



Minutes of the Board of Governors of the Federal Reserve  
System on Wednesday, September 28, 1966. The Board met in the Board  
Room at 10:00 a.m.

PRESENT: Mr. Robertson, Vice Chairman  
Mr. Shepardson  
Mr. Mitchell  
Mr. Maisel  
Mr. Brimmer

Mr. Sherman, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Broida, Assistant Secretary  
Mr. Bakke, Assistant Secretary  
Mr. Holland, Adviser to the Board  
Mr. Solomon, Adviser to the Board  
Mr. Cardon, Legislative Counsel  
Mr. Fauver, Assistant to the Board  
Mr. Brill, Director, Division of Research and  
Statistics  
Mr. Solomon, Director, Division of Examinations  
Mr. Hexter, Associate General Counsel  
Mr. O'Connell, Assistant General Counsel  
Mr. Daniels, Assistant Director, Division of  
Bank Operations  
Mr. Leavitt, Assistant Director, Division of  
Examinations  
Mrs. Semia, Technical Assistant, Office of the  
Secretary  
Mr. Forrestal, Senior Attorney, Legal Division  
Messrs. Egertson and Maguire, Supervisory Review  
Examiners, 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.

Item No.

Letter to Central Trust Company, Rochester, New  
York, approving the establishment of a branch in  
the Village of Webster and commenting on the bank's  
capital position.

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Item No.

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Letter to the Federal Deposit Insurance Corporation regarding the application of Stock Growers' Bank of Wheatland, Wheatland, Wyoming, for continuation of deposit insurance after withdrawal from membership in the Federal Reserve System.

Reports on competitive factors. A report to the Comptroller of the Currency on the competitive factors involved in the proposed purchase of assets and assumption of liabilities of Duquesne City Bank, Duquesne, Pennsylvania, by Western Pennsylvania National Bank, Pittsburgh, Pennsylvania, was approved unanimously for transmittal to the Comptroller.

The conclusion read as follows:

The proposed purchase of Duquesne City Bank by Western Pennsylvania National Bank, Pittsburgh, would eliminate existing and potential competition and would further the trend in the area towards elimination of locally headquartered banks through merger or similar transaction. The overall effect of the proposal on competition appears adverse.

A report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of Onaway State Bank, Onaway, Michigan, and The Citizens National Bank of Cheboygan, Cheboygan, Michigan, was approved unanimously for transmittal to the Comptroller. The conclusion stated that the proposed merger would not have adverse competitive effects.

Status of agency issues (Item No. 3). Among the provisions of Public Law 89-597, approved on September 21, 1966, was an amendment to section 14(b) of the Federal Reserve Act empowering the Federal Reserve

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Banks "to buy and sell in the open market, under the direction and regulation of the Federal Open Market Committee, any obligation which is a direct obligation of, or fully guaranteed as to principal and interest by, any agency of the United States." The amendment also affected the authority of the Reserve Banks to make advances to member banks pursuant to the eighth paragraph of section 13 of the Act, on specified collateral, including "such notes, drafts, bills of exchange, or bankers' acceptances as are eligible . . . for purchase by Federal reserve banks . . . ." In 1960 and 1962 the Board had published interpretations relating to the kinds of paper that fell within the language of the eighth paragraph of section 13. In essence, the Board's position was that the terms used in the paragraph related only to obligations arising out of commercial or agricultural transactions, and that certain obligations, although called "notes," were really in the nature of securities and were not eligible as collateral for advances under that paragraph.

There had now been distributed a draft of letter to the Federal Reserve Banks that would point out that to the extent that agency obligations now eligible for open market purchase constituted "notes, drafts, bills of exchange, or bankers' acceptances" within the meaning of the eighth paragraph of section 13, they would be eligible as collateral for advances under that paragraph. However, the draft letter would refer to the 1960 and 1962 interpretations that had in effect excluded investment securities from eligibility, and would state that even though such

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obligations might be called "notes" they were not the kind of notes contemplated and therefore were not eligible collateral.

Governor Maisel raised the question whether it might not be desirable, instead of reaffirming the 1960 and 1962 interpretations, to reexamine the matter and determine whether it would be feasible to follow a basic concept that paper eligible for purchase under section 14(b) was also eligible as collateral for advances to member banks under the eighth paragraph of section 13. He had misgivings about continuing to follow interpretations that depended upon a definition of "notes" conforming to the practice of many years ago.

Governor Maisel also commented that he found it rather difficult to interpret the true intent of the Congress in passing the recent legislation. The Congress, he suggested, might have concluded that if agency issues were made eligible for purchase under section 14, eligibility under section 13 automatically followed and amendment of section 13 was not necessary. Further, it seemed to him there was an inconsistency in saying that a certain agency issue could be purchased by a Reserve Bank from a Government securities dealer under a repurchase agreement but that a member bank could not offer the same paper as collateral for an advance under the eighth paragraph of section 13. A member bank could, of course, obtain an advance on such collateral under section 10(b), but only at a penalty rate.

Question then was raised as to the status of the legislation recommended by the Board that would permit a member bank to borrow from

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its Reserve Bank on the security of any sound assets without paying a penalty rate of interest. The response was that there seemed to be some prospect of action at the current session of the Congress, and it was noted that the passage of such legislation would eliminate the problem currently under consideration by the Board. This led to the question whether, in these circumstances, any action need be taken by the Board at this time. Mr. Holland mentioned the desirability of achieving uniformity in the handling of questions likely to be presented at the discount windows.

After further discussion a consensus developed in favor of advising the Reserve Banks that questions arising at the discount windows should be handled according to the outstanding interpretations, but with the understanding that if the pending discount legislation was not acted upon at this session of the Congress the Board would review the whole matter.

Accordingly, unanimous approval was given to a letter to the Federal Reserve Banks in the form attached as Item No. 3.

Proposed System film (Item No. 4). Governor Mitchell referred to recommendations by a Subcommittee of the Presidents' Conference Committee on Bank and Public Relations regarding the preparation of a new film on the Federal Reserve System. At its meeting on September 12, 1966, the Conference authorized an expenditure not in excess of \$125,000 for this purpose, with the cost to be shared by the Federal Reserve Banks

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on a pro rata basis, and delegated the function of overseeing the progress of the work to the Committee on Bank and Public Relations.

Governor Mitchell commented that the Board had not participated actively in the preparation of the most recent System film (Money on the Move) until a substantial amount of money had been spent and the project was rather far advanced. In his view the film was less than satisfactory in a number of respects, and he was rather pessimistic about the prospects for the proposed film on the basis of his understanding of the manner in which it was proposed that the project be carried forward. He felt that it would be prudent to spend more for a satisfactory film than less for an unsatisfactory one; and in order to produce a film that would convey an effective System message it seemed advisable to retain the best available professional talent. Unless an approach was followed that gave promise of achieving a high-quality product, he would prefer to see the project dropped.

The discussion that followed reflected general agreement with Governor Mitchell's comments and concurrence in his view that the treatments suggested by the Subcommittee were not promising as a basis for a film that would convey an effective System message.

Accordingly, it was agreed that the Chairman of the Presidents' Conference should be advised (1) of the Board's view on the need to emphasize producing a film of high quality, even though a somewhat greater cost might be involved, and (2) of Governor Mitchell's availability to

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discuss the subject in more detail with representatives of the Conference. A copy of the letter subsequently sent to the Chairman of the Presidents' Conference is attached as Item No. 4.

Public Bank matter (Item No. 5). Mr. Leavitt reported conversations with the Federal Reserve Bank of Chicago and staff of the Federal Deposit Insurance Corporation regarding a reported continuing deterioration in the condition of Public Bank, Detroit, Michigan. The Board last week had approved, on an emergency basis, the merger of Public Bank into Bank of the Commonwealth, also of Detroit, but for various reasons it appeared that the merger would not be consummated for some days to come. In the meantime there was a question regarding continued assistance to Public Bank through the discount window of the Federal Reserve Bank of Chicago. The Reserve Bank, at the request of the Federal Deposit Insurance Corporation, had been making advances to Public Bank on direct obligations of the U.S. under the authority of the last paragraph of section 13 of the Federal Reserve Act, but it appeared that the bank might soon exhaust its holdings of Government obligations that could be offered as collateral. One possibility would be for the Reserve Bank to make advances to Bank of the Commonwealth on the security of assets of Public Bank and for the benefit of Public Bank provided Bank of the Commonwealth was clearly liable for the amount of the advances. This procedure would require the Board's approval under the eighth paragraph of section 19 of the Federal Reserve Act.

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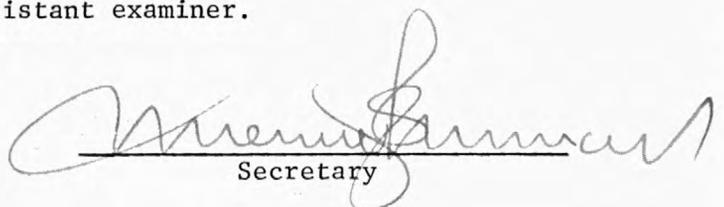
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After discussion of available information concerning the condition of Public Bank and consideration of possible alternatives, it was suggested that the Federal Reserve Bank of Chicago be authorized, if Public Bank exhausted its holdings of Government obligations that could be used as collateral and until such time as the Federal Deposit Insurance Corporation might declare the bank insolvent or take other action, to make advances or loans to Bank of the Commonwealth for the benefit or use of Public Bank secured by assets of the latter, provided such assets bore the signature or endorsement of Bank of the Commonwealth or that bank was otherwise clearly liable for the amount of the advance or loan. It was also suggested that one of the directors of the Federal Deposit Insurance Corporation be contacted before such authorization was given to the Reserve Bank.

It was agreed unanimously that the suggested procedure should be followed. Attached to these minutes as Item No. 5 is a copy of the telegram sent later in the day to President Scanlon after advice that such authorization was proposed to be given had been provided to the Federal Deposit Insurance Corporation.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board a telegram to the Federal Reserve Bank of Atlanta (copy attached as Item No. 6) approving the designation of Powell G. Blue as special assistant examiner.

  
Secretary

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

Item No. 1  
9/28/66

**ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD**

September 28, 1966



**Board of Directors,  
Central Trust Company, Rochester, N.Y.,  
Rochester, New York.**

**Gentlemen:**

The Board of Governors of the Federal Reserve System approves the establishment by Central Trust Company, Rochester, N.Y., Rochester, New York, of a branch at 195 Main Street West, Village of Webster, Monroe County, New York, provided the branch is established within one year from the date of this letter.

The Board notes that your bank's capital position is somewhat less than satisfactory and understands that consideration is being given to the sale of new stock in 1967.

**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  
9/28/66

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

September 28, 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 21, 1966, concerning the application of Stock Growers' Bank of Wheatland, Wheatland, Wyoming, 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. 3  
9/28/66

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

September 30, 1966.



Dear Sir:

Public Law 89-597, approved September 21, 1966, amended section 14(b) of the Federal Reserve Act, relating to the powers of Reserve Banks, by adding the following provision:

"To buy and sell in the open market, under the direction and regulations of the Federal Open Market Committee, any obligation which is a direct obligation of, or fully guaranteed as to principal and interest by, any agency of the United States."

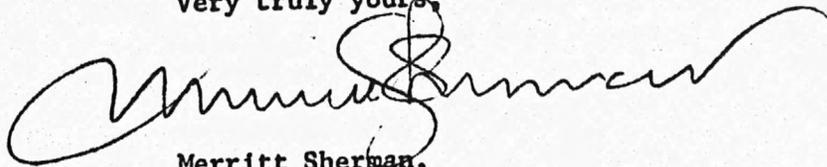
The purposes of this amendment are indicated in the enclosed excerpt from the report of the Senate Banking and Currency Committee on the bill that became P.L. 89-597.

Regardless of whether the Federal Open Market Committee decides to initiate operations in agency issues, the amendment to section 14(b) expands the authority of Reserve Banks to make advances pursuant to the eighth paragraph of section 13 of the Act. That paragraph permits Reserve Banks to make advances to member banks on specified collateral, including "such notes, drafts, bills of exchange, or bankers' acceptances as are eligible . . . for purchase by Federal reserve banks".

The Board has previously taken the position that only those kinds of paper that fall within the quoted enumeration are eligible as collateral to advances, and that obligations generally regarded as investment securities, although they may be called "notes", are not the kind of obligations contemplated by section 13 and therefore are not eligible as collateral to advances thereunder. (1960 Federal Reserve Bulletin 151; 1962 Federal Reserve Bulletin 690) In light of the recent amendment to section 14, the Board plans to reconsider

its position on this matter in the event that pending legislation which would permit member banks to borrow from Reserve Banks on the security of any acceptable assets is not enacted into law. Meanwhile, inquiries concerning the eligibility of agency issues as collateral to advances should be answered in accordance with the Board's published interpretations.

Very truly yours,

A handwritten signature in cursive script, appearing to read 'Merritt Sherman', written in dark ink.

Merritt Sherman,  
Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 4  
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ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

September 29, 1966.



Mr. Edward A. Wayne, Chairman,  
Conference of Presidents  
of the Federal Reserve Banks,  
Federal Reserve Bank of Richmond,  
Richmond, Virginia. 23213

Dear Mr. Wayne:

Item 5 in the summary of topics submitted by the Conference of Presidents following its meeting on September 12 indicated that the Conference would like to determine the views of the Board on the proposal for preparation of a new System film on monetary policy.

From the tentative minutes of that meeting, the Board gathers that some members of the Conference had reservations about undertaking such a project unless the job was done with professional competence. The Board strongly concurs in that view. It believes that once the general subject matter has been determined and a decision made to go forward with another System film, the best professional talent available should be enlisted for assistance at all stages of the project. This approach may involve greater cost than otherwise, but it is also more likely to assure the production of an attractive film that will convey a pertinent, timely message.

While the Board feels that the photographic work on the most recent film was effectively handled, it believes that the choice of subject matter and the treatment thereof were less than satisfactory. In the Board's view, more attention should be given to the preparation of a top-quality scenario in any future effort. Along the same lines, the Board has some reservations as to whether the combination of film treatments recommended by the Committee on Bank and Public Relations would offer the best possibilities for the development of an effective System message on monetary policy.

Mr. Edward A. Wayne

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As you will recall, Governor Mitchell worked closely with representatives of the Presidents' Conference at certain stages in the editing of the previous System film. The Board has asked him to make himself available to the Conference for discussion of fundamental considerations that the Board believes to be of paramount concern in the production of another film. Governor Mitchell will be glad to enter into such discussions at the convenience of such representatives of the Conference as you may designate for the purpose.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

Item No. 5  
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**T E L E G R A M**  
LEASED WIRE SERVICE

**BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTON**

September 28, 1966.

Scanlon - Chicago

In response to telephone request of Helmer, and pursuant to Section 19 of Federal Reserve Act and Section 201.5 of Regulation A, Board today authorized Federal Reserve Bank of Chicago to accept as security for advances or loans to Bank of the Commonwealth, Detroit, Michigan, for the benefit or use of Public Bank, Detroit, Michigan, assets of Public Bank, provided such assets bear the signature or endorsement of Bank of the Commonwealth or Bank of the Commonwealth is otherwise clearly liable for the amount of the advance or loan. This telegram will be confirmed by letter.

(Signed) Merritt Sherman

Sherman

**TELEGRAM**  
LEASED WIRE SERVICE**BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTON**

September 28, 1966.

**SHEFFER - ATLANTA**

Reurtel September 27, 1966, Board approves designation of

Powell G. Blue as special assistant examiner for Federal

Reserve Bank of Atlanta.

(Signed) Elizabeth L. Carmicheal

**ELIZABETH L. CARMICHAEL**