





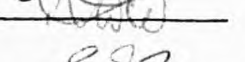
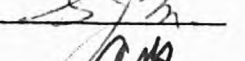
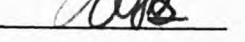
Minutes for December 12, 1966

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	<u></u>
Gov. Robertson	<u></u>
Gov. Shepardson	<u></u>
Gov. Mitchell	<u></u>
Gov. Daane	<u></u>
Gov. Maisel	<u></u>
Gov. Brimmer	<u></u>

Minutes of the Board of Governors of the Federal Reserve System on Monday, December 12, 1966. The Board met in the Board Room at 9:30 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Broida, Assistant Secretary
Mr. Young, Senior Adviser to the Board
Mr. Holland, Adviser to the Board
Mr. Solomon, Adviser to the Board and Director,
Division of International Finance
Mr. Molony, Assistant to the Board
Mr. Cardon, Legislative Counsel
Mr. Fauver, Assistant to the Board

Messrs. Brill, Koch, Partee, Williams, Axilrod,
Gramley, Sigel, Smith, Altmann, Eckert,
Ettin, Fisher, Fry, Gehman, Keir, Kelty,
Rosenblatt, Thompson, and Wernick of the
Division of Research and Statistics

Messrs. Sammons, Hersey, Katz, Reynolds, Wood,
Bryant, Gekker, Gemmill, Maroni, Redding,
and Stem, and Mrs. Junz of the Division of
International Finance

Economic review. Staff members of the research divisions reviewed developments related to the U.S. balance of payments position, selected international financial matters, and economic and financial trends in the domestic economy. The presentations were based in part on materials that had been distributed in preparation for tomorrow's meeting of the Federal Open Market Committee, and copies of the relevant materials have been placed in the Committee's files.

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After discussion based on the staff review the members of the research divisions other than Messrs. Brill, Koch, Partee, Axilrod, Gramley, Smith, Fry, and Sammons withdrew from the meeting and the following entered: Messrs. Hackley, O'Connell, Shay, Forrestal, Via, and Cloth of the Legal Division; Messrs. Solomon, Leavitt, Dahl, Egertson, Goodfellow, Harris, and McClintock of the Division of Examinations; Messrs. Langham and Veenstra of the Division of Data Processing; and Mr. Kelleher of the Division of Administrative Services.

Approved items. The following letters, copies of which are attached to these minutes under the respective numbers indicated, were approved unanimously:

	<u>Item No.</u>
Letter to United California Bank, Los Angeles, California, approving the establishment of a branch in Chula Vista.	1
Letter to Wells Fargo Bank, San Francisco, California, approving the establishment of a branch in Castro Valley.	2
Letter to Coopersville State Bank, Coopersville, Michigan, approving the declaration of a dividend.	3
Letter to the Federal Reserve Bank of Kansas City waiving the assessment of a penalty incurred by Jackson State Bank, Jackson, Wyoming, because of a deficiency in its required reserves.	4

Processing of merger and holding company applications. There had been distributed a draft of proposed letter to the Presidents of all Federal Reserve Banks that would transmit a memorandum dated

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June 23, 1966, on the processing of bank merger and bank holding company applications. The memorandum had already been sent by the Director of the Division of Examinations to the Vice Presidents in charge of examinations at the Reserve Banks. The letter would indicate that the procedures set out in the memorandum had been helpful in processing applications at the Board's offices, particularly from the standpoint of encouraging cooperation and coordination between the several parts of the Board's staff interested in such applications and between the Division of Examinations and the examining departments of the Reserve Banks. The letter would state that experience under the procedures suggested that further advantages might result from closer cooperation and a freer flow of comments and information between the divisions of the Board's staff and their counterparts at the Reserve Banks, that the Board was considering addressing a letter to the Reserve Banks suggesting certain arrangements, but that the Board would appreciate views as to whether such a letter would be appropriate and desirable, together with any other suggestions for further improving the processing of applications.

In discussion Governor Mitchell indicated that consideration was being given to the possibility of a procedure that would call for a letter of intent to be filed by the applicant describing any contemplated proposal, on the basis of which data needs could be determined by staff of the Board and the Reserve Banks. In the circumstances, while he had no particular objection to the sending of the proposed letter at this time,

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he suggested that the Board might want to defer a decision in that regard until the letter of intent procedure had been explored further.

Governor Brimmer supported the suggestion for deferral, indicating that in the meantime he would like to explore with the Board's staff the degree of cooperation existing between the research and examining departments at the Reserve Banks and also the procedures followed for exchange of information between the Division of Examinations and the Banking Markets Section of the Division of Research and Statistics.

Accordingly, it was agreed to defer temporarily a decision on the proposed letter.

Bank liquidity analysis. A distributed memorandum from the Division of Examinations dated December 9, 1966, advised that at a meeting called recently at the request of the Acting Comptroller of the Currency, representatives of the three Federal bank supervisory agencies had discussed a form for bank liquidity analysis prepared by the Comptroller's Office. It was understood that the Comptroller's examiners had been using a similar form for about two years, and the proposal was that each of the three supervisory agencies use the form, on an experimental basis, in connection with the forthcoming year-end call for condition reports. Further consideration would then be given to the possibility of collecting information on bank liquidity on a continuing basis, either in connection with the call reports or otherwise.

Discussion of the proposal revealed reservations on the part of members of the Board as to whether the proposed form, and its use in

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connection with the year-end call report, would serve best the purpose of providing meaningful information on bank liquidity. However, it was noted that the proposal for use of the form had come from the Acting Comptroller of the Currency and that there was much to be said for promoting interagency cooperation at this time.

A specific question with regard to the form had to do with the inclusion of the legal reserve requirement as an item to be deducted in calculating a bank's net liquid assets. The suggestion was made that it would be desirable if a change could be negotiated in the form so that the legal reserve requirement would be shown as a memorandum item.

At the conclusion of the discussion the form was authorized for use by State member banks in connection with the forthcoming year-end call report, subject to the understanding that an effort would be made to negotiate the suggested change in the form and subject to the further understanding that the Board's staff would analyze the information obtained through the use of the form, when available, in order to determine whether an alternative procedure for obtaining data with regard to bank liquidity would seem preferable, which procedure might then be discussed with the other bank supervisory agencies at an appropriate time.

Secretary's Note: Subsequent to the meeting, the consent of the other supervisory agencies was obtained to a change in the form whereby the legal reserve requirement would be shown as a memorandum item.

Application of Security Bank. There had been distributed a memorandum from the Division of Examinations dated December 6, 1966,

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and other pertinent papers relating to an application by Security Bank, Webster, South Dakota, to merge the Farmers and Merchants Bank, Roslyn, South Dakota. The recommendations of the Minneapolis Reserve Bank and the Board's staff were favorable.

Following discussion of the matter the application was approved unanimously, with the understanding that an order and statement would be drafted for the Board's consideration.

Regulation M. There had been distributed a memorandum from the Legal and Examinations Divisions dated December 5, 1966, submitting a revised draft of proposed revision of Regulation M (under the title "Foreign Activities of National Banks") to implement the amendment to section 25 of the Federal Reserve Act approved July 1, 1966 (Public Law 89-485), which added to section 25 a new paragraph authorizing national banks with a capital and surplus of \$1 million or more to apply for the Board's permission to invest directly or indirectly in the stock of foreign banks and to make loans or extensions of credit to such banks without regard to the provisions of section 23A of the Federal Reserve Act, subject to such regulations as the Board might prescribe.

A first draft of proposed amendments, reflecting comments received from the Federal Reserve Banks and selected member banks, was submitted to the Board with a Legal Division memorandum of July 29, 1966. After discussion by the Board on August 9, 1966, a revised proposal for amendment of Regulation M was published in the Federal Register as a

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notice of proposed rule making. Comments received from banks following publication of that proposal were generally critical of what was considered to be too restrictive an attitude. After analysis of the comments received, the proposed amendments were substantially modified by the Board's staff, and the revised proposal was now submitted with the December 5 memorandum. The recommendation was for re-publication in the Federal Register for comment. It was noted that staff of the Office of the Comptroller of the Currency had indicated a desire to review the proposal before it was finally promulgated and that several commercial banks had indicated they would like to be heard if the Board disagreed with their suggestions.

Following a review by Mr. Shay of the background of the matter and the general nature of the revised draft proposal, members of the Board noted that some member banks had expressed themselves as deeply concerned about the provisions that would be incorporated in the revised regulation. It was generally agreed that the Board should not adopt a revised regulation without re-publication in the Federal Register for comment, and some Board members expressed the view that member banks that so desired should have an opportunity to be heard.

Governor Robertson noted that the changes from the previous draft were quite extensive and went further in certain respects than the original recommendations of the Reserve Banks. He expressed some apprehension in that regard, to which he added that he had not yet had

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an opportunity to study the suggested provisions carefully and formulate definite views.

In the circumstances it was agreed to defer the matter for consideration at another meeting of the Board. Governor Maisel requested that in the interim the staff furnish a memorandum explaining the rationale for limiting to 25 per cent of a member bank's capital and surplus (or any other figure) the amount that could be placed by the member bank in equity investments in foreign banks, which figure would include investments in Edge and agreement corporations.

The meeting continued from this point with limited staff attendance.

Monetary policy. There had been distributed a memorandum from the Division of Research and Statistics dated November 30, 1966, exploring on a "contingency planning" basis advantages and disadvantages of alternative courses of policy action if it should be decided that the Administration's tax and defense program, when announced, suggested the desirability of significant monetary easing. Particular consideration was given to the possibility of a reduction in member bank reserve requirements, and several alternative possibilities were evaluated, including the possibility of adopting a graduated reserve plan on demand deposits.

At the Chairman's request Mr. Brill reviewed the contents of the staff memorandum, and a general discussion followed during which reference also was made to a distributed memorandum from Mr. Holland dated

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December 7, 1966, suggesting certain actions that might be taken if an easing of monetary policy generated an unduly rapid resumption of domestic loan expansion at larger banks, an unduly rapid resumption of bank loans to foreign customers, or unduly sharp cutbacks in bank borrowing of Euro-dollars from abroad.

A number of questions were raised with staff by members of the Board on the present and prospective economic and financial situation, and some of the Board members expressed tentative views as to what courses of action might seem preferable under certain assumptions, it being understood, however, that today's discussion was, as the staff memorandum had indicated, in an atmosphere of "contingency planning."

During the discussion reference also was made to alternative drafts, prepared by Mr. Holland, of a possible letter from the Reserve Bank Presidents to member banks announcing a withdrawal of the letter of September 1, 1966, concerning discount administration. Several Board members indicated that they had prepared or were preparing additional alternative drafts, and it was understood that those would likewise be distributed to the Board for study. However, it was agreed that as a next step consideration should be given to whatever views might be expressed by Reserve Bank Presidents at tomorrow's Open Market Committee meeting. It was felt that the Board might then be in a better position to decide whether steps should be taken toward withdrawing the September 1 letter.

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The members of the staff then withdrew and the Board went into executive session.

Staff appointments and salaries. The Secretary was advised later by Governor Shepardson that during the executive session the Board took the following actions effective January 1, 1967:

Daniel H. Brill was appointed Senior Adviser to the Board, it being understood that he would continue in addition as Director of the Division of Research and Statistics.

James B. Eckert, Chief of the Banking Section in the Division of Research and Statistics, was appointed Assistant Adviser in that Division with the understanding that he would continue in responsibility for the work of the Banking Section.

Murray S. Wernick, Chief of the National Income, Labor Force, and Trade Section in the Division of Research and Statistics, was appointed Assistant Adviser in that Division with the understanding that he would continue in responsibility for the work of the National Income, Labor Force, and Trade Section.

Jack M. Egertson, Supervisory Review Examiner in the Division of Examinations, was appointed Assistant Director of that Division.

The Secretary was also advised that during the executive session the Board approved the payment of salary to members of its officer staff effective January 1, 1967, at the annual rates indicated:

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<u>Name and Title</u>	<u>Division</u>	<u>Annual Salary</u>
<u>Board Members' Offices</u>		
Ralph A. Young, Senior Adviser to the Board		\$28,000
Daniel H. Brill, Senior Adviser to the Board and Director, Division of Research and Statistics		28,000
Robert C. Holland, Adviser to the Board		26,500
Robert Solomon, Adviser to the Board and Director, Division of International Finance		26,500
Charles Molony, Assistant to the Board		26,000
Robert L. Cardon, Legislative Counsel		24,500
Clarke L. Fauver, Assistant to the Board		21,250
<u>Secretary's Office</u>		
Merritt Sherman, Secretary		27,000
Kenneth A. Kenyon, Assistant Secretary		23,500
Arthur L. Broida, Assistant Secretary		22,500
Karl E. Bakke, Assistant Secretary		21,000
Elizabeth L. Carmichael, Assistant Secretary		17,000
<u>Legal Division</u>		
Howard H. Hackley, General Counsel		27,000
David B. Hexter, Associate General Counsel		25,500
Thomas J. O'Connell, Assistant General Counsel		25,000
Jerome W. Shay, Assistant General Counsel		22,250
Wilson L. Hooff, Assistant General Counsel		20,000
<u>Research and Statistics</u>		
Albert R. Koch, Deputy Director		26,500
J. Charles Partee, Associate Director		26,500
Kenneth B. Williams, Adviser		22,950
Tynan Smith, Associate Adviser		22,500
Stanley J. Sigel, Associate Adviser		22,500
Lyle E. Gramley, Associate Adviser		22,500
Stephen H. Axilrod, Associate Adviser		22,500
Murray S. Wernick, Assistant Adviser		22,200
James B. Eckert, Assistant Adviser		22,200

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<u>Name and Title</u>	<u>Division</u>	<u>Annual Salary</u>
<u>International Finance</u>		
Robert L. Sammons, Associate Director		\$24,500
Arthur B. Hersey, Adviser		24,000
Samuel I. Katz, Adviser		23,000
John E. Reynolds, Adviser		23,000
Reed J. Irvine, Adviser		21,900
Ralph C. Wood, Adviser		21,900
<u>Examinations</u>		
Frederic Solomon, Director		26,000
Brenton C. Leavitt, Assistant Director		24,000
Lloyd M. Schaeffer, Chief Federal Reserve Examiner		21,500
James C. Smith, Assistant Director		20,400
Andrew N. Thompson, Assistant Director		20,400
Frederick R. Dahl, Assistant Director		20,000
Charles C. Walcutt, Assistant Chief Federal Reserve Examiner		20,000
Jack M. Egertson, Assistant Director		19,500
<u>Bank Operations</u>		
John R. Farrell, Director		25,500
John N. Kiley, Jr., Assistant Director		21,500
M. B. Daniels, Assistant Director		19,650
<u>Personnel</u>		
Edwin J. Johnson, Director		24,500
J. J. Hart, Assistant Director		16,850
<u>Administrative Services</u>		
Joseph E. Kelleher, Director		22,000
Harry E. Kern, Assistant Director		17,300
<u>Controller's Office</u>		
John Kakalec, Controller		18,500

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<u>Name and Title</u>	<u>Division</u>	<u>Annual Salary</u>
	<u>Defense Planning</u>	
Innis D. Harris, Coordinator		\$22,450
	<u>Data Processing</u>	
Lawrence H. Byrne, Jr., Director		23,000
David S. Staiger, Assistant Director		19,500
Lee W. Langham, Assistant Director		18,500

Annex building. The Secretary was informed by Governor Shepardson that during the executive session he had discussed cost figures for an annex to the Federal Reserve Building based on estimates submitted November 18, 1966, by Harbeson Hough Livingston & Larson, together with additional costs such as alterations necessitated in the Board's building and administrative costs estimated by representatives of the architectural firm and the Board's staff. The purpose of Governor Shepardson's presentation was to inform the Board of the total estimated cost as it now appeared and to obtain approval for the payment of the percentage of the architects' fee due at the completion of the preliminary drawings, sketches, and cost estimates and their acceptance by the Board, pursuant to the agreement between the Board and the architectural firm dated December 7, 1962.

Governor Shepardson informed the Secretary that during the executive session the Board authorized payment to the architects of the percentage of fee called for, including the balance due on the first payment, based on a revised cost figure of \$11,353,919. However, the

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Board did not authorize the architects to proceed with contract drawings, specifications, etc., at this time. The Board agreed that as soon as Governor Shepardson had obtained approval from the Department of the Interior for the north garage, the architects could go ahead with approaching the various commissions and agencies involved for the approval of the design.

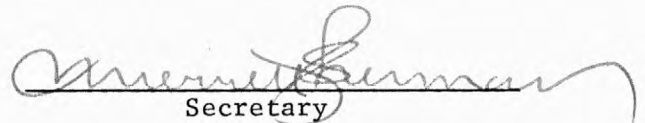
Governor Shepardson indicated that the Board did not want to proceed further until the following information was obtained: (1) comparative information on a footage basis, either square or cubic, with other Government buildings; (2) break-out cost figures for: (a) the tennis and squash courts, (b) each garage space, and (c) the top floor as now designed; (3) the amount of expansion space presently provided; and (4) the amount of expansion space that would be available if the top floor were eliminated and if the Library and Health Service Unit were placed together in the present expansion space. The Board was primarily interested in the significant items that had been added to the design to cause the estimated cost of construction to increase from around \$8 million to in excess of \$11 million. It was understood that when the requested information had been obtained the matter would be considered further on an occasion when all of the members of the Board were available.

The meeting then adjourned.

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Secretary's Note: A letter was sent today to Virgin Islands National Bank, Charlotte Amalie, St. Thomas, Virgin Islands, acknowledging receipt of advice that the bank had established a branch at Fort Mylner in Charlotte Amalie on September 9, 1966, without prior notice to the Board and interposing no objection to the establishment of the branch.



Secretary

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

Item No. 1
12/12/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 12, 1966

Board of Directors,
United California Bank,
Los Angeles, California.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by United California Bank, Los Angeles, California, of a branch in the vicinity of the intersection of 5th Avenue and H Street in Chula Vista, San Diego County, California, 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.)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 2
12/12/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 12, 1966

Board of Directors,
Wells Fargo Bank,
San Francisco, California.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Wells Fargo Bank, San Francisco, California, of a branch in the vicinity of the intersection of Castro Valley Boulevard and Redwood Road, Castro Valley (unincorporated area), Alameda County, California, 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-1846), should be followed.)

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

Item No. 3
12/12/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 12, 1966

Board of Directors,
Coopersville State Bank,
Coopersville, Michigan.

Gentlemen:

The Board of Governors of the Federal Reserve System approves, under the provisions of paragraph 6 of Section 9 of the Federal Reserve Act and Section 5199(b) of United States Revised Statutes, the declaration of a dividend of \$18,000 by Coopersville State Bank, Coopersville, Michigan, payable December 30, 1966. This letter does not authorize any future declaration of dividends that would require the Board's approval under the foregoing statutes.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

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Item No. 4
12/12/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 12, 1966

Mr. George H. Clay, President,
Federal Reserve Bank of Kansas City,
Kansas City, Missouri. 64106

Dear Mr. Clay:

This refers to Vice President Rankin's letter of November 23, 1966, regarding a penalty of \$505.22 incurred by the Jackson State Bank, Jackson, Wyoming, on a deficiency in its required reserves for the reserve computation period ended November 9, 1966.

It is noted that a clerical error at the member bank in forwarding a transfer draft caused the deficiency, and that at the time the bank was in process of moving to a new building. It is also noted that over a period of years the member bank has consistently maintained large excess reserves, but that the penalty is not eligible to be waived by your Bank under any of the provisions listed in the Board's letter of October 10, 1949 (S-1123).

In view of the circumstances, the Board authorizes your Bank to waive assessment of the penalty of \$505.22 due for the reserve computation period ended November 9, 1966.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.