



Minutes of a meeting of the available members of the Board of Governors of the Federal Reserve System on Tuesday, December 27, 1966. The meeting was held in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Bakke, Assistant Secretary  
Mr. Young, Senior Adviser to the Board  
Mr. Holland, Adviser to the Board  
Mr. Molony, Assistant to the Board  
Mr. Cardon, Legislative Counsel  
Mr. Fauver, Assistant to the Board  
Mr. Hackley, General Counsel  
Mr. Johnson, Director, Division of  
Personnel Administration  
Mr. Sammons, Associate Director, Division  
of International Finance  
Mr. Dahl, Assistant Director, Division of  
Examinations  
Mrs. Semia, Technical Assistant, Office of  
the Secretary  
Mr. Morgan, Staff Assistant, Board Members'  
Offices  
Mr. Egertson, Supervisory Review Examiner,  
Division of Examinations  
Mr. Wood, Personnel Specialist, Division of  
Personnel Administration

The following actions were taken subject to ratification at the next meeting of the Board at which a quorum was present:

Discount rates. The establishment without change by the Federal Reserve Bank of Boston on December 19, by the Federal Reserve Bank of Minneapolis on December 21, and by the Federal Reserve Banks of Philadelphia, Cleveland, Richmond, Atlanta, St. Louis, Kansas City, and Dallas on December 22, 1966, of the rates on discounts and advances

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in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

Approved letters. The following letters were approved unanimously after consideration of background information that had been made available to the Board. Copies are attached under the respective item numbers indicated.

	<u>Item No.</u>
Letter to The Bank of Salem, Salem, Virginia, approving the establishment of an in-town branch and commenting on the bank's capital position.	1
Letter to Bank of White Sulphur Springs, White Sulphur Springs, West Virginia, approving the declaration of a dividend.	2
Letter to The Sylvan State Bank, Sylvan Grove, Kansas, approving the declaration of a dividend.	3
Letter to Bank of America, New York, New York, granting consent to the purchase of additional shares of World Banking Corporation, Nassau, Bahamas.	4

Messrs. Sammons and Dahl then withdrew from the meeting.

Reports on competitive factors. A report to the Federal Deposit Insurance Corporation on the competitive factors involved in the proposed merger of The Edison Bank, Edison, New Jersey, and The First National Bank of South Plainfield, South Plainfield, New Jersey, was approved unanimously for transmittal to the Corporation. The conclusion read as follows:

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Consummation of the proposed merger of The Edison Bank, Edison, and The First National Bank of South Plainfield, South Plainfield, would eliminate little effective competition existing between them, but would eliminate permanently potential for competition between them. The overall effect of the proposed merger on competition would not be significantly adverse.

A report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of Middletown State Bank, Incorporated, Middletown, Virginia, into Farmers and Merchants National Bank, Winchester, Virginia, was approved unanimously for transmittal to the Comptroller. The conclusion read as follows:

Consummation of the proposed merger would eliminate some existing and potential competition between Middletown State Bank, Incorporated, Middletown, and Farmers and Merchants National Bank, Winchester. The overall competitive effect of the proposed transaction would be slightly adverse.

There had been distributed a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of The Bank of Blue Mountain, Blue Mountain, Mississippi, into First National Bank, New Albany, Mississippi. The conclusion stated that the overall effect on competition would not be significantly adverse.

It was noted that the St. Louis Reserve Bank had reported growing concern among area bankers that two large national banks in Jackson, Mississippi, were using personal relationships to extend their influence into the areas of the State where those banks were prohibited from establishing branches. It was also noted that two persons associated with one of the national banks in Jackson owned, together with their families,

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rather substantial amounts of stock in the two banks involved in the Blue Mountain-New Albany merger proposal. Since the Reserve Bank had drawn attention to this situation, a suggestion was made that it might be well for the Board to ascertain and report to the Comptroller of the Currency any information that was available and seemed significant.

It was agreed that action on the competitive factor report would be deferred pending exploration of the foregoing point.

Constitutional rights bill. There had been distributed a memorandum dated December 21, 1966, from the Legal Division and the Division of Personnel Administration regarding a request by the Subcommittee on Constitutional Rights of the Senate Committee on the Judiciary for a report on S. 3779, a bill "to protect the employees of the executive branch of the United States Government in the enjoyment of their constitutional rights and to prevent unwarranted governmental invasions of their privacy."

The memorandum described the purposes and effects of the proposed bill and brought out that, unless the Board wished to take the position that it was not an agency of the Executive Branch and therefore was not covered by the bill, several Board procedures apparently would have to be discontinued if the bill was enacted. The affected items were (1) the confidential statements of employment and financial interests required to be filed by higher-level staff and consultants; (2) reports by all employees on outside business and teaching activities; and (3) reports

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of indebtedness by employees engaged in examining Federal Reserve Banks. The Divisions believed the confidential statements of employment and financial interest could be eliminated without serious effect, but that the other two reports should be retained. Attached to the memorandum was a draft of letter to the Subcommittee reflecting those views.

Mr. Hackley suggested that consideration of the subject be deferred until staff members who had worked closely on the matter were available to participate in the discussion.

There was agreement with Mr. Hackley's suggestion. However, Governor Maisel commented that in his view the letter should register objection to the provisions of the bill that apparently would require discontinuance of the financial interest reports. In his opinion, it was not an infringement of privacy to require such reports; in fact, they served to dispel uncertainty and to clarify what was expected of persons in the positions involved.

It was understood that the view Governor Maisel had expressed would be taken into consideration by the staff.

Cost of living adjustment (Items 5 and 6). There had been distributed a memorandum dated December 20, 1966, from the Division of Personnel Administration referring to the Board's action on September 30, 1965, under which the provisions of Public Law 89-205, approved on September 27, 1965, were incorporated into the Board Plan of the Retirement System of the Federal Reserve Banks. Public Law 89-205 provided

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for automatic cost-of-living increases in annuities of Civil Service retirees whenever the consumer price index went up by at least 3 per cent over the base month and remained at least at that level for three consecutive months. One increase under this law was effective December 31, 1965, and the Civil Service Commission had now announced that increases in the consumer price index during July-October 1966 would require a second increase, of 3.9 per cent, to become effective January 1, 1967. Consequently, the annuities of Board Plan annuitants and their survivors also should be increased correspondingly.

Since the Board had already decided to incorporate the provisions of Public Law 89-205 into the Board Retirement Plan, the only question was the matter of funding. The first increase had been fully funded. On the advice of the Retirement System's Actuary, the Division of Personnel Administration recommended that the cost of providing the 3.9 per cent cost-of-living increase to the Board's retirees and their survivors be handled on a "terminal funding" basis, that is, a single payment based upon the capital value of the total increased benefits. It was also recommended that the Board approve the resulting overexpenditure in the pertinent budget account. Attached to the memorandum were drafts of letters to the Secretary of the Retirement System of the Federal Reserve Banks and to the Federal Reserve Bank of Richmond.

In discussion, it was brought out that the recommended action would involve no deviation from the full funding principle heretofore

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followed by the Board. Mr. Johnson reported that the Retirement System had estimated the cost of the necessary contribution at roughly \$335,000, which, however, would be somewhat increased when benefits for December 1966 retirees were taken into account.

The recommended procedure was then approved unanimously, along with the resultant budget overexpenditure. Copies of the letters sent pursuant to this action are attached as Items 5 and 6.

Secretary's Note: At the meeting on December 29 Governor Shepardson reported that, in accordance with a suggestion by the Controller, he had approved on behalf of the Board an increase in the Board's 1967 budget in the amount of the required contribution, such action superseding the approved overexpenditure. No objection was indicated.

Messrs. Johnson, Egertson, and Wood then withdrew from the meeting.

Termination of September 1 letter (Items 7-9). Governor Robertson stated that on Friday morning, December 23, when he learned that an article and editorial would appear in that day's edition of the American Banker indicating that in the opinion of Federal Reserve policy makers the letter of September 1, 1966, from the Reserve Bank Presidents to all member banks on the subject of business loans and discount administration clearly had outlived its usefulness, he considered it urgent to make certain that responses to inquiries were coordinated throughout the System. Therefore, he sent a telegram to the Reserve Bank Presidents (copy attached



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as Item No. 7) suggesting the nature of the response that should be made. He realized that that course was at odds with the outcome of discussion at the December 13 meeting of the Federal Open Market Committee, which contemplated deferring the question of terminating the September 1 letter for further consideration at the Committee's next meeting, but the circumstances had changed. He had purposely acted on his own initiative in sending the wire rather than to ask any other member of the Board to share the responsibility. As the Board knew, later on Friday, after informal discussion among the then available members of the Board (Governors Shepardson, Mitchell, Maisel, and Brimmer) a second telegram was sent to the Reserve Bank Presidents suggesting that any communication to member banks regarding the September 1 letter be deferred until today.

After reading the pertinent article and editorial in the American Banker, Governor Robertson said, he agreed with the sentiment expressed on Friday afternoon by other members of the Board that it would be well for the Board to issue a public statement. He would favor a statement that was brief and to the point, along the lines of a draft distributed prior to this meeting. Its terms were such that the Reserve Bank Presidents would be free to decide whether or not to write a letter to the member banks in their respective districts.

Governor Shepardson expressed the view that an announcement by the Board was called for, just as the Board had announced the sending

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of the September 1 letter. It was his feeling that the announcement should be brief, with a minimum of explanation. As Chairman Martin had observed during the discussion at the Open Market Committee meeting, the more explanation attempted, the more questions were likely to be raised. He (Governor Shepardson) favored a statement such as had been drafted.

He believed it would be in accord with the views expressed by the available members of the Board last Friday afternoon, and Governor Daane also had expressed preference for a brief statement before leaving that day.

After a discussion of the language of the draft statement which resulted in agreement upon one change in wording pursuant to a comment by Governor Maisel, the statement was approved unanimously for release at 3:30 p.m. today in the form attached as Item No. 8. It was understood that prior to release the text of the statement would be sent by telegram to the Reserve Bank Presidents. A copy of the wire sent to the Presidents is attached as Item No. 9.

The meeting then adjourned.

Secretary's Notes: The requirements contemplated by the Board's action on December 14, 1966, in approving the issuance of a preliminary permit to Philadelphia International Bank, New York, New York, having been completed, a letter was sent today to that corporation transmitting a final permit to commence business.

On December 23, 1966, Governor Shepardson approved on behalf of the Board memoranda recommending the following actions relating to the Board's staff:

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Appointment

John David Holsey as Painter, Division of Administrative Services, with basic annual salary at the rate of \$7,114, effective the date of entrance upon duty.

Transfer

Peggy Jo Dougherty, from the position of Secretary in the Office of the Controller to the position of Secretary in the Division of International Finance, with no change in basic annual salary at the rate of \$6,263, effective upon assuming her new duties.

Acceptance of resignation

Wallace M. Hampton, Messenger, Division of Administrative Services, effective the close of business December 23, 1966.

Governor Shepardson today approved on behalf of the Board the following items:

Letter to the Federal Reserve Bank of Minneapolis (copy attached as Item No. 10) approving the appointment of Daryl G. Bach as examiner.

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

Salary increases

Bessie M. McCrae, Statistical Clerk, Division of Data Processing, from \$6,387 to \$6,857 per annum, with a change in title to Statistical Supervisor, effective January 1, 1967.

Robert G. Sampson, Administrative Assistant, Division of Data Processing, from \$9,536 to \$10,927 per annum, effective January 1, 1967.

Transfer

Barbara Jean Sullivan, from the position of Stenographer in the Division of Personnel Administration to the position of Stenographer in the Division of Research and Statistics, with no change in basic annual salary at the rate of \$4,936, effective upon assuming her new duties.


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Acceptance of resignations

Edward J. Finck, Electronic Accounting Machine Operator, Division of Data Processing, effective December 30, 1966.

Charles Dennis, Jr., Messenger, Division of Administrative Services, effective the close of business January 4, 1967.

  
Secretary

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

Item No. 1  
12/27/66

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

December 27, 1966



Board of Directors,  
The Bank of Salem,  
Salem, Virginia.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by The Bank of Salem, Salem, Virginia, of a branch in the Lee-Hi Shopping Center, Salem, Virginia, provided the branch is established within six months from the date of this letter.

The 1966 examination of your bank indicated a somewhat less than satisfactory capital position. The Board urges careful consideration be given to all means of strengthening the bank's capital structure.

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.)

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

Item No. 2  
12/27/66

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

December 27, 1966



Board of Directors,  
Bank of White Sulphur Springs,  
White Sulphur Springs, West Virginia.

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 \$6,000 by Bank of White Sulphur Springs, White Sulphur Springs, West Virginia, to be paid December 31, 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) Karl E. Bakke

Karl E. Bakke,  
Assistant Secretary.

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

Item No. 3  
12/27/66

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

December 27, 1966



Board of Directors,  
The Sylvan State Bank,  
Sylvan Grove, Kansas.

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 \$25,000 by The Sylvan State Bank, Sylvan Grove, Kansas, in December of 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) Karl E. Bakke

Karl E. Bakke,  
Assistant Secretary.

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

Item No. 4  
12/27/66



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

December 27, 1966.

Bank of America,  
41 Broad Street,  
New York, New York. 10015

Gentlemen:

As requested in your letter of November 22, 1966, the Board of Governors grants consent for your Corporation to purchase and hold additional shares of World Banking Corporation, Nassau, Bahamas, up to a total of approximately 187,500 shares at a total cost of approximately US\$889,000, provided such additional shares are acquired within one year from the date of this letter.

The foregoing consent is given with the understanding that the investment now being approved, combined with other foreign loans and investments of your Corporation and Bank of America National Trust and Savings Association, 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) Karl E. Bakke

Karl E. Bakke,  
Assistant Secretary.



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

Item No. 5  
12/27/66

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

December 27, 1966



Mr. Martin W. Bergin,  
Secretary, Retirement System  
of the Federal Reserve Banks,  
Federal Reserve Bank of New York,  
New York, New York. 10045

Dear Mr. Bergin:

By means of a letter dated September 30, 1965, the Retirement System was advised that the Board of Governors interposed no objection to increasing the benefits under the Board Plan of the Retirement System of the Federal Reserve Banks to conform to the increased benefits provided by Public Law 89-205 to retirees and survivor-annuitants of the Civil Service Retirement System.

The U. S. Civil Service Commission recently announced that, as a result of a further rise in the Consumer Price Index of 3 per cent or more over the base month of July, 1965, an additional cost-of-living increase of 3.9 per cent effective January 1, 1967 will be granted to those annuitants and survivor-annuitants on the retirement rolls as of December 31, 1966. This increase is also applicable to the future annuity of each designated survivor of a retiree on the rolls as of December 31, 1966.

The Board of Governors has approved the payment of the cost of providing these latest increases on a "terminal-funding" basis, as was done in the case of the cost-of-living increases effective January 1, 1966. Therefore, it will be appreciated if the Retirement System would bill the Board for the amount the Actuary determines is necessary to fund the 3.9 per cent increase over the life-expectancy of the annuitants and survivor-annuitants on the rolls as of December 31, 1966, plus the designated survivor-annuitants of those retirees on the rolls as of that date.

Mr. Martin W. Bergin.

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There is enclosed a copy of a letter addressed to Mr. Edward A. Wayne, President, Federal Reserve Bank of Richmond, authorizing the Bank to pay to the Retirement System the sum which the Actuary determines necessary to fund a similar increase in the annuity of Mrs. Maurice P. Flagg.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

Enclosure.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 6  
12/27/66



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

December 27, 1966

Mr. Edward A. Wayne, President,  
Federal Reserve Bank of Richmond,  
Richmond, Virginia. 23213

Dear Mr. Wayne:

Following the Civil Service Commission Retirement System's recent announcement of an increase of 3.9 per cent in the annuities of its retired employees and survivors, effective January 1, 1967, a similar increase is being made in the annuities of the retired employees and survivors of the Board Plan of the Retirement System of the Federal Reserve Banks.

In order that the widow of Mr. Maurice P. Flagg may continue to receive the same benefits as those payable under the Board Plan, as outlined in Mr. Leach's letter of September 9, 1955, the Board of Governors authorizes the Federal Reserve Bank of Richmond to pay to the Retirement System of the Federal Reserve Banks the amount determined necessary to fund an increase of 3.9 per cent in her annuity for the period of her remaining life.

It is understood that the Retirement System will bill the Bank for the cost of funding this benefit as soon as this cost has been determined by the Actuary.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

**TELEGRAM**  
LEASED WIRE SERVICEBOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTON

December 23, 1966.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

In view of story and editorial in American Banker today and the consequent necessity for responding to inquiries, I suggest that each Federal Reserve Bank should reply by indicating that since credit conditions have changed and the purpose of the September 1, 1966, letter to all member banks has been well served, the letter is being terminated as of this date (December 23).

As requested in that letter, commercial banks have achieved a substantial moderation in the rate of expansion of business loans. Furthermore, they have become less aggressive sellers of securities as a means of adjusting to pressures, and partly for this reason there has been a lessening of the extreme stringencies in state and municipal markets apparent earlier this fall. In view of these developments (and the somewhat less taut general monetary conditions), the Federal Reserve System believes that special emphasis on restraining the expansion of business loans within the context of generally moderate credit growth is no longer necessary.

Member banks should be complimented on the cooperation they have extended to the System in this respect during the past several months. This approach does not preclude letter to same effect to all member banks in any Federal Reserve district at the discretion of the President.

ROBERTSON



# FEDERAL RESERVE

press release

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Item No. 8  
12/27/66

For Immediate Release.

December 27, 1966.

The Board of Governors of the Federal Reserve System today issued the following statement:

On September 1, 1966, the Presidents of the Federal Reserve Banks sent a letter to all member banks with respect to the use of the discount window. Since then credit conditions have changed, the expansion of business loans has been reduced to a more moderate rate, and banks no longer are unloading securities in unreceptive markets. Consequently, the purposes of that letter having been served--and served well, thanks to the cooperative efforts of member banks--the Board of Governors has authorized the Federal Reserve Presidents to advise member banks in their Districts that the special discount arrangements announced in the September 1 letter are terminated.

TELEGRAM  
LEASED WIRE SERVICE

Item No. 9  
12/27/66

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTON

4803

December 27, 1966.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

Quoted below is the text of a statement that the Board will hand to the press for release after 3:30 p.m. eastern standard time today, December 27;

"On September 1, 1966, the Presidents of the Federal Reserve Banks sent a letter to all member banks with respect to the use of the discount window. Since then credit conditions have changed, the expansion of business loans has been reduced to a more moderate rate, and banks no longer are unloading securities in unreceptive markets. Consequently, the purposes of that letter having been served-- and served well, thanks to the cooperative efforts of member banks--the Board of Governors has authorized the Federal Reserve Presidents to advise member banks in their Districts that the special discount arrangements announced in the September 1 letter are terminated."

As indicated in Vice Chairman Robertson's telegram of December 23, issuance of this statement by the Board does not preclude the sending of an appropriate letter by a Reserve Bank to all member banks in its Federal Reserve District at the discretion of the President.

MS:mcc

SHERMAN



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

Item No. 10  
12/27/66

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

December 27, 1966

Mr. Hugh D. Galusha, Jr., President,  
Federal Reserve Bank of Minneapolis,  
Minnesota, Minneapolis. 55440

Dear Mr. Galusha:

In accordance with the request contained  
in your letter of December 19, 1966, the Board  
approves the appointment of Daryl G. Bach at  
present an assistant examiner, as an examiner for  
the Federal Reserve Bank of Minneapolis, effective  
January 1, 1967.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.

