

Minutes of the Board of Governors of the Federal Reserve System on Monday, November 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. Mitchell
Mr. Maisel
Mr. Brimmer

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Broida, Assistant Secretary
Mr. Bakke, Assistant Secretary
Mr. Molony, Assistant to the Board
Mr. Leavitt, Assistant Director, Division of Examinations

Messrs. Brill, Partee, Ettin, Fry, Keir, Kelty, and Rosenblatt of the Division of Research and Statistics

Messrs. Katz, Reynolds, Baker, Gemmill, Grimwood, and Ruckdeschel of the Division of International Finance

Money market review. Mr. Kelty reviewed the Government securities market, Mr. Fry commented on bank credit projections, and Mr. Baker summarized foreign exchange market developments. Copies of statistical materials distributed for the purpose of today's review have been placed in the Board's files.

Members of the research staff other than Messrs. Brill, Partee, and Grimwood then withdrew from the meeting, as did Mr. Broida, and the following entered the room: Mr. Hackley, General Counsel; Mr. Forrestal of the Legal Division; Mr. Emery of the Division of International Finance; and Messrs. Egertson, Maguire, and Johnsen of the Division of Examinations.

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Discount rates. The establishment without change by the Federal Reserve Bank of Boston on November 7, the Federal Reserve Bank of Minneapolis on November 9, the Federal Reserve Banks of Cleveland, Richmond, Atlanta, St. Louis, and Dallas on November 10, and the Federal Reserve Bank of Kansas City on November 14, 1966, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

Extension of time (Item No. 1). Unanimous approval was given to a letter to Fidelity-Philadelphia Trust Company, Philadelphia, Pennsylvania, granting an extension of time to establish a branch in Rosemont and commenting on the bank's capital position. A copy is attached as Item No. 1.

Reports on competitive factors. Unanimous approval was given to the transmittal to the Comptroller of the Currency of reports on competitive factors in which the conclusions read as follows:

Brattleboro-Ludlow, Vermont

Consummation of the proposed merger of Vermont National Bank, Brattleboro, and Ludlow Savings Bank and Trust Company, Ludlow, would reduce the alternative banking facilities in the immediate Ludlow area from two to one. Four large commercial banks in the State of Vermont, including Vermont National Bank, now control approximately 40 per cent of the total commercial bank deposits in the State, and this concentration would be increased if this proposed transaction is approved. It appears that the proposed merger would substantially lessen competition.

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Sioux Falls-Rapid City, South Dakota

There is little, if any, competition between American National Bank and Trust Company, Rapid City, and The National Bank of South Dakota, Sioux Falls, a subsidiary of First Bank Stock Corporation, Minneapolis, Minnesota, a registered bank holding company. Consummation of the proposed merger would combine the third and fifth largest banks in the State, and the resulting institution would be the largest bank in the State with about 11 per cent of the total bank deposits in South Dakota.

First Bank Stock Corporation through its South Dakota subsidiaries now controls about 10 per cent of the total deposits held by banks in the State, which would be increased to about 15 per cent if the proposed transaction is consummated. Two holding companies now control approximately 33 per cent of the total deposits in the State, which would be increased to 38 per cent.

In view of the present concentration of banking resources in the State of South Dakota, the overall competitive effect of this proposed merger would be clearly adverse.

Anchorage-Fairbanks, Alaska

The proposed merger of National Bank of Alaska, Anchorage, and Alaska National Bank of Fairbanks would combine the largest and fifth largest banks and increase the already high level of banking concentration in the State of Alaska. The resulting bank would hold about 40 per cent of the total commercial banking deposits in the State. While there is little or no existing competition between the participants, consummation of the proposal would eliminate potential for more competition between them. The competitive effect of the proposed merger would be substantially adverse.

Unanimous approval also was given to the transmittal to the Federal Deposit Insurance Corporation of reports on competitive factors in which the conclusions read as follows:

New York, New York

Consummation of the proposed merger of The Bank of New York, New York, New York, and The Fifth Avenue Bank Safe Deposit Vaults, Inc., New York, New York, would have no effect on competition.

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Wayland-Alto, Michigan

Consummation of the proposed acquisition of assets and assumption of liabilities of Farmers State Bank of Alto by Wayland State Bank would not have adverse competitive effects.

Ransom, Kansas

The proposed merger of The First State Bank of Ransom with The Farmers State Bank, Ransom, would eliminate one of the two banks in Ransom and would consequently eliminate existing and potential competition. However, the community would seem to be too small to afford competition and to provide adequate support for two such small banks. There are six other banks situated from 13 to 27 miles from Ransom, which provide alternative banking services.

Time deposits of Bank of Taiwan (Item No. 2). A distributed memorandum from the Legal Division and the Division of International Finance dated November 9, 1966, discussed a request by certain member banks for a ruling that the exemption from interest rate limitations granted in the thirteenth paragraph of section 19 of the Federal Reserve Act with respect to the time deposits of foreign governments, monetary and financial authorities of foreign governments when acting as such, and international financial institutions of which the United States is a member would be applicable to time deposits of the Bank of Taiwan, Taipei, Taiwan. The memorandum, which listed several arguments that might be presented for and against such a ruling, reached the conclusion that the Bank of Taiwan was not a monetary or financial authority of the Republic of China within the meaning of the statute and that the requested exemption therefore should be denied. However, in view of the lack of clarity of available information, principally with respect

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to whether the Bank of Taiwan's foreign exchange represented reserves of the Central Bank of China, it was noted that the Board might wish to make further inquiries before reaching a decision.

After discussion, during which advice was reported through the Federal Reserve Bank of New York that certain West Coast banks reportedly were considering time deposits of the Bank of Taiwan to be exempt from the interest rate regulations, it was agreed that authoritative information should be obtained before the Board reached a decision. It was understood that such information would be requested from the Embassy of the Republic of China. A copy of the letter sent to the Embassy is attached as Item No. 2.

Proposed amendment to rate regulations. In a letter dated November 7, 1966, Chairman Horne of the Federal Home Loan Bank Board requested the Board's comments with respect to a proposed amendment to the Home Loan Bank Board's rate control regulations. The amendment would provide that the rate of return paid on certificate accounts by member savings and loan institutions could not exceed the maximum rate (4.75 per cent) prescribed for regular accounts at any time when certificate accounts (for which a maximum rate of 5.25 per cent had been established) exceeded 50 per cent of an institution's total withdrawable accounts. The stated purpose was to prevent the certificate rate of a savings and loan association from becoming in effect the association's prevailing rate on most of its accounts.

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A distributed memorandum from Mr. Hackley dated November 10, 1966, submitted a draft of reply to Chairman Horne stating that no objection was seen to the adoption of the proposed amendment.

In discussion, differing points of view were presented on the matter. Governor Maisel expressed the view that the Home Loan Bank Board, in using the authority granted to it by the Act of September 21, 1966, for supervisory purposes, was proceeding without due regard to the primary purpose of the legislation, which was to affect the flow of funds among the several types of institutions competing for savings.

Governor Brimmer agreed that the proposed amendment reflected a confusion of narrow regulatory questions with monetary questions. In view of the purposes that he ascribed to the September legislation, he saw an obligation on the part of the Board to comment substantively on a rate proposal of another agency that had monetary implications.

Governor Robertson, on the other hand, suggested that the Board should avoid getting into a position that might result, in effect, in its becoming subject to undue influence from other agencies insofar as System supervisory policies were reflected in Regulation Q actions. While he would have no objection to furnishing comments to the Home Loan Bank Board on its proposed amendment, he did not believe that the Board of Governors should oppose such an amendment, which he understood reflected supervisory concern due to the fact that certain savings and loan associations were becoming seriously illiquid. If that was the

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Home Loan Bank Board's supervisory judgment, he doubted whether there was a sound basis for interceding.

The suggestion was made that Governor Maisel be asked to explore the matter with Chairman Horne and his associates and then report back to the Board as necessary, and there was general agreement with that suggestion.

The discussion then turned to further interpretation of the objectives of the September legislation, with Governor Maisel expressing the view that the legislation was directed primarily to the monetary effects of interest rate competition. Accordingly, if a change in rate ceilings was contemplated by one of the agencies, that proposal should be considered on the basis of its monetary implications, and the response to a request for views on such a proposal should include appropriate comments on that score even if the action was stated to be primarily for supervisory purposes. The essential purpose of the legislation, as he interpreted it, was to prevent further escalation of deposit interest rates and to increase the flow of funds into the savings and loan associations and the mortgage market. Therefore, an action such as that being considered by the Home Loan Bank Board should be judged on the basis of its prospective influence on the flow of funds, and not simply as a measure designed to deal with certain regulatory problems. There was also under consideration, he noted, a proposal to roll back the ceiling on rates payable by mutual savings banks in New York. In his

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opinion, such action would have an undesirable monetary effect and would be at odds with the basic concept of the legislation.

Governor Mitchell then suggested the possibility of replying to Chairman Horne's letter in terms that the presently proposed action would not be the type of action that the Federal Reserve would consider appropriate as far as banks were concerned. However, Governors Maisel and Brimmer expressed doubt that a letter in such terms would be sufficient. The latter stated his recollection that the Federal Reserve, in considering various policy moves during recent months, had taken into account, among other things, the possibility of adverse impact on the position of the savings and loan associations. Therefore, he felt that the prospective monetary impact of the action under consideration by the Home Loan Bank Board merited comment.

Mr. Hackley recalled that the September legislation gave, for the first time, express authority to the Home Loan Bank Board to fix ceiling rates on dividends paid by savings and loan associations, in the same way that the Board and the Federal Deposit Insurance Corporation had authority to fix maximum rates paid by banks on time and savings deposits. It was his view that the legislation was, to such extent, primarily of a supervisory character. He pointed out that while the legislation required the Home Loan Bank Board to consult with the Federal Reserve Board and the Federal Deposit Insurance Corporation before taking any action on maximum dividend rates, consultation also was required in

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the event of a proposed change in deposit rate ceilings by the other agencies. However, each of the agencies had authority to reach independent decisions after such consultation. He likened the current proposal to the action taken by the Board of Governors when it endeavored to prevent an undue flow of savings deposits into what were called time deposits. That seemed to him to have been a supervisory action.

Governor Robertson agreed generally with Mr. Hackley's interpretation but Governor Maisel disagreed, commenting that it appeared to him that the purpose of requiring interagency consultation was to recognize monetary implications and to provide for expressions of views in that regard.

After further discussion along these lines, Governor Mitchell commented that although he had no question about Governor Maisel's talking with Chairman Horne, he felt it would be desirable to have a letter on record, perhaps somewhat along the lines that he had mentioned earlier. Suggestions were made that such a letter include, in addition, comments on the monetary implications of the proposed amendment and on the prospect of its increasing the illiquidity of the savings and loan associations by generating an additional outflow of funds.

At the conclusion of the discussion, it was understood that Governor Maisel would talk with Chairman Horne, as previously suggested, and that in the meantime work would proceed on the drafting of a letter to Chairman Horne. It was also understood that steps would be taken to

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advise the Federal Deposit Insurance Corporation informally of the manner in which the Board was proceeding.

The meeting then adjourned.

Secretary's Notes: On November 10, 1966, Governor Robertson, acting in the absence of Governor Shepardson, approved on behalf of the Board the following items:

Letter to the Federal Reserve Bank of Richmond (copy attached as Item No. 3) approving the designation of Thomas S. Florence as special assistant examiner.

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

Appointments

Evelyn C. Hill as Cafeteria Helper, Division of Administrative Services, with annual salary at the rate of \$1,927 (4-hour day), effective the date of entrance upon duty.

Jo Ann Landen as Records Clerk, Office of the Secretary, with basic annual salary at the rate of \$4,936, effective the date of entrance upon duty.

Transfer

Mary Hedda Hillard, from the position of Research Assistant to the position of Economist, Division of Research and Statistics, with an increase in basic annual salary from \$7,090 to \$7,696, effective November 20, 1966.

Military leave

Howard Lorenzo Smith, Messenger, Division of Administrative Services, beginning the close of business November 18, 1966, for service in the Armed Forces of the United States.

Acceptance of resignations

Thurman Council, Messenger, Division of Administrative Services, effective the close of business November 17, 1966.

Joan L. Scott, Records Clerk, Office of the Secretary, effective the close of business November 19, 1966.

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Acceptance of resignations (continued)

Ketty Anagnos, Research Assistant, Division of International Finance, effective November 25, 1966.

Marguerite L. Renucci, Statistical Assistant, Division of Data Processing, effective the close of business December 16, 1966.

Governor Shepardson today approved on behalf of the Board memoranda recommending the following actions relating to the Board's staff:

Appointments

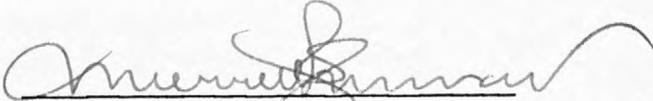
Carol Robertson Harig as Assistant Manager (Trainee), Cafeteria, Division of Administrative Services, with basic annual salary at the rate of \$5,331, effective the date of entrance upon duty.

Gloria O. Townsend as Cashier, Cafeteria, Division of Administrative Services, with annual salary at the rate of \$2,029 (4-hour day), effective the date of entrance upon duty.

Transfer

Bernard A. Thomasson, from the position of Computer Operator to the position of Senior Computer Operator, Division of Data Processing, with no change in basic annual salary at the rate of \$5,683, effective November 20, 1966.

Governor Shepardson also approved today on behalf of the Board a request from Dorothy S. Projector, Economist, Division of Research and Statistics, for permission to prepare an article on the distribution and composition of consumer wealth for Finance Magazine.


Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 1

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ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 14, 1966

Board of Directors,
Fidelity-Philadelphia Trust Company,
Philadelphia, Pennsylvania.

Gentlemen:

The Board of Governors of the Federal Reserve System extends to September 7, 1967, the time within which Fidelity-Philadelphia Trust Company, Philadelphia, Pennsylvania, may establish a branch at 1212 East Lancaster Avenue, Rosemont, Lower Merion Township, Montgomery County, Pennsylvania.

The 1966 examination of your bank indicates some deterioration in the bank's capital position. The Board trusts that all means to improve this condition will be carefully considered.

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. 2
11/14/66ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 15, 1966.

Mr. Martin Wong,
Minister-Counselor,
Embassy of the Republic of China,
2311 Massachusetts Avenue, N.W.,
Washington, D. C. 20008

Dear Mr. Wong:

The Board of Governors of the Federal Reserve System has been requested to issue a ruling to the effect that the exemption from interest rate limitations granted by law with respect to the time deposits of certain foreign official institutions is applicable to the time deposits of the Bank of Taiwan, Taipei, Taiwan. This exemption, which is contained in section 19 of the Federal Reserve Act (12 U.S.C. 371b), may be extended only to the time deposits of foreign governments, monetary and financial authorities of such governments when acting as such, and international financial institutions of which the United States is a member.

Before the Board can make a final determination in this matter, it must consider several factors, one of which concerns the foreign exchange holdings of the Bank of Taiwan. The published information available to us does not indicate whether the foreign exchange of the Bank of Taiwan is held, in whole or in part, for the account of the Central Bank of China, and whether such foreign exchange is part of the official reserves of the Republic of China.

In order to aid the Board in reaching a decision in this case, it would be appreciated if you would advise the Board whether the Bank of Taiwan's foreign exchange holdings, particularly its U. S. dollar balances in the United States, are held for its own account or for the account of the Central Bank of China, and whether such foreign exchange is considered part of the Chinese Government's official reserves.

Your cooperation in this matter is greatly appreciated.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 3
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ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 10, 1966

Mr. John L. Nosker, Vice President,
Federal Reserve Bank of Richmond,
Richmond, Virginia. 23213

Dear Mr. Nosker:

In accordance with the request contained in your letter of November 7, 1966, the Board approves the designation of Thomas S. Florence as a special assistant examiner for the Federal Reserve Bank of Richmond.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.