



Minutes of the Board of Governors of the Federal Reserve System on Tuesday, October 11, 1966. The Board met in the Board Room at 10:00 a.m.

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

Mr. Kenyon, Assistant Secretary  
 Mr. Cardon, Legislative Counsel  
 Mr. Hackley, General Counsel  
 Mr. Farrell, Director, Division of Bank Operations  
 Mr. Solomon, Director, Division of Examinations  
 Mr. Harris, Coordinator of Defense Planning  
 Mr. O'Connell, Assistant General Counsel  
 Mr. Daniels, Assistant Director, Division of Bank Operations  
 Mrs. Semia, Technical Assistant, Office of the Secretary  
 Messrs. Forrestal, Senior Attorney, and Smith, Attorney, Legal Division  
 Mr. Golden, Senior Economist, Division of Research and Statistics  
 Messrs. Egertson and Maguire, Supervisory Review Examiners, and Lyon and Rumbarger, 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 The Lorain County Savings & Trust Co., Elyria, Ohio, approving the establishment of an in-town branch.

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Letter to Old Kent Bank and Trust Company, Grand Rapids, Michigan, granting an extension of time to establish an in-town branch.

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Report on competitive factors. A report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of Farmers-Matteawan National Bank, Poughkeepsie, New York, into County National Bank, Middletown, New York, was approved unanimously for transmittal to the Comptroller. The conclusion read as follows:

There appears to be little competition between Farmers-Matteawan National Bank, Poughkeepsie, and County National Bank, Middletown.

The overall effect of the transaction on competition is not significantly adverse. However, County National Bank is the largest commercial bank headquartered in Orange County, and consummation of the proposed merger would expand its operations into another county, increasing significantly its number of offices and deposit volume through the elimination of the second largest commercial bank headquartered in Dutchess County.

Applications of First National of Tampa and Union Security. A memorandum from the Division of Examinations dated October 4, 1966, and other pertinent papers had been distributed in connection with applications by The First National Bank of Tampa and Union Security & Investment Company, both of Tampa, Florida, to acquire 55 per cent of the voting shares to be issued by First National Bank of Brooksville, Brooksville, Florida, a proposed new bank.

Following summary comments by Mr. Lyon, the applications were approved unanimously, with the understanding that an order and statement reflecting this decision would be drafted for the Board's consideration.

Amendments to Regulation V (Item No. 3). There had been distributed a memorandum dated October 10, 1966, from the Legal Division

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stating that after the Board's action on September 27, 1966, raising the maximum rate of interest on V-loans the staff had noted that Regulation V, Loan Guarantees for Defense Production, lacked a supplement setting forth the maximum rate of interest, the schedule of guarantee fees, and commitment fees. The Division proposed that such a supplement be added to the Regulation, and also suggested certain minor technical changes in the Regulation itself. A draft of amendments that would carry out the proposals was attached to the memorandum.

After discussion the proposed amendments to Regulation V were approved unanimously, along with addition of the Supplement, effective September 27, 1966. A copy of the notice published in the Federal Register is attached as Item No. 3.

Possible amendment to Clayton Act. There had been distributed a memorandum dated October 7, 1966, from the Legal Division, prepared pursuant to the Board's request of August 12, 1966, submitting alternative drafts of a bill that would close the loophole provided by clause (4) for avoiding the general prohibition of section 8 of the Clayton Act against interlocking service between banks. Arguments for and against the several alternatives were set forth in the memorandum.

At today's meeting Mr. Hackley suggested that in view of the current legislative situation such a proposal not be submitted to the Congress at the present time. Moreover, he believed that the question should be explored somewhat further by the Legal Division and that it

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might be helpful to obtain the views of Reserve Bank Counsel at their forthcoming conference. Therefore, he suggested that consideration of the matter be deferred until after the first of the year.

There was general agreement with Mr. Hackley's suggestion.

Messrs. Cardon, Forrestal, Smith, Golden, Egertson, Lyon, Maguire, and Rumbarger then withdrew from the meeting.

Denver Branch building. There had been distributed a memorandum dated October 7, 1966, from the Division of Bank Operations regarding a request from the Federal Reserve Bank of Kansas City for authorization to award contracts in connection with a proposed new building for the Denver Branch. The estimated total cost was \$5,171,078.

In July 1966 the Board had authorized the Bank to call for construction bids, the architects' estimate of total cost at that time and earlier being \$5,172,000. The seven bids for general construction that were received fell within a relatively narrow range, but on the basis of the lowest bid the total cost of the building would be \$1,084,700 greater than the architects' estimate. After a recheck, the architects admitted that there were errors in their estimates. The Kansas City Bank's head office and Denver Branch directors then considered whether to reject all bids and write addenda to the plans and specifications and call for new bids. (This would have been the procedure called for according to the instructions in the Board's letter of April 21, 1959, regarding Federal Reserve Bank building programs.) However, because of the time

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already elapsed in developing the Denver building program, the delay that would be involved in getting new bids, and rising construction costs, and on the advice of certain Reserve Bank directors with special knowledge of the construction industry, the Reserve Bank decided to negotiate with the low bidder to bring the cost within the estimate by eliminating certain features where it was believed that that could be done without affecting the structure significantly from an aesthetic or functional standpoint.

The Division of Bank Operations questioned two of the proposed modifications, namely, elimination of Steelcrete reinforcement for the vault walls and reduction in thickness of the depository vault ceiling from 36 inches to 24 inches, and reduction in standby electric power from that sufficient for continued operations to the minimum needed for use of the fallout shelter.

Standards for vault construction were discussed at some length in the memorandum. The Board's Consulting Architect recommended that the vault walls in the new Denver Branch building not be reduced to less than 30 inches (without Steelcrete reinforcement), and that provision for standby power sufficient to permit essential operations be restored. It was estimated that these items would add about \$85,000 to the project cost. With these revisions, and if the Board was satisfied that the Bank's consultation with the low bidder resulting in downward revision of that bid was a justified exception to the established procedure, the

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Division recommended authorizing the Bank to accept the low bids for general construction and other work and to proceed with construction.

In discussion of the changes proposed in the construction of the building in order to bring costs within the estimate, question was raised whether appropriate standards should not have been more firmly established in the first place and then adhered to, rather than have written into the specifications features that apparently were now considered dispensable. Comment was made that the Reserve Bank should not have had the impression that the Board was interested in cost at the sacrifice of functional efficiency. In this connection, doubts were expressed that the Reserve Bank was correct in the view that some of the proposed eliminations would not affect operating efficiency; examples were cited to illustrate the point that the elimination of some features, while reducing construction costs, would appear to necessitate continuing operating and labor costs that would have been obviated by the retention of the feature. It was mentioned also that some of the deletions appeared to represent only deferral of items that would have to be added later, probably at higher cost than if they were included in the initial construction. After extended discussion of vault construction, members of the Board indicated agreement with the Consulting Architect's recommendation of 30-inch walls without Steelcrete reinforcement.

The discussion also dealt with the question of the propriety of negotiating with the low bidder rather than rejecting all bids and calling

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for new ones. Comment was made that if it was a matter of adjustment of only a few items, such a procedure was fairly common. Another view expressed, however, was that if the Board had instructions outstanding they should be observed unless a Reserve Bank obtained the Board's permission to depart from them. It was recalled that in a somewhat similar situation several years ago the Board had authorized a Reserve Bank to negotiate with the two lowest bidders, whose bid figures had been close together, with the outcome that upon rebid the low figure was submitted by the original second low bidder. A suggestion was made that the views of the Legal Division would be helpful in appraising this element of the situation.

At the conclusion of the discussion it was agreed that the Legal Division would explore the question of procedures, that in the meantime members of the Board and the Division of Bank Operations would review further the proposed changes in the specifications, and that possibly the Federal Reserve Bank of Kansas City should then be requested to review its recommendation in the light of the questions that had been raised.

Public Bank matter. Mr. Solomon reported on telephone conversations with the Federal Deposit Insurance Corporation indicating that Michigan State Banking Commissioner Slay intended to try to obtain a court order closing Public Bank, Detroit, Michigan, tonight, with the Federal Deposit Insurance Corporation named as receiver. This would call into play the alternative plan, the existence of which was known when the

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Board recently approved the merger of Public Bank into Bank of the Commonwealth, Detroit, under which the Federal Deposit Insurance Corporation (as receiver) would sell to Bank of the Commonwealth the assets of Public Bank and the offices of the latter bank would open as branches of Bank of the Commonwealth.

All members of the staff who were present then withdrew and Messrs. Kelleher, Director, Division of Administrative Services, Kakalec, Controller, and Smith, Assistant to the Director, Division of Administrative Services, entered the room.

Utilization of outside space. The Board considered a plan for utilization of temporary space that it was hoped could be acquired in an office structure relatively close to the Federal Reserve Building, and it was understood that negotiations for the leasing of such space would continue. (Note: It subsequently developed that the space in question could not be obtained.)

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board the following items:

Letter to the Federal Reserve Bank of Boston (copy attached as Item No. 4) approving the designation of Frederick D. O'Connell as special assistant examiner.

Letters to the Federal Reserve Bank of New York (copies attached as Items 5 and 6) approving the appointment of Eugene A. Gallucci and Robert C. Thoman as examiners.

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

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Appointments

Edward L. Jewell as Messenger, Division of Administrative Services, with basic annual salary at the rate of \$3,609, effective the date of entrance upon duty.

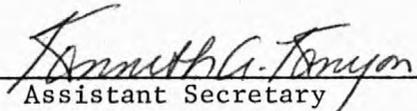
Shirley T. Stoney as Clerk-Typist, Division of Data Processing, with basic annual salary at the rate of \$3,925, effective the date of entrance upon duty.

Transfer

Carolyn J. Latina, from the position of Stenographer in the Division of Personnel Administration to the position of Stenographer in the Division of Data Processing, with no change in basic annual salary at the rate of \$4,936, effective October 23, 1966.

Acceptance of resignation

Susan K. Huffman, Stenographer, Division of International Finance, effective September 30, 1966.

  
Assistant Secretary

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 1  
10/11/66

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

October 11, 1966



Board of Directors,  
The Lorain County Savings & Trust Co.,  
Elyria, Ohio.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by The Lorain County Savings & Trust Co., Elyria, Ohio, of a branch at 248 North Abbe Road, Elyria, Ohio, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,  
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

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BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 2  
10/11/66

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

October 11, 1966



Board of Directors,  
Old Kent Bank and Trust Company,  
Grand Rapids, Michigan.

Gentlemen:

The Board of Governors of the Federal Reserve System extends to December 31, 1966, the time within which Old Kent Bank and Trust Company, Grand Rapids, Michigan, may establish a branch in the vicinity of the intersection of East Beltline, S. E., and 28th Street, S. E., Grand Rapids, Michigan.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,  
Assistant Secretary.

## TITLE 32A - NATIONAL DEFENSE, APPENDIX

Item No. 3

## CHAPTER XV - FEDERAL RESERVE SYSTEM

10/11/66

## REG. V - LOAN GUARANTEES FOR DEFENSE PRODUCTION

## Maximum rates of interest

1. Effective September 27, 1966, Regulation V is amended as follows:

(a) Section 1 is amended to read as follows:

Section 1. Authority.

This regulation is based upon and issued pursuant to the Defense Production Act of 1950 (referred to in this regulation as the "act"), and Executive Order No. 10480, dated August 14, 1953 as amended (3 CFR 1949-1953 Comp., p. 962) (referred to in this regulation as the "order"), and after consultation with the heads of the guaranteeing agencies designated in the act and the order, namely, the Department of the Army, the Department of the Navy, the Department of the Air Force, the Department of Commerce, the Department of the Interior, the Department of Agriculture, the General Services Administration, the Atomic Energy Commission, the Defense Supply Agency, and the National Aeronautics and Space Administration.

(b) Section 5 is amended to read as follows:

Sec. 5. Rates and fees.

Rates of interest, guarantee fees, commitment fees, and other charges which may be made with respect to guaranteed loans and guarantees executed through the agency of any Federal Reserve Bank under this regulation

will from time to time be prescribed, either specifically or by maximum limits or otherwise, in section 7 (the Supplement) by the Board of Governors after consultation with the guaranteeing agencies.

(c) The following new section 7 is added:

Sec. 7. Supplement.

Pursuant to the provisions of the Defense Production Act of 1950 and Executive Order No. 10480, dated August 14, 1953 as amended, the Board of Governors of the Federal Reserve System hereby prescribes the maximum rate of interest, guarantee fees, and commitment fees which may be charged with respect to guaranteed loans executed through the agency of any Federal Reserve Bank:

(a) Maximum rate of interest. - The maximum interest rate charged a borrower by a financing institution with respect to a guaranteed loan shall not exceed 7-1/2 per cent per annum.

(b) Guarantee fees. - The schedule of fees with respect to guaranteed loans is as follows:

<u>Per cent of loan guaranteed</u>	<u>Guarantee Fee</u> (Per cent of interest payable by borrower on guaranteed portion of loan)
70 or less	10
75	15
80	20
85	25
90	30
95	35
Over 95	40-50

In any case in which the rate of interest on the loan is in excess of 6 per cent, the guarantee fee shall be computed as though the interest rate were 6 per cent.

(c) Commitment fees. - In any case in which a commitment fee is charged a borrower with respect to a guaranteed loan, such fee shall not exceed 1/2 of 1 per cent per annum. In any such case, the financing institution will pay to the guaranteeing agency a percentage of such commitment fee, based on the guaranteed portion of the credit, equal to the same percentage of the interest payable on the loan which is required to be paid by the financing institution to the guarantor as a guarantee fee.

3a. The purposes of these amendments are to bring the regulation up to date and to incorporate into the regulation the currently effective maximum rate of interest, guarantee fees, and commitment fees on defense production loans. The only substantive change relates to the maximum permissible rate of interest, which is increased from 6 to 7-1/2 per cent per annum.

b. The requirements of section 553(b) of title 5, United States Code, with respect to notice, public participation, and deferred effective date were not followed in connection with these amendments. Functions exercised under the Defense Production Act are exempt from such requirements (50 App. U.S.C. 2159).

(50 App. U.S.C. 2154 and Executive Order 10480.)

Dated at Washington, D. C., this 11th day of October, 1966.

By order of the Board of Governors.

(SEAL)

(Signed) Kenneth A. Kenyon

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**Kenneth A. Kenyon,  
Assistant Secretary.**

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

Item No. 4  
10/11/66



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

October 12, 1966

Mr. Lee J. Aubrey,  
Assistant Vice President,  
Federal Reserve Bank of Boston,  
Boston, Massachusetts. 02106

Dear Mr. Aubrey:

In accordance with the request contained in your letter of October 3, 1966, the Board approves the designation of Frederick D. O'Connell as a special assistant examiner for the Federal Reserve Bank of Boston.

The authorization heretofore given your bank to appoint Mr. O'Connell as an assistant examiner is hereby canceled.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.



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

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Item No. 5  
10/11/66

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

October 12, 1966

Mr. Fred W. Piderit, Jr.,  
Vice President,  
Federal Reserve Bank of New York,  
New York, New York. 10045

Dear Mr. Piderit:

In accordance with the request contained in your letter of October 5, 1966, the Board approves the appointment of Eugene A. Gallucci, at present an assistant examiner, as an examiner for the Federal Reserve Bank of New York. Please advise the salary rate and 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

Item No. 6  
10/11/66

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

October 12, 1966

Mr. William F. Treiber,  
First Vice President,  
Federal Reserve Bank of New York,  
New York, New York. 10045

Dear Mr. Treiber:

In accordance with the request contained  
in your letter of October 6, 1966, the Board  
approves the appointment of Robert C. Thoman as  
an examiner for the Federal Reserve Bank of New  
York, effective today.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.

