

Minutes for October 6, 1966

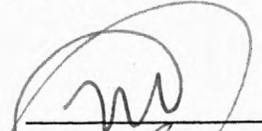
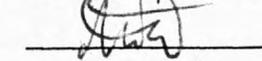
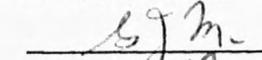
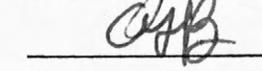
To: Members of the Board

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	

Minutes of the Board of Governors of the Federal Reserve  
System on Thursday, October 6, 1966. The Board met in the Board Room  
at 10:00 a.m.

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

Mr. Sherman, Secretary  
Mr. Kenyon, 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. Solomon, Director, Division of Examinations  
Mr. Hexter, Associate General Counsel  
Mr. O'Connell, Assistant General Counsel  
Mr. Koch, Deputy Director, Division of Research  
and Statistics  
Mr. Partee, Associate Director, Division of  
Research and Statistics  
Mr. Smith, Associate Adviser, Division of Research  
and Statistics  
Mr. Thompson, Assistant Director, Division of  
Examinations  
Mrs. Semia, Technical Assistant, Office of the  
Secretary  
Messrs. Plotkin and Smith of the Legal Division  
Mr. Golden of the Division of Research and  
Statistics  
Messrs. Egertson, Donovan, Kline, and Lyon of the  
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 The Connecticut Bank and Trust Company,  
Hartford, Connecticut, approving the establishment  
of a branch in Plainfield.

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	<u>Item No.</u>
Letter to Bank of Sturgeon Bay, Sturgeon Bay, Wisconsin, approving the establishment of an in-town branch.	2
Letter to the Chairman of the Senate Committee on Banking and Currency regarding S. 3158, the so-called "cease and desist" bill.	3

Reports on competitive factors. After discussion, reports to the Comptroller of the Currency on the competitive factors involved in the following proposed mergers were approved unanimously for transmittal in a form in which the conclusions were stated as follows:

Merger of The Rutland County Bank, Rutland, Vermont, into The Howard National Bank and Trust Company, Burlington, Vermont

There is virtually no competition existing between The Howard National Bank and Trust Company, Burlington, and The Rutland County Bank, Rutland. While the overall effect of the proposed merger on competition would not be significantly adverse, consummation of the proposed transaction would eliminate the only locally headquartered commercial bank in Rutland and increase by a fairly significant amount the commercial bank deposits now held by the second largest bank in the State.

Merger of County Bank and Trust Company, Cambridge, Massachusetts, and Somerville National Bank, Somerville, Massachusetts

Consummation of the proposed merger of Somerville National Bank, Somerville, and County Bank and Trust Company, Cambridge, both subsidiaries of Shawmut Association, Inc., Boston, Massachusetts, a registered bank holding company, would not have adverse competitive effects.

Merger of The Pine Grove National Bank and Trust Company, Pine Grove, Pennsylvania, with Lebanon Valley National Bank, Lebanon, Pennsylvania

The proposed merger of The Pine Grove National Bank and Trust Company with Lebanon Valley National Bank would not have adverse competitive effects.

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Merger of State Savings Bank, Memphis,  
Tennessee, into National Bank of Commerce  
in Memphis, Memphis, Tennessee

While consummation of the proposed merger of State Savings Bank, Memphis, into National Bank of Commerce in Memphis would eliminate a small amount of competition existing between them, the overall competitive effect would not be significantly adverse.

Application of First Florida Bancorporation. There had been distributed a memorandum dated September 22, 1966, from the Division of Examinations, with other pertinent papers, recommending approval of the application of First Florida Bancorporation, Haines City, Florida, to become a bank holding company through acquisition of 51 per cent or more of the voting shares of the following "McNulty group" banks in Florida:

National Bank of Melbourne and Trust Company, Melbourne  
Florida State Bank of Sanford, Sanford  
State Bank of Haines City, Haines City  
Bank of Zephyrhills, Zephyrhills  
The DeSoto National Bank of Arcadia, Arcadia  
Okeechobee County Bank, Okeechobee  
The First State Bank, Fort Meade  
Bank of Lake Alfred, Lake Alfred  
Bank of Mulberry, Mulberry  
National Bank of West Melbourne, West Melbourne  
The United States Bank of Seminole, Sanford

After summary comments by Mr. Lyon and response by the staff to questions asked for the purpose of clarification of certain points, all of the members of the Board expressed a favorable view toward the application. Governor Robertson explained that if there was competition among the proposed subsidiary banks he would vote against the application. However, since there was no appreciable amount of such competition, and the geographical areas separating the banks made future competition only a

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remote possibility, he would vote for approval of the application, which had as its essential purpose consolidation of control of the several banks through a holding company setup rather than a chain banking relationship.

The application was thereupon approved unanimously, with the understanding that an order and statement reflecting this decision would be prepared for the Board's consideration.

Application of Depositors Corporation. There had been distributed a memorandum dated September 27, 1966, from the Division of Examinations submitting several staff memoranda and other papers regarding the application of Depositors Corporation, Augusta, Maine, to become a bank holding company through the acquisition of (a) 100 per cent of the voting shares of Depositors Trust Company, Augusta, Maine, and First Maine Trust Company, Augusta, Maine, a newly-organized bank not yet in operation, and (b) 80 per cent or more of the voting shares of The Liberty National Bank in Ellsworth, Ellsworth, Maine. The documentation gave principal attention to the bank holding company application and discussed in less detail the related applications of Depositors Trust Company to merge and consolidate with First Maine Trust Company, under the charter and title of Depositors Trust Company; and of First Maine Trust Company for membership in the Federal Reserve System. It was proposed that before First Maine Trust opened for business it would be merged with Depositors Trust; the merger itself was merely a device to insure 100 per cent acquisition of Depositors

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Trust Company by Depositors Corporation. The Division recommended approval of all three applications.

The Banking Markets Section of the Division of Research and Statistics concurred in the Examinations Division's recommendation of approval of the bank holding company application, on the ground that there was little or no competition existing between Depositors Trust Company and Liberty National Bank. The convenience and needs in the Ellsworth area should be improved by the greater resources and expanded services that holding company affiliation would provide Liberty National, which was the smallest bank operating in its area.

Mr. Lyon summarized the principal circumstances relating to the application, after which Governor Robertson asked for clarification of statements by the Boston Reserve Bank and by the Division of Examinations as to the need for additional capital in Depositors Trust Company. The memorandum had set forth reasons, including the fact that the trust company's management appeared cognizant of the need for increased capital, for which the Division considered it unnecessary to make approval of the application conditional upon the addition of capital as recommended by the Reserve Bank. However, the Division suggested that the need for additional capital be stressed in the letter notifying the applicant of the Board's approval, if that should be the Board's decision. The Reserve Bank had recommended that the application be approved subject to the provision of additional capital by Depositors Trust and had mentioned \$3 million as a

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minimum addition. However, the Reserve Bank's memorandum also spoke of methods being considered actively by the trust company for improving its capital structure.

Exploration of the point raised by Governor Robertson indicated that the Reserve Bank's reference to negotiations for obtaining additional capital had been based on the report of an examination conducted in May 1966, whereas the Reserve Bank's memorandum was written in August. Question was raised whether it was known how the negotiations that had been under way in May had progressed in the interim. Discussion of possible procedural approaches developed a consensus in favor of making the decision, if affirmative, conditional upon satisfactory clarification by the Reserve Bank of the status of plans for improving the capital structure of Depositors Trust Company.

The Chairman then called for the views of members of the Board, all of whom spoke in favor of approval of the application. Governor Robertson stated that although he would vote for approval, he regarded this as a borderline case because of the degree of concentration; moreover, he did not believe a strong case had been made for approval on the ground of convenience and needs.

The bank holding company application was thereupon approved unanimously, subject to satisfactory discussion with the Federal Reserve Bank of Boston of the question of capital adequacy, and the merger application was also approved unanimously. It was understood that orders and a statement reflecting the action would be prepared for the Board's

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consideration. Unanimous approval was given also to the application of First Maine Trust Company for membership in the Federal Reserve System.

Secretary's Note: In a subsequent telephone conversation between members of the staff of the Division of Examinations and Vice President Hoyle of the Federal Reserve Bank of Boston, the latter expressed the view that since Depositors Trust was cognizant of its need and was planning soon to increase its capital, a condition setting forth an actual amount to be added need not be a part of approval; that the matter would be sufficiently cared for if the letter to Depositors Corporation strongly urged that steps be taken to alleviate the situation; and that to stipulate a specific amount of capital increase might serve only to limit the amount ultimately inserted.

Bank capital. As an addendum to the preceding discussion regarding the need for Depositors Trust Company to strengthen its capital, Mr. Solomon requested the Board's guidance regarding the amount of pressure that should be put on banks with capital problems at the present time when money market conditions made it especially difficult to raise new capital.

Governor Robertson commented that it was always appropriate to take into consideration prevailing economic conditions, which might in some cases justify not insisting immediately on capital improvement that was recognized as needed. However, a bank with capital problems should not be seeking to expand.

Governor Brimmer expressed the view that in times like the present a bank with a serious capital problem should recognize that problem as a constraint on its activity.

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Chairman Martin suggested that Mr. Solomon prepare a memorandum on the matter, and it was understood that that would be done.

Messrs. Smith (Research), Thompson, Smith (Legal), Golden, Donovan, Egertson, Kline, and Lyon then withdrew from the meeting.

Discount administration. There had been distributed a memorandum dated October 5, 1966, from Mr. Holland requesting guidance regarding current statistical reporting and telephone conference calls in connection with the new discount administration program. The memorandum brought out, among other things, that two kinds of information were currently being collected weekly, so far as they could be distinguished: the number of banks borrowing under the new program, and the aggregate dollar amount of borrowings. It was recommended that these data collection arrangements be continued as long as the actual or prospective magnitude of activity under the new program was significant. Telephone conference calls among the discount officers had been held weekly, but Mr. Holland suggested that perhaps they could soon be undertaken less frequently.

Governor Brimmer expressed the view that the telephone conference calls had been helpful to the discount officers and should not be shifted to less than a biweekly basis until, say, the first of the year. He also believed that Mr. Holland's memorandum correctly appraised the value of the information being collected, despite a differing view expressed by one of the Reserve Bank Presidents.

Other members of the Board also expressed agreement with the general approach Mr. Holland had outlined, Chairman Martin adding, however,

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that care should be exercised that the posture in the telephone conference calls was not one of shifting the day-to-day administration of the discount windows from the Reserve Banks to the Board.

Messrs. Holland, Solomon (Adviser), Cardon, Fauver, O'Connell, Koch, and Partee then withdrew from the meeting.

Meeting with Retirement System Trustees. An Ad Hoc Committee of the Board of Trustees of the Retirement System of the Federal Reserve Banks was to meet with the Board tomorrow to discuss various aspects of the Retirement System, particularly as they related to the Bank Plan. Therefore, at today's meeting there was a preliminary discussion of questions that seemed likely to be brought up by the Ad Hoc Committee.

Governor Maisel expressed the view that there was a major problem of concept, relating to the question of the identity of the ultimate beneficiaries of Retirement System earnings. This question had an important bearing on administration. For a number of years a substantial part of the investments of the fund had been in common stocks, and the portfolio had yielded more than the minimum guaranteed rate of return. If the employees were the ultimate beneficiaries, maximization of yield was proper. However, if the employees were considered to be entitled only to the guaranteed rate of return, anything over that amount would be used to reduce the cost to the Reserve Banks. If the Treasury was considered the proper ultimate beneficiary, it might be appropriate for Retirement System investments to be confined to Government securities. The proposals

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of the past several years that excess earnings be distributed served to bring the question to a head.

Another critical issue, Governor Maisel continued, was whether the Bank Plan of the Federal Reserve Retirement System should be geared to private plans or to the Civil Service Retirement System. Proposals that the Federal Reserve provide such benefits as a cost of living escalator and early retirement would follow the Civil Service concept. However, since salaries of some Reserve Bank officers were higher than those in Civil Service, providing Bank Plan benefits similar to those of Civil Service might raise questions. In any event, it was clear that members of the Federal Reserve Retirement System wanted to bargain. If Federal Reserve retirement benefits were to be geared to private plans, bargaining would seem proper; otherwise it might not. Another question at issue was whether the Federal Reserve Retirement System should be shifted to a noncontributory basis.

Mr. Sherman reviewed changing concepts under which the Federal Reserve Retirement System had been operated, including the decision to invest in common stocks, and the history of proposals that excess earnings be distributed. He noted that the Board had not yet replied to a letter written about a year ago by Mr. Harris, Chairman of the Retirement Committee, asking if the Board would approve in principle a plan for distribution of excess earnings. Before the Board made any decision of a fundamental character, Mr. Sherman felt that a thorough study of the conceptual questions Governor Maisel had outlined would be in order.

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After further discussion it was understood that at tomorrow's meeting the Board would listen to the views expressed by the Ad Hoc Committee and that, without taking any final position on distribution of excess earnings or otherwise, it might suggest further studies of the Retirement System that would seem desirable.

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

Barbara J. Carter as Clerk-Typist, Office of the Secretary, with basic annual salary at the rate of \$4,413, effective the date of entrance upon duty.

Salary increases, effective October 9, 1966

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>Board Members' Offices</u>			
LeRoy T. Morgan, Staff Assistant		\$14,217	\$14,665
<u>Legal</u>			
Robert S. Plotkin, Senior Attorney		16,152	16,675
<u>Research and Statistics</u>			
Peter M. Keir, Chief, Capital Markets Section		20,585	21,192
Adlyn E. McWhirter, Research Assistant		6,451	6,664
Rosalie T. Ruegg, Economist		7,696	7,957
Peter Ault Tinsley, Economist		11,685	12,064
Joan Lee Turek, Economist		11,306	11,685
<u>International Finance</u>			
Paul Gekker, Senior Economist		18,764	19,371

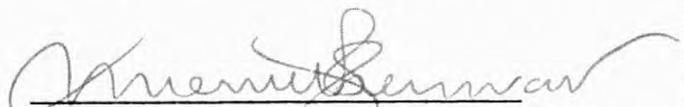
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Salary increases, effective October 9, 1966 (continued)

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>Bank Operations</u>			
Kevin Raymond, Analyst		\$ 7,696	\$ 7,957
<u>Examinations</u>			
Adrien P. Francoeur, Federal Reserve Examiner		10,481	10,796
Charles Hadley Fraser, Federal Reserve Examiner		10,481	10,796
<u>Office of the Controller</u>			
Peggy Jo Dougherty, Secretary		6,065	6,263
<u>Data Processing</u>			
Walter E. Matthey, Programmer ("Trainee" deleted from title)		5,683	6,451
Lee R. Thompson, Computer Operator (Trainee)		4,776	4,936
<u>Transfer</u>			

Mary Ann Rose, from the position of Clerk-Typist in the Division of Data Processing to the position of Statistical Clerk-Typist in the Division of Research and Statistics, with an increase in basic annual salary from \$4,557 to \$4,936, effective upon assuming her new duties.

  
Secretary

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

Item No. 1  
10/6/66

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

October 6, 1966.



Board of Directors,  
The Connecticut Bank and Trust Company,  
Hartford, Connecticut.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by The Connecticut Bank and Trust Company, Hartford, Connecticut, of a branch at 40 Railroad Avenue, Plainfield, Connecticut, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
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.)

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BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 2  
10/6/66

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

October 6, 1966.



Board of Directors,  
Bank of Sturgeon Bay,  
Sturgeon Bay, Wisconsin.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Bank of Sturgeon Bay, Sturgeon Bay, Wisconsin, of a branch at the southwest corner of Fourth Avenue and Jefferson Street, Sturgeon Bay, Wisconsin, provided the branch is established within six months from the date of this letter.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
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-1946), should be followed.)

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

Item No. 3  
10/6/66



OFFICE OF THE CHAIRMAN

October 6, 1966.

The Honorable A. Willis Robertson,  
Chairman,  
Committee on Banking and Currency,  
United States Senate,  
Washington, D. C. 20510

Dear Mr. Chairman:

This is in response to your request for the Board's views on S. 3158 as amended by the House. The principal changes made by the House were to increase FDIC and FSLIC insurance ceilings to \$20,000, and to fix a termination date of June 30, 1968, with respect to the other provisions of the bill.

The Board believes that the twenty-month limitation on the exercise of the supervisory authority contained in the bill would render it largely ineffective. The administrative proceedings leading up to a final cease and desist order in a controversial case could easily consume ten months, as indicated by the following time schedule; which is based for the most part on time limits specified in the bill and the Board's Rules of Procedure:

1. Notice to State agency allows 30 days for State action.
2. After 30 days expire without State action, Federal agency serves notice on respondent.
3. Hearings begin 60 days later.
4. Hearings end 30 days later; part of this time would be needed to dispose of motions filed during hearing.
5. After hearings close, 15 days allowed for submission of proposed findings and conclusions of law.

The Honorable A. Willis Robertson -2-

6. Hearing examiner submits report and recommendations 60 days later.
7. After report submitted, 20 days allowed for filing exceptions and briefs.
8. Agency takes final action 70 days later (90 days after hearing examiner submitted report and recommendations).

Another month is allowed by the bill for filing an appeal with a Federal court of appeals. The median time interval from docketing to disposition of cases disposed of after hearing or submission in Federal courts of appeal is over eight months. Thus, an additional nine months could go by before court review would be completed, even if no further review in the Supreme Court were involved.

This would mean that a supervisory agency would have to begin a cease and desist proceeding immediately after the bill was signed in order to have a reasonable chance of winding up the case before the authority expires.

Setting a later expiration date would not solve the problem. Even if a later date were fixed and even if the Congress extended it from time to time, such extensions probably would not be granted very far in advance of the expiration date. Thus, there would be recurring periods when the authority in the bill would be illusory. A supervisory agency with the appearance of authority and the responsibility for its effective use could find itself unable to invoke it as a practical matter. If the underlying statute forced the agency into a race against the clock, the odds against winning the race would be lengthened by the incentive the respondent would have to engage in delaying tactics.

The Board has no recommendation with respect to increasing insurance coverage. If, however, the Congress should decide in favor of such an increase, the need for effective supervisory authority would become that much greater. Proponents of higher insurance ceilings in the industry, as well as in Government, have stressed the link between stronger supervision and greater insurance coverage. In legislation proposed earlier in this Congress by the Administration (S. 2561) an increase in insurance ceilings to \$15,000 was linked with other provisions strengthening liquidity

The Honorable A. Willis Robertson

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requirements, and protection against conflicts of interest. If the conferees are persuaded that a permanent increase in insurance ceilings is justified, the Board hopes that they will make the supervisory provisions of the bill permanent as well.

The Congress may, of course, wish to review the use of the enforcement powers granted to the supervisory agencies, but we do not regard this as a reason to grant such powers on a temporary basis. If the agencies are to be held accountable for effective use of such authority, the authority should be granted in a usable form. A copy of this letter is being sent to the Chairman of the House Banking and Currency Committee.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.