

Minutes for December 16, 1966

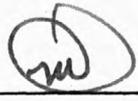
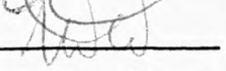
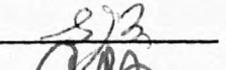
To: Members of the Board

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 Friday, December 16, 1966. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Holland, Adviser to the Board
Mr. Molony, Assistant to the Board
Mr. Cardon, Legislative Counsel
Mr. Fauver, Assistant to the Board
Mr. Spencer, Staff Assistant, Office of the Secretary
Mr. Morgan, Staff Assistant, Board Members' Offices
Mr. Furth, Consultant

Messrs. Brill, Koch, Partee, Williams, Axilrod, Gramley, Bernard, Eckert, Ettin, Fry, Keir, Kelty, and Rosenblatt of the Division of Research and Statistics

Messrs. Sammons, Hersey, Gekker, Gemmill, and Ruckdeschel of the Division of International Finance

Money market review. There had been distributed a table and related charts affording perspective on bank reserve utilization and tables providing data on the money and capital markets; copies have been placed in the Board's files.

Mr. Axilrod reviewed developments relating to the Government securities market and commented on the bank credit projections contained in the distributed material. Mr. Ruckdeschel then discussed foreign exchange market developments.

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After a discussion based on the foregoing presentations that included comment by Mr. Brill on estimates of fourth quarter gross national product figures, all members of the staff except Messrs. Sherman, Kenyon, Molony, Fauver, Sammons, and Spencer withdrew from the meeting and the following entered the room:

Mr. Hackley, General Counsel
 Mr. Daniels, Assistant Director, Division of
 Bank Operations
 Mr. Dahl, Assistant Director, Division of
 Examinations
 Mr. Forrestal, Senior Attorney, Legal Division
 Mr. Egertson, Supervisory Review Examiner,
 Division of Examinations
 Mr. Poundstone, Review Examiner, Division of
 Examinations

Discount rates. The establishment without change by the Federal Reserve Bank of Minneapolis on December 9 and by the Federal Reserve Banks of New York, Philadelphia, Chicago, and San Francisco on December 15, 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.

Approved items. The following items, copies of which are attached to these minutes under the respective numbers indicated, were approved unanimously after consideration of background information that had been made available to the Board:

Item No.

1

Letter to the Federal Deposit Insurance Corporation regarding the application of Evanston Trust and Savings Bank, Evanston, Illinois, for continuation of deposit insurance after withdrawal from membership in the Federal Reserve System.

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Item No.

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| Letter to the Federal Reserve Bank of Kansas City waiving the assessment of penalties incurred by First National Bank in Gladstone, Gladstone, Missouri, and First National Bank, Kingman, Kansas, because of deficiencies in their required reserves. | 2 |
| Letter to the Federal Deposit Insurance Corporation regarding the application of The Sumitomo Bank of California, San Francisco, California, for continuation of deposit insurance after withdrawal from membership in the Federal Reserve System. | 3 |
| Letter to Morgan Guaranty International Banking Corporation, New York, New York, granting consent to the purchase of shares of Banca Vonwiller, S.p.A., Milan, Italy. | 4 |
| Letter to the Presidents of all Federal Reserve Banks transmitting forms to be used by State member banks and their affiliates in submitting condition reports as of the next call date. | 5 |

During a discussion of Item No. 4, the staff was requested to obtain information from Morgan Guaranty International Banking Corporation on whether its proposed investment in Banca Vonwiller, when combined with other foreign loans and investments of the Corporation, Morgan Guaranty Trust Company of New York, and Morgan Guaranty International Finance Corporation, would conform to the guidelines recently established under the voluntary foreign credit restraint effort. If it were ascertained that the investment could be made within the guidelines and the priorities contained therein, it was understood that the letter would be transmitted. Subsequently Messrs. Sammons and Dahl talked with

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representatives of Morgan and, after discussion with Governor Robertson, the letter was sent.

Report on competitive factors. A report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of The Oxford National Bank, Oxford, North Carolina, into The Planters National Bank and Trust Company, Rocky Mount, North Carolina, was approved for transmittal to the Comptroller, Governor Robertson dissenting. The conclusion read as follows:

The proposed merger of The Oxford National Bank, Oxford, into The Planters National Bank and Trust Company, Rocky Mount, would not have adverse competitive effects.

Governor Robertson had expressed the opinion that the conclusion should include the statement that the proposed merger would place Union National Bank of Oxford in direct competition with a branch of a bank about ten times its size, resulting in a change in the competitive situation to that extent.

Meetings with State bankers and related groups. Governor Shepardson called attention to a memorandum of December 15, 1966, from the Office of the Secretary regarding the annual visits to Washington by various State bankers associations and related groups. The Washington office of the American Bankers Association had been in touch with the Secretary's Office about making arrangements for such groups to visit the Board.

According to the pattern that had been established in recent years, a member of the Board and two or more staff members would attend

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on a rotating basis the receptions and dinners given by the respective groups. Except where there might be scheduling conflicts, each group would be invited to the Board's offices for luncheon, at which attendance would include two Board members and an appropriate number of staff. Following the luncheon, the two Board members would confer with the visitors in the Board Room.

Governor Shepardson inquired whether the Board wished to continue this practice, pointing out that if it wished to do so, the Office of the Secretary would proceed with the necessary arrangements.

There followed an exchange of views on the value of receiving such groups for luncheon and conference, and it was generally agreed that the Board should continue the practice. However, as a means of lightening obligations of this nature, it was the consensus that it would be appropriate if only one member of the Board were scheduled to host each luncheon and confer with such groups. It was recognized, though, that it would be desirable to have additional Board members join the conference with such groups whenever the schedules of the individual members permitted such participation. It was understood that the Office of the Secretary would distribute to the members of the Board a list of the proposed visits by the various State bankers associations and that the Board members would indicate their order of preference for hosting the various luncheons.

There was also discussion of attendance by members of the Board at receptions and dinners given by the State bankers associations for

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their Congressional delegations, to which the members of the Board customarily were invited. It was understood that the Board members would indicate their order of preference among such functions when the list of contemplated Washington visits by the banker groups was distributed. It was agreed that members of the Board should not feel obligated to attend these evening functions. However, if no member expressed a desire to attend a particular function, that fact was to be made known to the Board with a view to ascertaining whether one of its members would be available to represent the Board.

At the conclusion of the discussion, it was understood that the Office of the Secretary would proceed with the necessary arrangements relating to the visits by the State bankers associations and related groups, with certain modifications in the practices followed in the past regarding participation in light of the views expressed at this meeting. Authorization was given for payment of the cost of the luncheons for the visiting groups.

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 Philadelphia (copy attached as Item No. 6) approving the designation of nine employees as special assistant examiners.

Letter to the Federal Reserve Bank of Atlanta (copy attached as Item No. 7) approving the appointment of W. James Montgomery and L. Howard Dillion as examiners.

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Memorandum from the Division of Research and Statistics dated December 14, 1966, recommending the establishment of an additional economist position in the Banking Markets Section.

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

Appointments

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

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

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

Gladys Y. Kirby 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.

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

Salary increases, effective December 18, 1966

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
	<u>Legal</u>		
David Robinson, II, Attorney		\$ 9,221	\$ 9,536
Bruce D. Shuter, Attorney		9,221	9,536

Research and Statistics

Carmen H. Feliciano, Secretary	5,867	6,065
Madelene Gray, Statistical Clerk	4,269	4,413
Mercy M. Heath, Statistical Clerk	4,936	5,096
Robert T. Parry, Economist	11,111	12,064
Milo O. Peterson, Economist	12,443	12,822
Carol Polievka, Secretary	5,507	5,683
Margaret I. Ratcliffe, Clerk-Typist	4,413	4,557

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Salary increases, effective December 18, 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>		
Ferol A. Beach, Stenographer		\$4,776	\$4,936
	<u>Administrative Services</u>		
Walter W. Graves, Cafeteria Laborer		3,731	3,853
James R. Jordan, Operator (Offset Press and Multilith)		5,990	6,282

Salary increases, effective January 1, 1967

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
	<u>Examinations</u>		
John N. Lyon, Supervisory Review Examiner (change in title from Review Examiner)		\$15,113	\$16,152
John T. McClintock, Assistant to the Director (change in title from Supervisory Review Examiner)		17,198	18,764

Transfers

Lovair Dingle, Messenger-Driver, Division of Administrative Services, to another budget position, with no change in basic annual salary at the rate of \$4,058, effective upon assuming his new duties.

Johnny Samuel Fox, Jr., Messenger-Driver, Division of Administrative Services, to another budget position, with no change in basic annual salary at the rate of \$4,191, effective upon assuming his new duties.

Ernest R. Thomas, from the position of Messenger to the position of Messenger-Driver, Division of Administrative Services, with no change in basic annual salary at the rate of \$3,609, effective upon assuming his new duties.


Secretary

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

Item No. 1
12/16/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 16, 1966

The Honorable K. A. Randall, Chairman,
Federal Deposit Insurance Corporation,
Washington, D. C. 20429

Dear Mr. Randall:

Reference is made to your letter of December 1, 1966, concerning the application of Evanston Trust and Savings Bank, Evanston, Illinois, for continuance of deposit insurance after withdrawal from membership in the Federal Reserve System.

At the July 11, 1966, examination this bank was rated a problem institution. Major reasons for this rating were the sizable volume of criticized credits, only fair management, and a capital position lower than satisfactory. Management was requested to strengthen lending and collection policies in order that the volume of criticized assets might be reduced and was also urged to review very carefully the bank's capital adequacy.

There have been no other corrective programs urged upon the bank, or agreed to by it, which have not been fully consummated, and there are no programs that the Board would advise be incorporated as conditions of admitting the bank to membership in the Corporation as a nonmember of the Federal Reserve System; nevertheless, you may wish to consider the information in the above paragraph in reviewing this application.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 2
12/16/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 16, 1966

Mr. John T. Boysen,
First Vice President,
Federal Reserve Bank of Kansas City,
Kansas City, Missouri. 64106

Dear Mr. Boysen:

This refers to your letter of November 30, 1966, regarding deficient reserve penalties of \$26.18 incurred by the First National Bank in Gladstone, Missouri, and \$8.19 incurred by the First National Bank, Kingman, Kansas, both of which had been waived inadvertently by your Bank.

It is noted that a recent audit at your Bank revealed the penalties were improperly waived under Paragraph E of the Board's letter of October 10, 1949 (S-1123), that the two member banks were advised prior to the audit of the waiver, that your Bank is reluctant to go back to the banks at this late date and collect the penalties, and that both banks have a good record for maintaining required reserves.

In the circumstances, the Board ratifies the action taken by your Bank in waiving assessment of the penalty of \$26.18 against the First National Bank in Gladstone, Missouri, for the reserve computation period ended October 12, 1966, and the penalty of \$8.19 against the First National Bank, Kingman, Kansas, for the reserve computation period ended September 28, 1966.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 3
12/16/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 16, 1966

The Honorable K. A. Randall, Chairman,
Federal Deposit Insurance Corporation,
Washington, D. C. 20429

Dear Mr. Randall:

Reference is made to your letter of December 2, 1966, concerning the application of The Sumitomo Bank of California, San Francisco, California, for continuance of deposit insurance after withdrawal from membership in the Federal Reserve System.

Subject bank was last examined by the Federal Reserve Bank of San Francisco as of the close of business August 15, 1966. At that time, the bank's capital position was less than satisfactory, and the Reserve Bank urged that the directorate give serious consideration to means to improve this condition.

There have been no other corrective programs urged upon the bank, or agreed to by it, which have not been fully consummated, and there are no programs that the Board would advise be incorporated as conditions of admitting the bank to membership in the Corporation as a nonmember of the Federal Reserve System. Nevertheless, you may wish to consider the above information in your review of this application.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

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

Item No. 4
12/16/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 16, 1966.

Morgan Guaranty International
Banking Corporation,
23 Wall Street,
New York, New York. 10015

Gentlemen:

As requested in your letter of November 9, 1966, the Board of Governors grants consent for Morgan Guaranty International Banking Corporation ("MGIBC") to purchase and hold approximately 510,000 shares of the capital stock of Banca Vonwiller, S.p.A. ("Banca"), Milan, Italy, at a cost of approximately US\$7,307,300, provided such stock is acquired within one year from the date of this letter. In this connection, the Board also approves the purchase and holding of such shares in excess of 15 per cent of your Corporation's capital and surplus.

The Board's consent to the proposed purchase and holding of shares of Banca by MGIBC is granted subject to the following conditions:

- (1) That MGIBC shall not hold, directly or indirectly, any shares of stock in Banca if Banca at any time fails to restrict its activities to those permissible to a corporation in which a corporation organized under Section 25(a) of the Federal Reserve Act could, with the consent of the Board of Governors, purchase and hold stock, or if Banca establishes any branch or agency or takes any action or undertakes any operation in Italy or elsewhere, in any manner, which at the time would not be permissible to MGIBC;
- (2) That, when required by the Board of Governors, MGIBC will cause Banca (a) to permit examiners selected or auditors approved by the Board of Governors to examine Banca and (b) to furnish the Board of Governors with such reports as it may require from time to time;

Morgan Guaranty International
Banking Corporation

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- (3) That MGIBC shall not carry on its books the shares acquired of Banca at a net amount in excess of its proportionate share of the book capital accounts of Banca, after giving effect to the elimination of all known losses; and
- (4) That any share acquisitions or dispositions by Banca be reported under Section 211.8(d) of Regulation K in the same manner as if Banca were a corporation organized under Section 25(a) of the Federal Reserve Act.

Subject to continuing observation and review, the Board suspends, until further notice:

- (a) the provisions of subparagraph (1) of the second paragraph of this letter so far as they relate to restrictions on loans granted by Banca in Italy in the currency of that country; and,
- (b) the provisions of Section 211.9(b) of Regulation K, to the extent that total liabilities of Banca to MGIBC will exceed 50 per cent of MGIBC's capital and surplus.

The foregoing consent is given with the understanding that the investment now being approved, combined with other foreign loans and investments of your Corporation, Morgan Guaranty Trust Company of New York, and Morgan Guaranty International Finance Corporation, will not cause the total of such loans and investments to exceed the guidelines established under the voluntary foreign credit restraint effort now in effect and that due consideration is being given to the priorities contained therein.

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. 5
12/16/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



December 19, 1966.

Dear Sir:

The indicated number of copies of the following forms are being forwarded to your Bank under separate cover for use of State member banks and their affiliates in submitting reports as of the next call date.

Number of
copies

Form FR 105 (Call No. 182), Report of Condition of State member banks including a separate Schedule B for reporting U.S. Government and Federal agency securities by issue.

Form FR 105e (Revised February 1966), Publisher's copy of report of condition of State member banks.

Form FR 105e-1 (Revised February 1966), Publisher's copy of report of condition of State member banks.

Form FR 105A-3 (Supplement), Credit Extended to Real Estate Mortgage Lenders and to Other Financial Institutions.

Form FR 105L (Supplement), Bank Liquidity Analysis.

Form FR 220 (Revised September 1966), Report of Affiliate or Holding Company Affiliate.

Form FR 220a (Revised September 1966), Publisher's copy of Report of Affiliate or Holding Company Affiliate.

The condition report forms to be used for this call are the same as those used for the June 1966 report. Form FR 105 includes the

schedules on the reverse which had been eliminated for the fall call and a separate Schedule B for reporting the par value of U.S. Government direct and guaranteed securities and Federal agency obligations, by issue. The same condition report and Schedule B forms are being used by the Federal Deposit Insurance Corporation for distribution to insured non-member State banks.

The Comptroller of the Currency will use a condition report form for national banks that differs somewhat from the State bank form but is the same as that used for the June 1966 call. The Comptroller also will require national banks to report on the issue Schedule B for this call. Thus, it will not be necessary for the Reserve Banks to collect this Schedule from national banks. National banks will be required to forward a copy of this Schedule to the Reserve Banks for processing with their condition reports. The same general procedures used in advising the Comptroller's Office of edit changes in condition report forms should be used for changes in Schedule B.

Reporting instructions for certificates of interest in Commodity Credit Corporation pools of farm production loans require that these instruments continue to be included in item 4, "Securities of Federal Agencies and corporations not guaranteed by the United States" on the face of the report, and in the appropriate item in Schedule B, with the new CCC participation certificates.

Schedule 105A-3 regarding credit extended to mortgage lenders is being collected at the request of Congressman Patman as Chairman of the Joint Economic Committee. It is intended to provide important information from all insured commercial banks not available elsewhere on the extent of direct and indirect lending by commercial banks to institutions in the real estate credit market. The supplement has been drawn to tie into official reports of condition and the weekly reports of condition of large commercial banks.

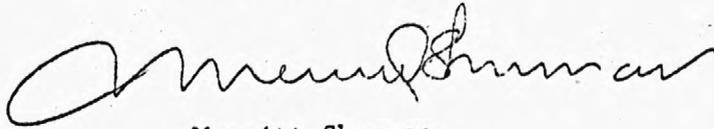
The special supplement for the Analysis of Bank Liquidity (FR 105L) will be collected from all insured commercial banks to provide information for bank regulation, supervision, and for financial analysis. Comparable information for all insured banks as of a single date will permit regional and size of bank comparisons of bank liquidity and of the readily available factors affecting bank liquidity. The Federal Deposit Insurance Corporation and the Comptroller of the Currency also will collect this supplement from insured nonmember State banks and from national banks, respectively.

A preliminary edit at the Reserve Banks of these two new supplements submitted by State member banks should consist of verification of the items in the reports that must agree with corresponding items in reports of condition and a general review for reasonableness. Key punching and tabulating

of edited reports will be provided at the Board. The Board's copy of these supplements should be forwarded to the Financial Statistics Section, Division of Data Processing, on a weekly basis as soon as possible after this review. Questions of priority should be resolved in favor of the liquidity supplement.

Processing instructions and supplements used for the June call and related Schedule B are applicable for the forthcoming December call. Editing of national bank forms for keypunching in the same card format as was used for the June call will continue to be required.

Very truly yours,



Merritt Sherman,
Secretary.

Enclosures

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

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

Item No. 6
12/16/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 16, 1966

Mr. Joseph R. Campbell, Vice President,
Federal Reserve Bank of Philadelphia,
Philadelphia, Pennsylvania. 19101

Dear Mr. Campbell:

In accordance with the request contained in your letter of December 7, 1966, the Board approves the designation of each of the following employees as a special assistant examiner for the Federal Reserve Bank of Philadelphia:

Melvin Cooper
Peter P. Giannone
William R. Kampf
John R. Perino

William C. Chandler
Harry H. Baeringer
Charles D. Soule
Nicholas J. Fulginiti

Francis T. Lewandowski

Appropriate notations have been made of the names to be deleted from the list of special assistant examiners.

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. 7
12/16/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 16, 1966

Mr. R. M. Stephenson, Vice President,
Federal Reserve Bank of Atlanta,
Atlanta, Georgia. 30303

Dear Mr. Stephenson:

In accordance with the requests contained in your letters of December 12, 1966, the Board approves the appointments of W. James Montgomery and L. Howard Dillion, at present assistant examiners, as examiners for the Federal Reserve Bank of Atlanta, effective January 1, 1967.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.