14/66

-6-

Report on mobilization activities (Item No. 7). There had been distributed a memorandum dated September 7, 1966, from Mr. Harris attaching a draft of report on mobilization activities for the past year to be sent in response to the usual request from the Joint Committee on Defense Production. The proposed report summarized preparedness programs relating to the Federal Reserve System and to commercial banking institutions, and reported on the V-loan program (Government guaranteed loans to finance defense production).

After summary comments by Mr. Harris, the report was approved unanimously. A copy of the transmittal letter to Committee Chairman Robertson is attached as Item No. 7.

Messrs. Harris, O'Connell, Shuter, Egertson, Maguire, and Poundstone then withdrew from the meeting.

New York building program (Item No. 8). On June 24, 1966, the Board granted the Federal Reserve Bank of New York an expansion of authority to terminate certain leases on property acquired in 1964 as a site for additional office space. However, the Board deferred action on a request by the New York Bank for permission to engage an architect to prepare preliminary plans and specifications for an annex building, principally because of uncertainties in then-available information bearing upon the impact of automation on the future size of the Bank's staff and on its space needs. The Board's staff was requested to prepare an analysis of those needs in the light of questions raised by members of the Board.

9/14/66

-7-

There had now been distributed a memorandum dated August 29, 1966, from Mr. Kiley, attaching a draft of letter that would inform the Federal Reserve Bank of New York of the Board's desire for further information before acting on the Bank's request for authority to have preliminary plans for a building prepared. The letter would enclose a copy of a study plan developed by the Division of Bank Operations pursuant to the Board's June 24 request.

During discussion, there was agreement on several changes in the draft letter. In addition, Governor Brimmer recalled that at the meeting on June 24 he had suggested the importance of taking into account environmental considerations. He continued of the opinion that this was a substantive facet of the study. Other members of the Board agreed that the matter of environment should be taken into account in the study, but felt it would not be necessary to make explicit reference to that facet of the matter at this time.

The letter was thereupon approved unanimously in the form attached as Item No. 8.

Messrs. McIntosh and White then withdrew from the meeting.

Discount administration. There had been distributed a memorandum dated September 9, 1966, from Mr. Holland regarding measures taken to implement the discount administration program initiated by the Federal Reserve early this month. A telephone conference held with the discount officers of the Federal Reserve Banks indicated two points in particular concerning which the staff would like to know the Board's thinking.

9/14/66

-8-

The first question related to the desirability of coordinating interpretations of the program by the Board or its staff and by the Reserve Banks. To this end, it was suggested that, if feasible, any member bank officer who inquired of the Board or its staff regarding the import of any aspect of the program be referred to the discount officer of his Reserve Bank. If it was not feasible to refer the inquiry in such manner, it was suggested that a memorandum of the substance of the question and the reply given be sent to the appropriate discount officer.

The second question involved differences in the approach taken by the various Reserve Banks in implementing the announcement of the program; some had had meetings with member banks to discuss contemplated procedures, others had provided information only when member banks requested clarification, and still others planned to elaborate on the subject only when a member bank arrived at a borrowing position that might conflict with the principles of the program. The question was to what extent greater uniformity would be desirable, and through what means it should be achieved.

At the Board's request, Mr. Holland commented in supplementation of the distributed material, bringing out that the Board's views were sought especially as guidance for the staff in discussions at next week's conference of the Federal Reserve discount officers in New York.

The ensuing discussion disclosed general agreement among the members of the Board, with respect to the first question raised in the memorandum, that coordination in the manner suggested would be desirable.

9/14/66

-9-

In regard to the different approaches used by the Reserve Banks in implementing the program, Chairman Martin expressed the view that while uniformity of policy was desirable, the Board should not go too far in telling the individual Reserve Banks how to operate; it was to be expected that there would be judgmental differences on administrative procedures.

Governor Robertson remarked that the question appeared to be one of deciding the best lines of communication between the Reserve Bank and the member banks of each District, and that the Reserve Banks should be free to follow, after due consideration on their part, whatever course appeared best in the light of their particular circumstances.

Governor Brimmer agreed that the Board should not attempt to instruct the Reserve Bank Presidents or the discount officers in detail how to proceed. However, his thought was that it would be well for each Reserve Bank to have at least one meeting with officers of leading banks for discussion of the program, as a follow-up to the letter that had been sent by the Reserve Banks to all member banks. He believed the Reserve Banks that were not planning to discuss the program until a member bank's borrowing position needed special attention should be encouraged to take some action before that point was reached.

After further discussion Chairman Martin summarized the tenor of the Board's views by saying that the staff could indicate at the discount officers' conference the Board's interest in making the program

9/14/66

-10-

an effective one, and urge the individual Reserve Banks to take whatever measures would produce that result. If the discussions at the conference disclosed any significant operational problems, the staff should report back to the Board.

H.R. 14026. Governor Robertson requested exploratory discussion of possible actions to be taken by the Board upon passage, which appeared imminent, of 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 time deposits in member banks, and authorize the System to buy and sell all Federal agency obligations. (During Governor Robertson's opening remarks the members of the Board were furnished copies of memoranda dated September 14 from Mr. Eckert regarding the definition of consumer-type time deposits, from Messrs. Keir and King regarding the setting of rate spreads within statutory rate ceilings for different types of savings institutions, and from Messrs. Brill and Partee discussing the merits of a freeze on time deposit interest rates. Also distributed were tables outlining alternative rate ceiling plans, effective interest or dividend rates paid by depository-type financial institutions, and member banks paying over 5 per cent on any consumer-type time deposit on May 11, 1966.)

Governor Robertson commented that three guidelines for administrative action were embodied in the legislation: first, a "sense of Congress" statement that interest rates should be kept as low as possible

9/14/66

-11-

in the light of prevailing money market and general economic conditions; second, an indication that it was incumbent upon the Federal authorities to prevent further escalation of interest rates; and third, a provision that the regulatory authority to implement these objectives was only temporary, terminating automatically in one year. He believed that the Board should act fairly promptly after the new law was approved.

Governor Robertson then outlined possible actions that the Board might take, emphasizing that he was trying to generate suggestions to assist the Board in thinking through the problem and did not wish to foreclose any approach. He noted that the rate ceilings to be adopted would have to be the subject of consultation with the Federal Deposit Insurance Corporation and the Federal Home Loan Bank Board; the latter would be setting dividend ceilings for the first time on savings and loan share accounts. It probably would be difficult to obtain agreement upon the differential to be provided between rates payable by thrift institutions and by member and insured nonmember commercial banks. Over the years it had been felt that a differential of $1/2$ of 1 per cent favoring thrift accounts was justified as an offset to the advantage enjoyed by commercial banks in attracting customers by virtue of the wider range of services that could be offered. However, his view was that a differential of $1/4$ of 1 per cent might be more realistic at the present time.

A related circumstance was a problem faced by the Federal Home Loan Bank Board in regard to savings and loan associations in California,

9/14/66

-12-

Alaska, Nevada, and Hawaii, which had been offering higher rates than institutions in other parts of the country to attract outside funds. Governor Robertson said that while his preference would be to have uniform rates throughout the country for institutions of the same types, he recognized the fact that the foregoing circumstance might require some compromise of that principle.

Governor Robertson then advanced, as a point of departure, two possible courses of action that the supervisory agencies might follow upon enactment of the pending legislation to carry out the underlying interest rate objective, both of which would focus on consumer-type time deposits of under \$100,000. The first possibility would be to establish a ceiling of 5 per cent for commercial banks, with differential rates within that ceiling based on maturity, and a 5-1/4 per cent maximum dividend rate for savings and loans and mutual savings banks. In the alternative, a ceiling of 5 per cent for commercial banks, without regard to maturity, and 5-1/4 per cent for thrift institutions could be established, accompanied by a requirement that rates presently below these levels be maintained at the existing level on the theory that such a structure already must reflect a viable competitive posture. He recognized, however, that to roll back rates for banks in areas where they had been competing most aggressively with mutual thrift institutions for funds, or to freeze rates where such competition had not been particularly strong but there was a possibility it might develop in intensity,

9/14/66

-13-

could be inequitable. While data for the last six months indicated that banks had shown a more satisfactory trend in attracting savings funds than had the mutual thrift institutions, these data were aggregative and therefore did not reflect variations due to geographical or other considerations.

Governor Robertson observed that, all things considered, it would seem that the action to be taken should be one that would not occasion a severe impact on flows of savings funds, while conforming to the underlying spirit and purpose of the legislation.

During the following discussion Chairman Martin expressed the view that the Board should not take action hastily, and should think through the problem carefully; he would rather be subject to some criticism for delay than to act precipitously. Especially, he believed it advisable to hear the views and proposals of the other agencies involved, and then determine how the Board's action should be coordinated with them.

Governor Brimmer said he thought the question of timing was vital; the October 1 interest or dividend date would be of special interest.

Governor Robertson expressed agreement, but added that one of the problems faced by the Federal Home Loan Bank Board was that a number of savings and loan associations were on a semiannual rather than quarterly dividend basis.

Governor Brimmer stated that it would be his preference to avoid complexity and to take as simple an action as possible. He would favor

9/14/66

-14-

steering clear of action involving maturities, and he believed imposing a 5 per cent rate ceiling on time deposits under \$100,000 would be reasonable to separate consumer-type certificates from money-market certificates. Also, while he conceded the desirability of a differential for mutual thrift institutions, he thought that decision must be left primarily to the agency concerned.

Governor Shepardson agreed that there was merit in the thought of keeping the action simple and avoiding any more disruption than necessary. On the other hand, he could see more justification on economic grounds for a differential in terms of maturity than on any other basis.

At the conclusion of the discussion it was understood that the staff would develop additional background analysis as a basis for further consideration of the subject within the next few days, and that Governor Robertson would represent the Board in interagency consultations on this subject.

The meeting then adjourned.

Secretary's Notes: Attached as Item No. 9 is a copy of a letter that was sent over the signature of Chairman Martin to the Chairman of the House Banking and Currency Committee on September 13, 1966, regarding S. 1556, a bill that would authorize the Board of Governors of the Federal Reserve System to delegate certain of its functions.

On September 13, 1966, Governor Shepardson approved on behalf of the Board the following items:

9/14/66

-15-

Letter to the Federal Reserve Bank of Cleveland (copy attached as Item No. 10) approving the appointment of Donald R. Barnard as assistant examiner.

Telegram to the Federal Reserve Bank of Atlanta (copy attached as Item No. 11) approving the appointment of David L. Billingsley as assistant examiner.

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

Appointment

Charles W. Bennett as Analyst, Division of Bank Operations, with basic annual salary at the rate of \$6,877, effective the date of entrance upon duty.

Military leave

Reginald Haynes, Messenger, Division of Administrative Services, for a period of approximately two years beginning the close of business September 23, 1966, for a tour of duty in the Armed Forces of the United States.

Acceptance of resignation

Pearle E. Randour, Statistical Supervisor, Division of Data Processing, effective the close of business September 23, 1966.

Governor Shepardson today approved
on behalf of the Board the following
items:

Letter to the Federal Reserve Bank of Philadelphia (copy attached as Item No. 12) approving the appointment of Arthur L. Morath, Jr., as assistant examiner.

Letter to the Federal Reserve Bank of Kansas City (copy attached as Item No. 13) approving the designation of 51 employees as special assistant examiners.

Letter to the Federal Reserve Bank of San Francisco (copy attached as Item No. 14) approving the appointment of Ruel Baker, Jr., as assistant examiner.

9/14/66

-16-

Memorandum from the Division of Personnel Administration dated September 12, 1966, recommending approval of certain outside business or teaching activities reported by members of the Board's staff and not previously approved by the Board.

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

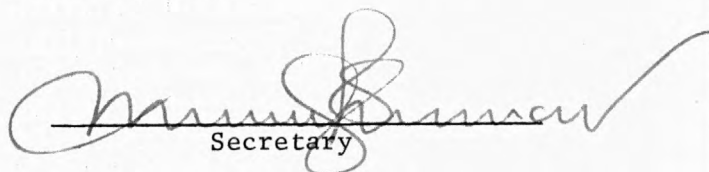
Appointments

Carolyn L. Babin as Statistical Clerk, Division of Research and Statistics, with basic annual salary at the rate of \$4,776, effective the date of entrance upon duty.

Shirley L. B. Jackson as Chart Machine Operator, Division of Data Processing, with basic annual salary at the rate of \$7,055, effective the date of entrance upon duty.

Acceptance of resignation

Priscilla E. Wurtzel, Records Clerk, Office of the Secretary, effective the close of business September 16, 1966.


Secretary

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

Item No. 1
9/14/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 14, 1966



Board of Directors,
The Merrill Trust Company,
Bangor, Maine.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by The Merrill Trust Company, Bangor, Maine, of a branch located at 81 Main Street, Lincoln, Maine, provided the branch is established within six months 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.)

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

Item No. 2
9/14/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 14, 1966

Board of Directors,
Security Trust Company of Rochester,
Rochester, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System extends to October 6, 1967, the time within which Security Trust Company of Rochester, Rochester, New York, may establish a branch on the south side of Browncroft Boulevard, east of the intersection of Browncroft Boulevard, Blossom Road and Creek Street, Town of Penfield (unincorporated area), Monroe County, New York.

The Board trusts that continuing attention is being given to your bank's capital position.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 3
9/14/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 14, 1966

Board of Directors,
Bank of Keytesville,
Keytesville, Missouri.

Gentlemen:

The Federal Reserve Bank of St. Louis has forwarded to the Board of Governors a letter dated August 24, 1966, signed by President Herman King, together with the accompanying resolution, signifying your intention to withdraw from membership in the Federal Reserve System and requesting waiver of the six months' notice of such withdrawal.

The Board of Governors waives the requirement of six months' notice of withdrawal. Under the provisions of Section 208.10(c) of the Board's Regulation H, your institution may accomplish termination of its membership at any time within eight months from the date that notice of intention to withdraw from membership was given. Upon surrender to the Federal Reserve Bank of St. Louis of the Federal Reserve stock issued to your institution, such stock will be cancelled and appropriate refund will be made thereon.

It is requested that the certificate of membership be returned to the Federal Reserve Bank of St. Louis.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

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

Item No. 4
9/14/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 14, 1966



The Honorable K. A. Randall, Chairman,
Federal Deposit Insurance Corporation,
Washington, D. C. 20429

Dear Mr. Randall:

Reference is made to your letter of September 6, 1966, concerning the application of Bank of Keytesville, Keytesville, Missouri, for continuance of deposit insurance after withdrawal from membership in the Federal Reserve System.

There have been no corrective programs urged upon the bank, or agreed to by it, which have not been fully consummated, and there are no programs that the Board would advise be incorporated as conditions of admitting the bank to membership in the Corporation as a nonmember of the Federal Reserve System.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.



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

Item No. 5
9/14/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 14, 1966

William H. Smith, Acting Commissioner,
Internal Revenue Service,
U. S. Treasury Department,
Washington, D. C. 20224

Re: CP: AP: SS: MGH

Dear Mr. Smith:

Pursuant to your request of August 24, 1966, the Board of Governors will make available to Mr. Martin G. Hendricks portions of the Examination Report (and related reports) of the Boston Overseas Financial Corporation respecting the transfer of the capital stock of the Corporacion Financiera de Boston S.A.F.y C. from Massnat Corporation to Boston Overseas Financial Corporation on November 28, 1961. Mr. Hendricks may arrange to inspect the reports, at a time convenient to him, at the Board's offices during official business hours. The arrangements may be made through Mr. Glenn M. Goodman by telephoning government code 147 extension 612.

These reports are made available with the understanding that the information contained therein will be held in strict confidence and used only for developing leads for investigation. It is further understood that no effort will be made to use the information in any court or similar proceeding, without further authorization from the Board.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 6
9/14/66

OFFICE OF THE VICE CHAIRMAN

September 16, 1966



Mr. Eliot J. Swan, President,
Federal Reserve Bank of San Francisco,
San Francisco, California. 94120

Dear Mr. Swan:

This refers to the receipt by Valley Bank of Nevada, Reno, and Bank of Las Vegas, Las Vegas, both of Nevada, of summonses from the Internal Revenue Service ("IRS") calling for the production by each of the banks of four specified reports of examination, two of which were prepared by the Federal Reserve Bank of San Francisco, and two by the State of Nevada Banking Division. The summonses are stated to have been issued in connection with an investigation by IRS of the tax returns of the two banks for the calendar years 1964 and 1965. With respect to the two reports in the possession of each bank that were prepared by your Bank's examiners, you have asked that the Board respond to the banks' requests for instructions regarding their response to the summonses.

The Board has been informed of the facts in this matter, including your staff's conversations with representatives of the IRS, and of the position which the State of Nevada Superintendent of Banks has taken in directing the banks to decline to respond to the demand for State reports of examination unless and until summonses are directed to the Superintendent of Banks. The Board also was informed of and appreciates fully the reasons underlying your Bank's opposition to authorizing the banks to comply with the demand for the Board's reports of examination. At the same time, the Board expressed its concern over the likelihood that its refusal to authorize response to the summonses would result in IRS seeking Federal district court enforcement thereof. The Board was strongly of the view that preferable to the prospective court action would be an administrative resolution of the matter.

With Board concurrence, I telephoned Commissioner of Internal Revenue Cohen, advised him of the problem, expressed the Board's concern over the potential for public litigation involving the Federal Reserve System, IRS, and member banks, and indicated that if the summonses were withdrawn the Board would make available at your Bank your

Mr. Eliot J. Swan

-2-

copies of the Federal Reserve reports of examination in question. In making this suggestion, I expressed the Board's desire to cooperate with IRS in its law enforcement efforts and expressed my belief that the proposal would meet the investigative needs of IRS. The Commissioner called me later in the day and assured me that the summonses for the Board's copies of reports of examination of the two banks would be withdrawn, and that his staff would be told that IRS field representatives could contact you respecting arrangements for access to the reports of examination in question.

Accordingly, the Board authorizes you to make available to representatives of the IRS, for study at your Bank under mutually agreeable time and circumstances, reports of examination of June 9, 1964, and March 22, 1965, of Valley Bank of Nevada, and reports of examination of October 26, 1964, and May 14, 1965, of Bank of Las Vegas. This authorization contemplates IRS access only to the open section of the four reports, with opportunity for notetaking or for copying of such portions of the several reports of examination as are shown to be reasonably relevant to the investigation being made of the 1964 and 1965 tax returns of the two banks. Should a proposal for extracting or copying a particular portion of a report raise a serious question either as to the relevancy of the data sought to the stated purpose of the IRS investigation or as to a potential conflict with the public interest, if such question cannot be resolved by the discussants, the matter should be forwarded to the Board for determination. Finally, the authorization herein given contemplates that any information obtained by IRS from its study of these reports of examination will be used solely for investigative purposes and that before any other use is made of any information obtained from the reports of examination, particularly its use in a judicial proceeding of any nature, the Board's authorization therefor will be obtained.

Again, I wish to emphasize that the manner in which this problem has been resolved reflects the Board's desire to give the fullest practicable weight to the considerations raised by you and your associates in urging that the member banks not be authorized to comply with the summonses issued by IRS, and at the same time to continue in effect the pattern of cooperation between the Board and other Federal agencies in their law enforcement efforts. The arrangements made appear to avoid the most troublesome aspect with which we were faced, namely, a courtroom confrontation between the Board and IRS. The avoidance of such confrontation in the manner proposed appears to be in the best interest of the parties involved, and of the public.

Your assistance along the lines indicated will be appreciated.

Sincerely,

(Signed) J. L. Robertson

J. L. Robertson.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 7
9/14/66

OFFICE OF THE CHAIRMAN

September 14, 1966

The Honorable A. Willis Robertson,
Chairman,
Joint Committee on Defense Production,
Congress of the United States,
Washington, D. C.

Dear Mr. Chairman:

In response to your letter of July 1, 1966, attached is a summary of mobilization activities of the Board of Governors for the year ending June 30, 1966.

The summary covers three major programs -- preparations of the Board of Governors and Federal Reserve Banks for war emergencies, preparations of banking institutions for the continuity of operations in the event of an attack on the United States, and activities related to the guaranteed defense production loan program.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Attachment.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 8

9/14/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 15, 1966.

Mr. Alfred Hayes, President,
Federal Reserve Bank of New York,
New York, New York 10045.

Dear Mr. Hayes:

This refers to the request in your letter of April 19, 1966, for permission to engage an architect to prepare preliminary plans and specifications for the proposed additional banking quarters for the head office.

During the Board's consideration of the differing views expressed in your letter and in the report of the Diebold Group, Inc., which accompanied it, question was raised whether the building plans should be deferred until the impact of automation on Reserve Bank operations becomes more clear. The difficulties that have so far been encountered in attempting to resolve this question would seem to suggest a likelihood that there is not yet available enough information to permit settled judgments in this regard.

During the discussions of your letter of April 19, 1966, questions were also raised about the following matters and the Division of Bank Operations was asked to make a study and report on them:

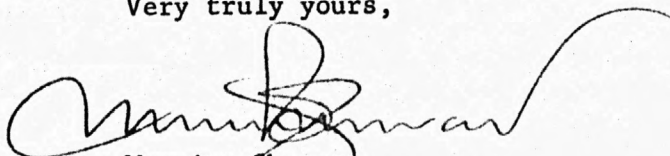
- (1) Reliability of current staff levels as a basis for estimating future space requirements.
- (2) Desirability of retaining the present main building, from the point of view as to whether it would be prudent to base building plans on long-term continued use of a structure that is now over 40 years old.

Pursuant to this assignment the Division of Bank Operations has developed a study plan which the Board has approved, and a copy of which is enclosed. The study plan calls for considerable additional

-2-

information from your Bank, and your cooperation in this regard will be appreciated. If your staff has any questions concerning the data requested, it is suggested that they be addressed to Mr. John N. Kiley, Assistant Director, Division of Bank Operations.

Very truly yours,

A handwritten signature in dark ink, appearing to read 'Merritt Sherman', with a large, sweeping flourish extending to the right.

Merritt Sherman,
Secretary.

Enclosure.



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

Item No. 9
9/14/66

OFFICE OF THE CHAIRMAN

September 13, 1966

The Honorable Wright Patman,
Chairman,
Committee on Banking and Currency,
House of Representatives,
Washington, D. C. 20515

Dear Mr. Chairman:

This is in response to your request for a report on S. 1556. This bill would authorize the Board of Governors to delegate to its members or employees or to the Federal Reserve Banks the performance of functions of the Board other than its functions relating to the issuance of regulations or pertaining principally to monetary and credit policies. The Chairman of the Board would assign responsibility for the performance of particular delegated functions. Effective administrative means for review and control of actions at a delegated level would be afforded by a provision of the bill that would enable any member of the Board to require review of such action by the Board itself.

In recent years, the responsibilities of the Board of Governors have increased substantially, both in the field of monetary and credit policy and in the field of bank supervision and regulation. For example, the Bank Holding Company Act of 1956, the Bank Merger Act of 1960, and the Securities Acts Amendments of 1964 have substantially added to the regulatory duties of the Board.

The efficient and expeditious performance of the Board's functions would be facilitated by clear authority, such as that provided by S. 1556, to delegate certain types of bank supervisory functions that now must be performed in all cases by the Board itself.

For example, present law expressly requires Board approval for an extension of time for filing of reports by affiliates of State member banks, for extensions of time for registration by a bank holding company, for extensions of time for registration of securities of State member banks, for waiver of the six months' notice that a State member bank must give before withdrawing from membership, for any investment by a State member bank in bank premises in excess of its capital stock, for the declaration of dividends by a State member bank in certain circumstances, and for the purchase of certain stocks by foreign banking corporations.

The Board might not decide to delegate the performance of all of the particular functions just mentioned if S. 1556 were enacted. They are cited here merely to illustrate the kinds of functions that could be delegated under the bill if, in the light of experience, the Board determined that their delegation would be desirable.

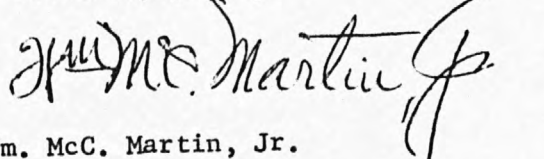
Other Federal regulatory agencies have been authorized by statute or Reorganization Plans to make more or less unlimited delegations of their functions. Such authority is possessed, for example, by the Interstate Commerce Commission, the Federal Trade Commission, the Federal Home Loan Bank Board, the Civil Aeronautics Board, the Federal Maritime Commission, and the Securities and Exchange Commission.

The situation with which the Board of Governors is presently faced because of its lack of specific authority to delegate any of its functions is perfectly described in the following excerpt from a message sent to Congress by President Kennedy on April 13, 1961:

"The reduction of existing delays in our regulatory agencies requires the elimination of needless work at their top levels. Because so many of them were established in a day of a less complex economy, many matters that could and should in large measure be resolved at a lower level required decision by the agency members themselves. Even where, by the force of circumstances, many of these matters are now actually determined at a lower level they still must bear the imprimatur of the agency members. Consequently, unnecessary and unimportant details occupy far too much of the time and energy of agency members, and prevent full and expeditious consideration of the most important issues."

Accordingly, the Board strongly recommends prompt approval of S. 1556 by your Committee and by the Congress.

Sincerely yours,



Wm. McC. Martin, Jr.

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

Item No. 10
9/14/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 14, 1966

Mr. Harry W. Huning, Vice President,
Federal Reserve Bank of Cleveland,
Cleveland, Ohio. 44101

Dear Mr. Huning:

In accordance with the request contained
in Mr. Pugh's letter of September 8, 1966, the
Board approves the appointment of Donald R.
Barnard as an assistant examiner for the Federal
Reserve Bank of Cleveland. Please advise the
effective date of the appointment.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.



TELEGRAM
LEASED WIRE SERVICEItem No. 11
9/14/66**BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM**
WASHINGTON

September 13, 1966.

STEPHENSON - ATLANTA

Reurlet September 9, 1966, Board approves appointment of
David L. Billingsley as an assistant examiner Federal
Reserve Bank of Atlanta. Please advise effective date
appointment.

(Signed) Carmichael

Carmichael

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

Item No. 12
9/14/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 14, 1966

Mr. Joseph R. Campbell, Vice President,
Federal Reserve Bank of Philadelphia,
Philadelphia, Pennsylvania. 19101

Dear Mr. Campbell:

In accordance with the request contained in your letter of September 9, 1966, the Board approves the appointment of Arthur L. Morath, Jr. as an assistant examiner for the Federal Reserve Bank of Philadelphia. Please advise the effective date of the appointment.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.



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

3405

Item No. 13
9/14/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 14, 1966

Mr. George D. Royer, Jr., Vice President,
Federal Reserve Bank of Kansas City,
Kansas City, Missouri. 64106

Dear Mr. Royer:

In accordance with the request contained in your letter of September 8, 1966, the Board approves the designation of the following employees as special assistant examiners for the Federal Reserve Bank of Kansas City for the purpose of participating in the 1966 examination of Commerce Trust Company, Kansas City, Missouri:

Brown, Robert A.	Miller, Larry	Trimble, Harry B.
Cable, Willard	McCoy, Ronald	Tuggle, Jess E.
Cahill, Robert	McKee, Hugh	Walker, Lawrence
Carr, Gordon	Novak, Frank J.	Wangler, Arthur
Cockrell, Paul E.	Park, Dennis	Werner, Darrell
Culbertson, W. E.	Patterson, Charles	Wisniewski, Chester
Czerwinski, H. R.	Peters, Kermit R.	Wray, Jack
Dewey, Keith	Pope, Joseph M.	Bramble, Gladys M.
Elliott, Jerry	Rogers, Guy	Burns, Dorothy
Foley, Cecil	Searle, Joseph	Hirsch, Catherine
Fraser, Sidney K.	Shewmaker, Harold	Johnson, Aileen
Gaston, Lee	Shreeves, Jerry	Lynn, Mary
Halley, M. Dee	Shull, Keith	Norris, Dorothy M.
Hughes, William M.	Slover, Don	Polfer, Edna
Hutton, Arthur H.	Spurlock, John B.	Smart, Dorothy J.
Kurek, Richard M.	Stanley, Billy R.	
LaRose, Sylvester	Swanson, Estus A.	
Lee, Larry R.	Tindall, Keith	

It is noted that these designations will be terminated immediately upon completion of the examination.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 14
9/14/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 14, 1966

Mr. Irwin L. Jennings, Vice President,
Federal Reserve Bank of San Francisco,
San Francisco, California. 94120

Dear Mr. Jennings:

In accordance with the request contained in your letter of September 8, 1966, the Board approves the appointment of Ruel Baker, Jr., as an assistant examiner for the Federal Reserve Bank of San Francisco, effective today.

It is noted that Mr. Baker owns six shares of Bank of America, National Trust and Savings Association, San Francisco, California. Accordingly, the Board's approval of the appointment of Mr. Baker is given with the understanding that he dispose of the stock no later than 30 days from today's date.

Very truly yours,

(signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.