

FIFTY-SECOND

Annual Report

OF THE
BOARD OF GOVERNORS
OF THE FEDERAL RESERVE SYSTEM



COVERING OPERATIONS FOR THE YEAR

1965

Letter of Transmittal

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM
Washington, April 29, 1966

THE SPEAKER OF THE HOUSE OF REPRESENTATIVES.

Pursuant to the requirements of Section 10 of the Federal Reserve Act, as amended, I have the honor to submit the Fifty-Second Annual Report of the Board of Governors of the Federal Reserve System. This report covers operations for the year 1965.

Yours respectfully,

WM. MCC. MARTIN, JR., *Chairman.*

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PART I

Review of 1965

SUMMARY

1965, the fifth year of sustained expansion in the U.S. economy, was one of unusually vigorous expansion in demand, output, and employment. Growth was especially marked in the fourth quarter, and at the year-end the economy was operating closer to full potential in terms of manpower and industrial resources than at any other time in nearly a decade. The economy also was in greater danger of damaging inflation than it had been since the current long upswing began in early 1961.

In contrast to the situation at the beginning of 1965, when national economic attention was still being focused on the need to expand employment and to accelerate economic growth, toward the end of 1965 attention was being directed toward the need to contain demand as war in Viet Nam was beginning to add to pressures already evident in the booming civilian economy. By the year-end the downward movement in unemployment had brought the unemployment rate close to the administration's interim target of 4 per cent and to the lowest level since the spring of 1957. Businesses and consumers were highly confident that further rapid expansion in activity, employment, and income was in prospect. Both actual developments and expectations concerning future developments were contributing to expansion of demands for credit.

With the labor market tightening, with over-all demands for goods and services expanding vigorously, and with some industries operating above optimum rates, upward pressure on industrial prices was greater than in earlier phases of the business expansion. Prices of farm products and foods rose sharply during the year, largely because of the sustained increase in consumer demands in the face of reduced meat supplies. Rising demands also produced an increase in U.S. imports. In fact,

imports rose much more than exports, and the U.S. trade surplus declined appreciably. Nonetheless, with the program of voluntary restraint on capital outflows making an effective contribution, a considerable reduction was achieved in the U.S. balance of payments deficit.

Fiscal developments became stimulative again after midyear when a reduction in Federal excise taxes became effective and the build-up of military strength in Viet Nam increased. In the autumn social security benefit payments were increased considerably, and there were pay increases for both Federal civilian workers and military personnel.

Despite a less expansive stance of monetary policy, the money supply and bank credit grew even faster in 1965 than in 1964, under pressure of exceptionally strong demands for credit, especially business demands for bank loans. Interest rates moved up selectively early in the year and more generally after midsummer, well before Federal Reserve Bank discount rates were raised from 4 to 4½ per cent in early December. Interest rates advanced further after the discount action and the accompanying increase in interest rate ceilings set by the Federal Reserve and by the Federal Deposit Insurance Corporation on time deposits in commercial banks. The sharpest increases were in markets for short- and intermediate-term funds, but rates on long-term funds also rose somewhat.

The expansion in over-all output in 1965 exceeded both official and private projections made at the beginning of the year. This was caused largely by the greater-than-expected increases in Federal spending and by progressive upward revisions of estimates of business spending for inventories and fixed capital; there was also a related strengthening in expectations and in business plans for future fixed investment outlays. In current dollars, the gross national product increased by \$47.6 billion—from \$628.7 billion to \$676.3 billion—or 7.6 per cent from 1964 to 1965. In constant dollars the increase was smaller, 5.5 per cent. Even so, the increase in real output in 1965

exceeded the unusually large rise of 5 per cent in 1964 and also the average increase of 3.5 per cent for the whole postwar period. Industrial production also showed an exceptionally large growth, with the Board's index rising 8 per cent, from 132 per cent of the 1957-59 average for the year 1964 to 143 per cent for 1965. Some rise in industrial production was registered in every month except September; for several months before that, steel output had been speeded up against the possibility of a strike, but in September it was cut back sharply following agreement early in the month on a new labor contract.

Prospective large increases in the labor force and in industrial capacity, together with a potential for further reduction in unemployment, suggested that the economy would still be able to produce sizable increases in output in 1966. But the pervasive effect on business expectations of prospects for much more defense spending, the sharply reduced supply of unemployed skilled and semiskilled labor, and the increased price pressures in 1965 all indicate the danger that further large increases in output could be accompanied by significant inflationary pressures. In this respect, the economic situation at the end of 1965 differed importantly from conditions earlier in this long expansion period when manpower and industrial capacity were less fully utilized.

The marked improvement in the balance of payments noted for 1965 was aided greatly by the program of voluntary restraint on lending and investing abroad, instituted and administered by the Federal Reserve System and the Department of Commerce, in consultation with the Treasury Department, in accordance with the President's program announced on February 10, 1965. On the "liquidity" basis the deficit for the year declined to \$1.3 billion as compared with \$2.8 billion in 1964. But the current-account position deteriorated as imports rose strongly, and the outflow of direct investment by U.S. companies into subsidiaries and branches abroad was much larger than in 1964. In our present circumstances, further progress toward balance of payments equilibrium calls for enlargement of the U.S. export surplus, and

therefore for further strengthening of the U.S. competitive position in international trade. Domestic price stability appears especially important in view of balance of payments needs.

LABOR MARKET

The labor market tightened in 1965. There was a marked growth in the labor force, and the increase in employment was the largest since the current expansion began in early 1961—it was large enough to reduce unemployment significantly. Demands for workers accelerated in the closing months of 1965 as the tempo of economic activity stepped up and as the planned expansion in the strength of the armed forces was beginning to be felt. In the fourth quarter total nonagricultural employment rose to 68.7 million persons from 66.3 million a year earlier, and the over-all rate of unemployment dropped almost to the administration's interim target of 4.0 per cent. It was far below the 7 per cent level of early 1961.

Unemployment declined in 1965 for all major industrial, occupational, and age groupings in the work force. The largest decline was among adult men, who benefited from increased demands for workers in industry. Unemployment among adult women also declined, as a very large rise in their employment exceeded growth in their labor force numbers. Unemployment among nonwhite persons declined substantially, but at the year-end their unemployment rate was still nearly double that for white persons. Long-term unemployment was considerably reduced.

After mid-1965, teenagers entered the labor force in unprecedented numbers, partly in response to expanding job opportunities. Many of the new entrants were readily absorbed, and total teenage employment rose by more than 1.0 million persons during the year. Unemployment rates for teenagers declined, but were still high at the end of the year.

Gains in employment in manufacturing reflected the increases in expenditures by business, government, and consumers.

Strong demands were also reflected in expanding levels of employment in trade and in services. Employment in construction was relatively stable for most of 1965, but it was moving up as the year closed. With the increase in demands for manpower—for both civilian and military purposes—the supply of adult male labor became more scarce, and shortages of workers were evident in some areas and in some occupations. Needs for skilled manpower were being met more and more by upgrading personnel, by lengthening hours of work per week, and by providing on-the-job training.

PRICES AND COSTS

Productivity continued to rise in 1965, both in manufacturing and in the private economy as a whole, but the gains were somewhat smaller than they had been earlier in the expansion. Increases in average hourly earnings in manufacturing remained about in line with the administration's guideposts, and labor costs per unit of output were little changed. However, in many nonmanufacturing industries—particularly in trades and in services—demands for workers were very strong, and increases in wage rates became larger as the year progressed and were often above the guideposts.

The rise in wholesale prices of industrial commodities that began in the autumn of 1964 continued at about the same pace through 1965. At the year-end the industrial average was up about 1.5 per cent both from the end-of-1964 level and from the cyclical high in early 1960. The rise in prices of metals and machinery, which began in late 1963 and continued in 1964, persisted through 1965 under the influence of strong domestic and foreign demands for nonferrous metals and of rapid expansion in defense spending and in business spending for fixed investment.

As a result of selective increases, average prices of steel mill products rose by about 1 per cent in 1965. The rise in prices of metals was limited by the release of some supplies from Federal stockpiles and by the administration's efforts to encourage adher-

ence to its wage and price guideposts. Wholesale prices of other industrial materials—such as paper, chemicals, and textiles—generally firmed, and prices of petroleum products rose appreciably, more than recovering the decreases of 1964. Prices of hides and leather soared, mainly because of reductions in supplies from other parts of the world.

Wholesale prices of foodstuffs rose nearly a tenth during 1965, primarily because of strong consumer demands and reduced supplies of meat. Hog raising had been curtailed in response to unfavorable prices in 1963-64; at the end of 1965 there were indications that it was expanding again in response to the very high prices of the summer and autumn of 1965.

In retail markets as in wholesale, meat prices increased sharply, lifting the average price for foods. Reductions in excise taxes helped to lower prices of household appliances and new cars, but with prices of apparel and fuels moving up, the average for nonfood commodities rose by nearly 1 per cent. Prices of consumer services—especially medical care, and auto insurance and other elements of transportation services—increased by more than the average amount for the immediately preceding years. Altogether, the consumer price index rose by 2 per cent during 1965, compared with year-to-year increases between 1.0 and 1.5 per cent in the three preceding years.

PUBLIC AND PRIVATE DEMANDS

Increases in demand in 1965 were widespread. The Federal Government became an expansive influence in the second half, but in contrast to 1964, the fiscal stimulus came more from increased expenditures than from reductions in income tax rates. After 3 years of relatively small net changes, Federal purchases of goods and services began to mount in the spring of 1965. The rise was attributable largely to defense spending, including a pay increase later in the year for the armed services. A large further rise in defense spending was in prospect as the year ended.

Other Federal expenditures—including social security benefits and grants-in-aid—rose rapidly in the second half of 1965, and wages of civilian workers were raised in the autumn. In the first half of the year the Government had a moderate surplus on the national-income-account basis, but in the second half it had a small deficit. Meanwhile, State and local government purchases of goods and services, including those made with Federal grants, continued to rise by substantial amounts, and for the first time in recent history they exceeded purchases of goods and services by the U.S. Government.

Business increased its spending on fixed investment by 15 per cent to a total of \$69.8 billion in 1965. This followed a rise of 11 per cent in 1964 and brought the total rise since 1961 to nearly 50 per cent. In the last quarter of 1965 expenditures by business for fixed investment accounted for 10.5 per cent of GNP, about the same as at the peak of the investment boom of 1956-57. Actual spending in 1964 and 1965 consistently exceeded reported plans. While equipment industries increased their own capital outlays and capacity at rapid rates, they also achieved large gains in output by using their plant and equipment more intensively.

Stimulating business expenditures for fixed capital were the substantial increases in output, a growing confidence in near- and longer-term business prospects, the continuing impact of Government tax measures and depreciation rules designed to stimulate such investment, and growth in profits and internal funds. Corporate profits after taxes rose to \$44.5 billion in 1965; this was an increase of about one-fifth and was the largest of this expansion period. Growth in the flow of internal funds, although large, did not equal the rise in capital outlays, and corporate liquidity declined.

In manufacturing, the capacity utilization rate has been rising gradually since 1962. In the second half of 1965 it averaged about 91 per cent, and at the year-end it exceeded that figure, with a number of major industries operating considerably above

the average. The intensive use of capacity around the year-end developed despite an expansion of manufacturing capacity which was estimated to have amounted to about 6 per cent in 1965, significantly more than the average for 1962-64.

Business inventory accumulation in 1965 was the largest of the expansion period, but sales about kept pace, and the over-all ratio of stocks to sales changed little following an appreciable decline in 1964. In the first half of 1965, accumulation of steel and auto stocks accounted for roughly half of the total inventory build-up. Accumulation of steel continued until a new labor contract was signed in early September, but after that steel output was curtailed and steel stocks were reduced sharply. These changes in steel stocks were more than offset, however, by a high rate of inventory accumulation in other lines (including farm stocks), and the over-all rate of accumulation of inventories was larger in the second half of the year than in the first half.

Expansion in output and employment resulted in another large increase in personal income in 1965. Apart from the sizable increase in the largest component—wages and salaries—there was a sharp rise in farm income, mainly from higher prices for livestock. Also helping to raise personal income, in early autumn, was the rise in social security payments as liberalized benefit payments retroactive to the beginning of the year were made under the old-age and survivors insurance program.

While total personal income increased more rapidly in 1965 than in 1964, disposable income—the portion left after taxes—increased less. In 1964 there had been sharp reductions in Federal withholding rates on personal income; in 1965, when the second stage of that tax cut became effective, payments to cover amounts underwithheld in 1964 exerted a braking effect on the further rise in disposable income. The increase in disposable income over the 2-year period amounted to 15 per cent.

Consumer spending increased by 7.5 per cent in 1965, even more than in 1964. After allowance for the greater rise in con-

sumer prices in 1965, the increase in purchases—5.9 per cent—was larger than in any other year of this expansion and close to the largest of the postwar period. With total consumption up sharply and the population growing at a slower rate—1.2 per cent in 1965 as compared with nearly 1.7 per cent in 1960—per capita real takings of consumer goods and services rose a sixth in the 5-year period 1961-65.

All major types of consumer purchases contributed to the 1965 advance. Auto sales set another record; the total for the year was 9.3 million units, including nearly 600,000 that were imported. In terms of current dollars, purchases of nondurable goods rose by 6.5 per cent, even more than the exceptional rise of 1964. Expenditures for services also rose at an accelerated rate. Altogether, consumer spending rose faster than disposable income, and personal saving declined to 5.4 per cent of disposable income. In 1964 the saving rate had been 6.0 per cent; in that year spending at first lagged the large tax reduction and later was held down by a temporary shortage of autos. Since 1960 the personal saving rate has ranged between 4.9 and 6.0 per cent of disposable income.

In contrast to vigorous expansion in most areas, residential construction activity changed little during most of 1965, but at the year-end it rose sharply. Private residential starts (including those on farms) totaled 1.5 million for the year, down somewhat further from the recent annual high of 1.6 million reached in 1963. The dollar value of residential construction put in place in 1965 was slightly larger than in the preceding year, but in terms of constant dollars, expenditures were a little lower.

DIGEST OF PRINCIPAL FEDERAL

| <i>Period</i> | <i>Action</i> |
|----------------|--|
| January | Reduced System holdings of U.S. Government securities by about \$500 million. Member bank borrowings averaged \$300 million. |
| February | Introduced a program, at the request of the President and in cooperation with the Treasury, under which financial institutions were asked to limit voluntarily their expansion of foreign loans and investments. |
| February-March | Limited the increase in System holdings of U.S. Government securities to about \$1.0 billion, nearly one-fifth of which were securities maturing in over 1 year. Member bank borrowings rose to an average of nearly \$500 million in late March. |
| April-November | Limited the increase in System holdings of U.S. Government securities to about \$2.4 billion, nearly one-third of which were securities maturing in over 1 year. Member bank borrowings averaged \$500 million. |
| Early December | (1) Raised the discount rate from 4 to 4½ per cent and (2) raised maximum interest rates payable by member banks on time deposits (other than savings deposits) from 4 to 5½ per cent for maturities of 30-89 days and from 4½ to 5½ per cent for longer maturities. |
| December | Increased System holdings of U.S. Government securities by about \$1.1 billion, one-fifth of which represented securities acquired under repurchase agreements. Member bank borrowings averaged about \$450 million. |

Purpose

To absorb seasonal reflow of bank reserves while maintaining about the same firmness in the money market as had prevailed in earlier weeks.

To reduce the outflow of private capital and thus improve the U.S. balance of payments and strengthen the international position of the dollar.

To move toward firmer conditions in the money market, while offsetting a \$600 million gold outflow, and to encourage more moderate growth in the reserve base, bank credit, and the money supply—in an effort to reinforce the voluntary foreign credit restraint program and avoid the emergence of inflationary pressures.

To offset a drain on bank reserves from market factors—as outflows of \$2.5 billion in currency and \$700 million in gold were only partly offset by reserves supplied from other technical factors—while attempting to maintain firm conditions in the money market in a period of rising credit demands and shifting expectations and at the same time accommodating no more than moderate growth in bank reserves, bank credit, and money.

- (1) To moderate additional bank reliance on short-term borrowings from the Federal Reserve to meet intensifying loan demand and
- (2) to enable banks to attract and retain time deposits of businesses and individuals and thus to assure an adequate flow of funds.

To moderate adjustments in money and credit markets following the December discount rate increase and to offset part of the seasonal drain on bank reserves.

MONETARY POLICY

During 1965, as in earlier years, the Federal Reserve sought to influence credit and monetary conditions in such a way as to foster expansion in the domestic economy at a relatively stable average level of prices and to encourage improvement in the U.S. balance of payments. In the early months of the year the deficit in the balance of payments continued to be large, bank credit expansion was especially rapid, and the voluntary foreign credit restraint program (VFCR) was initiated. Under these circumstances, System open market policy exerted further pressure on the net reserve position of banks, and as a result member bank borrowings rose to levels above their excess reserves.

Toward the end of the year, against the background of a continuing though substantially lessened balance of payments deficit, the expansionary effect on the domestic economy of the military build-up in Viet Nam was intensifying; business spending for fixed investment was moving upward at a pace exceeding earlier expectations; there was a continued rapid growth in demands generally; and market rates of interest were rising further relative to the rates that banks could pay to obtain funds and to the rates they were charging for loans. With unused resources moving nearer to critically low levels and with interest rate relationships threatening a constriction in the flow of funds in credit markets, the Federal Reserve raised the discount rate by one-half of a percentage point to 4½ per cent, effective December 6, and at the same time the Board of Governors raised interest rate ceilings on time deposits under Regulation Q to 5½ per cent. The Federal Deposit Insurance Corporation also approved a similar increase in the interest rate ceilings on time deposits at nonmember insured banks, effective on December 6.

OPEN MARKET AND DISCOUNT POLICY

The rapid expansion of bank credit that occurred in the early months of 1965 was partly in response to exceptionally large

demands by domestic businesses—primarily for funds with which to finance inventory accumulation—and by foreign borrowers. But it also reflected banks' ability and willingness to attract a large volume of time and savings deposits. Maximum interest rates payable on such deposits had been raised in November 1964, at the same time that the Federal Reserve discount rate had been increased to 4 per cent.

In late 1964 and early 1965, increased foreign lending by banks was an important factor in the U.S. balance of payments deficit. As part of the balance of payments program to reduce this deficit, announced by the President in February and described later in this REPORT, banks and other financial institutions were requested to restrain lending and investment abroad. In March the Board of Governors of the Federal Reserve System issued guidelines for the use of banks and nonbank financial institutions in implementing this program.

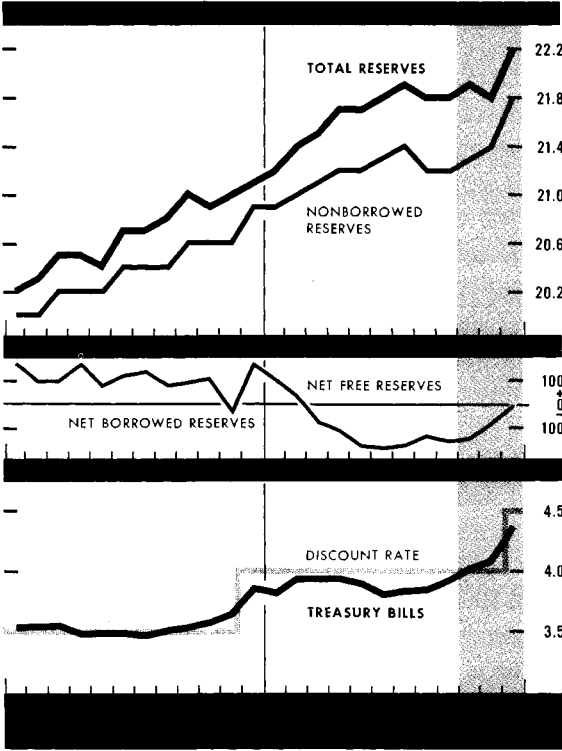
With the domestic economy strong, with demands for bank credit very large, and with the need to provide support to the balance of payments program, the Federal Open Market Committee in February and March voted to move toward attaining somewhat firmer conditions in the money market in an effort to moderate the rapid growth of bank reserves and credit. As a result of these actions, member banks found that they had to obtain somewhat more of any additional reserves they needed by borrowing from Federal Reserve Banks.

Such borrowings rose to levels above their excess reserves and soon, for the first time in the current expansion, banks found themselves in a sustained net borrowed reserve position, which settled at a level of between \$100 million and \$200 million. As demand for reserves began to press against the supply, trading in the Federal funds market was most often at, or slightly above, the 4 per cent discount rate. Meanwhile, the 3-month Treasury bill rate moved up closer to the discount rate than it had been.

In the latter part of the spring the 3-month Treasury bill rate fell somewhat as the Government repaid debt on balance and

as the Federal Reserve, through the System Open Market Account, continued to purchase a sizable amount of bills from the market, partly to offset the reserve-draining effects of gold outflows. But while bill rates were edging lower, rates on U.S. Gov-

AGGREGATE RESERVE EXPANSION accompanied by move to net borrowed reserves and higher discount rate



Monthly averages of daily figures.

ernment long-term securities generally held firm, and yields on corporate and municipal securities began to edge upwards in reflection of the sizable credit demands that were developing in the capital markets.

Growth rates in nonborrowed and in total member bank re-

serves generally slowed from their winter and early spring pace until late in 1965. The tendency for these aggregate reserve measures to show little net increase in the summer and most of the autumn reflected in part a sharply reduced need for reserves to support U.S. Government deposits, some reduction in loan demand on banks, and also the continued pressure on banks' net reserve positions. After midyear, banks continued to obtain most of their funds through a large growth in time deposits. Expansion in private demand deposits spurted as the U.S. Government drew down its cash balances sharply to finance rising outlays.

Business loan demand on banks lessened from its exceptional first-half level during the July–November period, but it remained strong. Meanwhile, demands in securities markets continued to grow. Not only did the net amount of funds raised through private securities expand, but also the Federal Government raised \$6.5 billion in new cash in October and November by selling tax anticipation bills maturing in March and June 1966. These evidences of mounting demands in securities markets buttressed the expectations of higher interest rates that had been developing since July, when the President indicated that our military commitment in the Viet Nam conflict would increase. These expectations, in turn, together with the growth in capital expenditures that was under way, encouraged active borrowing, especially at longer term. Such demands for financing appeared not only in the securities markets but also in demand on banks for term loans.

With credit demands strong, expectations shifting, and growth in bank reserves moderating, interest rates in money and credit markets rose sharply in the summer and autumn. The 3-month Treasury bill rate rose above the discount rate, to a little over 4.10 per cent, and yields on longer-term bills were in a 4.25–4.30 per cent range by early December. With rates at these levels banks found it difficult to compete successfully for funds by offering longer-term time certificates of deposit (CD's),

given the then-existing 4½ per cent ceiling. At the same time, the rate structure encouraged demands for bank loans, on which rates had not changed significantly despite the considerable rise that had occurred in rates in capital markets. The existing rate structure was thus threatening to constrict the flow of funds through banks, which had very large amounts of CD's maturing in December around the midmonth dividend and tax dates and which were simultaneously facing the prospect of large loan demands.

Under these circumstances, and with evidence of greater than expected actual and prospective domestic spending coming to light, the Federal Reserve took actions that were compatible with the need to resist inflationary pressures at home and to contribute to strengthening of the dollar internationally. Both the discount rate and maximum rates payable on time deposits were raised. Effective December 6, the discount rate at two of the Federal Reserve Banks (the others soon followed) was raised to 4½ per cent, and maximum permissible rates payable on time deposits were raised as shown in the accompanying tabulation.

| | Per cent | |
|---------------------------|----------|------|
| | From | To |
| Time deposits payable in: | | |
| 30 to 89 days | 4 | } 5½ |
| 90 days or more | 4½ | |
| Savings deposits | | (1) |

¹ The maximum rate remained at 4 per cent.

Following these actions, the prime lending rate—the rate banks charge borrowers with the highest credit rating—rose to 5 per cent from 4½ per cent, where it had been since the summer of 1960; rates on CD's rose; and the 3-month bill rate adjusted upwards and at the year-end was around 4.50 per cent. Long-term interest rates also rose, but by moderate amounts.

Demands at banks for credit, especially for business loans, turned out to be extremely strong in December. Partly as a result of the strengthening in demand for bank loans and partly as a

result of the efforts of the Federal Open Market Committee, through its open market operations, to avert too sharp an adjustment in credit markets to the new official rate levels, nonborrowed and total reserves of member banks rose substantially over the month while the net reserve position of banks eased to the point where borrowings and excess reserves were about in balance.

Over the year as a whole, including the large bulge in reserves in December, total reserves of member banks increased by 5.0 per cent, about 1 percentage point faster than in 1964. However, nonborrowed reserves supplied to banks as a result of open market operations and of market factors rose by 4.2 per cent, which was slightly less than the year before.

This growth in total reserves supported an expansion of about 10 per cent in bank credit over the year, of almost 5 per cent in the money supply, and of 16 per cent in time and savings deposits—all of these percentages being larger than the year before. Still, interest rates rose as credit demands were large and growing and as open market operations and later the discount rate exerted some restraint through their impact on the availability and cost of reserve funds.

OPERATIONS IN THE GOVERNMENT SECURITIES MARKET

During 1965, as shown in the table on System security transactions on page 158, the Federal Reserve acquired, net, \$3.7 billion of U.S. Government securities through open market operations, or slightly more than in 1964. Open market operations of such dimensions were needed to offset the absorption of bank reserves from gold outflows of \$1.7 billion and from a continued rise in the public's holdings of currency, while also contributing to growth in aggregate bank reserves.

The bulk of the System's operations were in Treasury bills. Transactions in coupon issues were slightly smaller than in 1964, and net purchases of such issues amounted to only about

one-fourth of net security acquisitions. Of the coupon issues bought, \$500 million had maturities in the 1- to 5-year area, \$340 million in the 5- to 10-year area, and \$90 million had maturities of more than 10 years.

Purchases of coupon issues in 1965 were largest during the spring, when efforts were made to minimize the downward pressures on Treasury bill rates then tending to emerge. In the summer, as interest rates generally came under pressure from strong credit demands, the Federal Reserve made some further purchases for the Open Market Account of securities maturing in over a year, partly in an effort to temper upward adjustments in market rates.

In the Treasury bill area, the gross volume of outright transactions in the market for the System Open Market Account was slightly less than in 1964—with purchases slightly larger and sales substantially less. Temporary reserve needs were accommodated through increased use of repurchase agreements, the volume of which was about 50 per cent larger in 1965 than in 1964.

A chronological review of Federal Reserve operations in domestic securities for the Federal Open Market Account during the year 1965 appears on pages 157-96.

FOREIGN EXCHANGE OPERATIONS

The Federal Reserve continued in 1965 to engage in foreign exchange operations to help maintain orderly markets for the dollar and for major foreign currencies. As before, these operations were carried out in close cooperation with the U.S. Treasury and with foreign central banks.

Recurrent speculative attacks on the pound sterling continued to be a major source of disturbance in foreign exchange markets during the first 8 months of 1965. A British drawing of \$1.4 billion from the International Monetary Fund in May made possible the repayment of short-term assistance previously received from a number of central banks, including the Federal Reserve. But market sentiment about sterling remained skeptical

through the summer, and the Bank of England made further substantial use of its reciprocal currency (or "swap") arrangements with the Federal Reserve during this period.

Meanwhile the British balance of payments showed some improvement, and in September the Bank of England announced that new arrangements to support the pound had been made with 10 central banks (including the Federal Reserve) and the Bank for International Settlements. After that there was a sustained strengthening in exchange rates for sterling and in British reserves, and the Bank of England was able to make substantial repayments on its swap drawings.

A source of potential disturbance during the year was the persistence of the large surplus in the Italian balance of payments, which had emerged during 1964. The Italian authorities minimized the impact of this surplus on foreign exchange markets and on U.S. reserves by channeling a large part of their dollar accruals through Italian commercial banks into the Euro-dollar market. The Federal Reserve helped to facilitate this flow by participating, as the U.S. Treasury had done earlier, in official Italian contracts to purchase forward dollars from Italian commercial banks. Also, it made drawings on its swap facilities with the Bank of Italy in order to reduce the uncovered dollar holdings of that Bank.

The Federal Reserve also operated in Belgian francs, Netherlands guilders, German marks, and Swiss francs, but by the end of the year, outstanding drawings on swap facilities in these currencies had been reduced to very small amounts.

The credit facilities available under the network of swap arrangements between the Federal Reserve and 11 foreign central banks and the BIS were further enlarged during the year, from \$2,350 million to \$2,800 million. Swap facilities with the Bank of Italy were increased from \$250 million to \$450 million; with the Bank of Japan, from \$150 million to \$250 million; and with the Bank for International Settlements, from \$150 million to \$300 million.

During 1965, drawings of foreign currencies by the Federal Reserve under reciprocal currency arrangements totaled \$605 million, \$130 million more than in 1964. By the year-end repayments had reduced outstanding drawings to \$135 million. Drawings by foreign central banks, which also involve acquisitions of foreign currencies by the Federal Reserve, totaled \$1,765 million during the year, \$475 million of which remained outstanding on December 31.

Against the \$610 million of foreign exchange commitments arising from swap drawings by the Federal Reserve and by foreign central banks, plus other net forward commitments of \$9 million—excluding technical commitments in forward lire—the Federal Reserve held foreign exchange balances of \$579 million at the end of 1965. Altogether, therefore, the System had net commitments in foreign exchange arising from its foreign exchange operations of \$39 million at the year-end compared with net commitments of \$349 million a year earlier.

A detailed review of Federal Reserve operations in foreign currencies during 1965 will be found on pages 197-215.

VOLUNTARY FOREIGN CREDIT RESTRAINT PROGRAM

In February, as a part of the President's program to effect a prompt and substantial reduction in the deficit in the U.S. balance of payments, the Federal Reserve System and the Treasury Department were requested to organize an effort among banks and other financial institutions to reduce their capital outflow from the high levels reached in 1964. In devising an appropriate means for accomplishing this objective, it was necessary to take account of the need to provide the credit essential to finance our exports as well as to ensure that vital national interests, such as economic development in less developed countries, would not be hampered.

In March the Board issued a series of guidelines to commercial banks. These guidelines suggested that the banks restrict the

increase in their foreign loans and investments in 1965 to 5 per cent of the amount outstanding on December 31, 1964. The banks were requested to give absolute priority to credits needed to finance exports of U.S. goods and services, and in the nonexport category to give highest priority to credits to, and investments in, the less developed countries. It was requested that special consideration be given to Canada and Japan, because of their traditional dependence on the U.S. capital market, and to the United Kingdom, which was having balance of payments difficulties of its own.

At the same time tentative guidelines were issued for financial institutions other than banks. These guidelines were comparable to those for banks, but with allowances for the differences in their methods of operation. It was suggested that liquid funds held abroad, other than working balances, be repatriated and that loans and investments with maturities of 5 years or less be held to 105 per cent of the amount of such loans and investments outstanding on December 31, 1964. No ceiling was established for loans with maturities of more than 5 years, but the priorities suggested to banks were suggested to nonbank financial institutions also.

The guidelines for nonbank financial institutions were revised in June. The principal change was to expand the coverage of the 105 per cent ceiling to loans and investments with maturities up to 10 years and to suggest that substantial restraint be exercised in acquiring long-term assets in developed countries other than Canada, Japan, and the United Kingdom. Also, the 105 per cent ceiling was extended to investment in financial subsidiaries and affiliates abroad, exclusive of retained earnings.

At the end of February, the month in which the program was announced, foreign loans outstanding for the banking system as a whole were just under the suggested target. However, several banks, including some of those with the largest foreign loan portfolios, were considerably over the target as a result of commitments undertaken before the program was announced. At the

TABLE 1
FOREIGN CREDITS OF U.S. BANKS, 1965

| Item | March 31 | June 30 | Sept. 30 | Dec. 31 |
|---|---------------------|------------|-------------|------------|
| Number of reporting banks | 150 | 161 | 160 | 161 |
| | Millions of dollars | | | |
| Total foreign credits subject to 105 per cent ceiling | 9,896 | 9,589 | 9,503 | 9,654 |
| Target ceiling (105 per cent of De- cember 1964 base) | 9,971 | 9,981 | 9,979 | 9,975 |
| Net expansion of credit since Decem- ber 1964 | 398 | 82 | - 2 | 155 |
| Net leeway for further expansion of credit within target ceiling | 75 | 391 | 477 | 320 |

end of February there were 56 banks with loans in excess of the target ceiling by an aggregate of \$265 million.

There was a net inflow of bank credit during both the second and third quarters and in October. A small outflow in November and a larger one in December left the total amount of short-term and long-term bank claims covered by the program about \$320 million below the target ceiling—that is, only \$155 million above the December 31, 1964 level, as shown in Table 1. The number of banks in excess of the target ceiling had been reduced to 35, and the aggregate excess amount stood at \$113 million, as shown in Table 2.

TABLE 2
BANKS WITH FOREIGN CREDITS IN EXCESS
OF TARGET CEILING, 1965

| Item | Mar. 31 | June 30 | Sept. 30 | Dec. 31 |
|---|------------|------------|-------------|------------|
| Number of banks | 60 | 56 | 35 | 35 |
| Aggregate credit in excess of target (millions of dollars) | 274 | 107 | 86 | 113 |

Holdings of liquid assets abroad by nonbank financial institutions decreased by \$200 million, or 42 per cent, during the first three quarters of 1965. Loans and investments with maturities of 10 years or less, and net financial investments in foreign branches, financial subsidiaries, and affiliates, to which the 105 per cent ceiling applied, rose by 1.4 per cent during the same period. Long-term assets increased by \$720 million, or 7 per cent; but more than 90 per cent of the increase was in holdings of Canadian assets, mainly securities issued by Canadian governmental and business borrowers. Long-term assets in developed countries other than Canada and Japan actually declined by 8 per cent during the first three quarters of 1965, while long-term assets in Japan and the less developed countries rose by 14 per cent, as is shown in Table 3.

The success of these voluntary programs for financial institutions played a large part in the improvement in the U.S. balance of payments during 1965, as described later in this REPORT. As a result the administration decided to continue the program in 1966, and appropriate revisions in the bank and nonbank guidelines were announced on December 6, 1965.

The bank guidelines for 1966 allow for about the same expansion as that suggested as a maximum for 1965, with the ceiling rising throughout the year at a rate of 1 per cent per calendar quarter (still based on the amount outstanding on December 31, 1964). Priorities established in the 1965 guidelines have been continued. Banks with small (or no) foreign assets on December 31, 1964, may adopt a special ceiling in consultation with the System. This provision was added in an effort to correct an inequity inherent in the 1965 guidelines and to make doubly sure that adequate credit is available for priority requirements.

Guidelines for nonbank financial institutions were revised at the same time, again with a view to keeping them as consistent as possible with the bank guidelines. With respect to long-term credits—those beyond 10 years—these institutions were requested to limit in 1966 the total of credits and investments in

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developed countries other than Canada and Japan to an amount not in excess of 105 per cent of the amount of such holdings on September 30, 1965. Further, it was suggested that institutions avoid any net increase in long-term investments in the developed countries of continental Western Europe.

TABLE 3
FOREIGN ASSETS OF REPORTING NONBANK
FINANCIAL INSTITUTIONS
(Amounts shown in millions of dollars)

| Guideline, and area | Amount Sept. 30, 1965 | Change from Dec. 31, 1964 | |
|---|-----------------------------|------------------------------|----------|
| | | Amount | Per cent |
| <i>All countries</i> | | | |
| Guideline 1 (Liquid investments) . . | 271 | -199 | -42.4 |
| Guideline 2 (Credits with maturi- ties of 10 years or less and net investment in financial subsidi- aries) | 1,203 | 16 | 1.4 |
| Guideline 3 (Credits with maturi- ties of more than 10 years and equity securities) | 11,064 | 722 | 7.0 |
| Total | 12,538 | 540 | 4.5 |
| <i>Canada</i> | | | |
| Guideline 1 | 230 | -186 | -44.8 |
| Guideline 2 | 711 | -13 | -1.8 |
| Guideline 3 | 7,853 | 672 | 9.4 |
| Total | 8,793 | 472 | 5.7 |
| <i>Other developed countries</i> ¹ | | | |
| Guideline 1 | 19 | -4 | -16.0 |
| Guideline 2 | 189 | 14 | 8.3 |
| Guideline 3 | 1,634 | -145 | -8.2 |
| Total | 1,842 | -134 | -6.8 |
| <i>All other countries</i> ² | | | |
| Guideline 1 | 23 | -9 | -28.9 |
| Guideline 2 | 303 | 15 | 5.2 |
| Guideline 3 | 1,577 | 196 | 14.2 |
| Total | 1,902 | 202 | 11.9 |

¹ Excluding Japan.

² Japan, less developed countries, and international institutions.

FINANCING ECONOMIC ACTIVITY

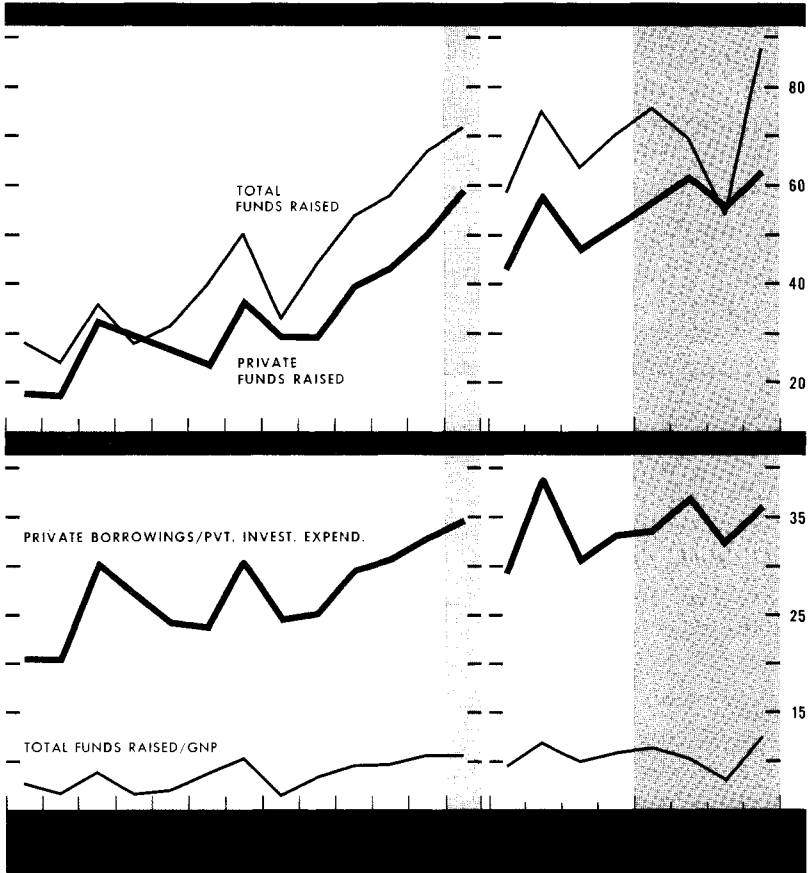
Nonfinancial businesses, consumers, foreigners, and all levels of government raised \$72 billion in credit and equity markets in 1965. This total was more than 7 per cent higher than the one for 1964, and the rate of growth was about the same as that in GNP. In 1965 borrowing was especially heavy by consumers and businesses, and these two sectors financed a larger portion of their investment expenditures in credit and equity markets than in 1964. In the final quarter of 1965, after some pause in the third quarter, total credit expansion rose to a new record as both businesses and the Federal Government borrowed heavily. As a result, increases in interest rates became more rapid.

BORROWERS AND LENDERS

During 1965 there were significant shifts in the pattern of credit demands. Consumers expanded their demands for instalment credit to finance purchases of automobiles and other durable goods while reducing their net residential mortgage financing below the total for 1964. Business demands for bank credit swelled in the first half of the year, as a result of labor negotiations and disruptions in operations caused by strikes, and rising levels of capital expenditures increased business demands for funds in capital markets. The Federal Government, after retiring debt at more than the usual rate through the first three quarters, increased its borrowing in financial markets sharply in the closing months of the year. On the other hand, foreign borrowing, after rising at a rapid rate in late 1964 and early 1965, declined later, largely as the result of the introduction of the VFCR program, but also because of the tightening in U.S. financial markets as the year progressed.

Shifting patterns of credit demands were paralleled by shifting patterns of sources of credit. Consumers continued to provide funds to financial markets in 1965, but with an increased emphasis on commercial bank deposits. The Federal Government

CREDIT EXPANSION accelerates; Govt. financing large in last quarter; businesses and consumers borrow relatively more than other sectors



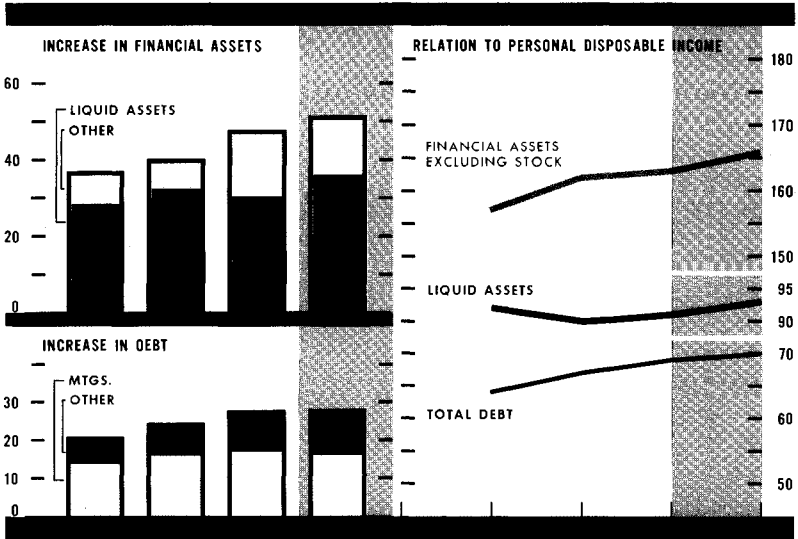
Flow of funds data; quarterly totals at seasonally adjusted annual rates. Total funds raised consist of borrowings of domestic nonfinancial businesses, households, governments, and foreigners. Private funds raised are for the first two groups; their investment expenditures consist of consumer and business expenditures for durable assets and business outlays for inventory. Borrowings of the consumer sector in credit markets exclude security credit, and purchases of durable assets consist of houses, consumer durable goods, and plant and equipment expenditures of nonprofit organizations. Business borrowings include those of farm businesses and exclude trade debt and miscellaneous liabilities; their expenditures are for fixed investment and inventories.

and foreigners, however, reduced their contributions to the supply of loanable funds. Businesses provided somewhat less funds to other domestic sectors than in 1964. In the final months of the year, however, as the pace of economic activity increased,

businesses stabilized their money holdings; and as yield structures changed, they reduced their acquisitions of time deposits while adding to their Government security holdings.

Consumers. Despite the pick-up in the pace of economic expansion in 1965, disposable income of consumers increased a bit less than in 1964, when a reduction in Federal income tax rates had expanded disposable incomes sharply, as indicated earlier in this REPORT. Nevertheless, consumers added to their financial assets at record rates in 1965, and as in earlier years of the expansion, the proportion of their income channeled into financial assets increased.

Both ASSETS AND DEBT OF CONSUMERS rise in relation to disposable income



Flow of funds data. Increases in liquid and total financial assets are net of security credit. Other financial assets include pension and insurance reserves. Liquid assets are money, savings accounts, U.S. savings bonds, and short-term marketable U.S. Govt. securities.

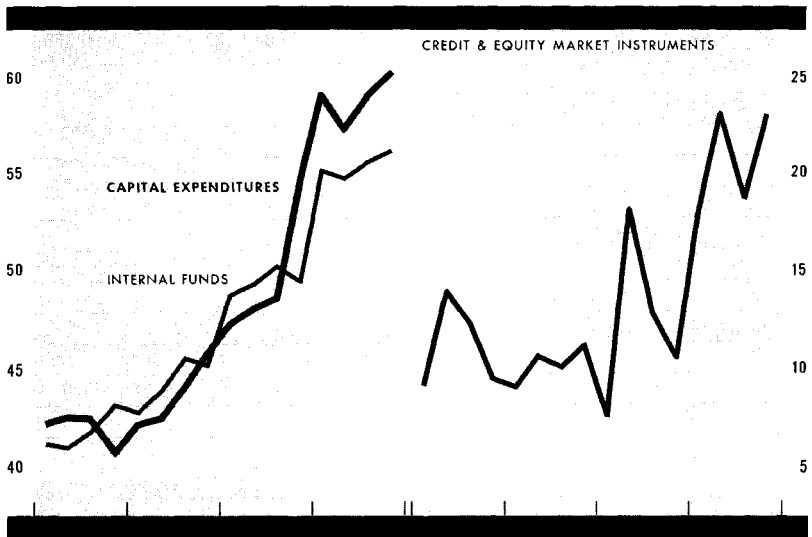
As in the past, the largest share of the financial assets that consumers acquired in 1965 represented liquid claims on financial institutions. Of their net acquisitions, the proportion held in the form of claims on banks rose relative to claims on other

financial institutions. Meanwhile, their purchases in the market were about as large as in 1964.

Consumers added about as much to their debt too as they had in 1964; their debt-to-income ratio continued to rise, but less sharply than in 1964. While net mortgage borrowing showed some slight decline in 1965, the net increase in such debt continued to account for the larger share of the increase in consumer borrowing. The downward tendency in mortgage borrowing was due in part to the fact that private nonfarm single-family housing starts were no higher than in 1964.

Most other forms of consumer debt rose in 1965. The rise in instalment debt was strong largely because of an upsurge in demand for credit associated with the large volume of automobile sales. While the increase in automobile debt resulted for the most part from the record number of unit sales, it also reflected increases in the proportion of new cars sold on credit, in the

As CAPITAL EXPENDITURES exceed internal funds by wide margins in '65, corporations borrow more and. . .



Flow of funds data are quarterly totals at seasonally adjusted annual rates. Internal funds are retained earnings plus depreciation and inventory valuation adjustment. Capital expenditures consist of fixed investments and changes in inventories. Credit and equity market instruments consist of bonds, stocks, mortgages, and bank and other loans.

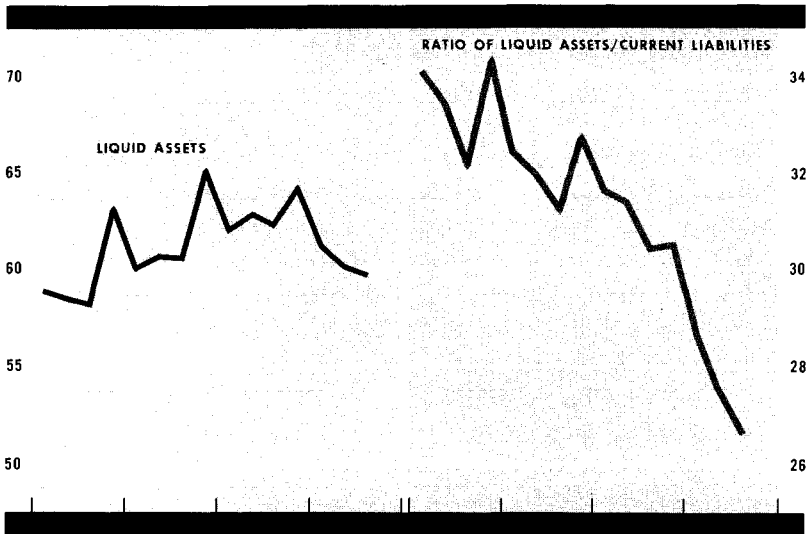
average size of instalment contracts, and in the average length of contracts.

Increased demand for other consumer durable goods—mainly household appliances, television sets, and furniture—also contributed to the expansion in instalment credit during 1965, as did a rising volume of personal loans made to provide funds for vacations, education, and other purposes. Noninstalment credit, on the other hand, continued to account for a declining proportion of total consumer credit outstanding.

Nonfinancial business. Internal funds generated by all non-financial corporate business rose by over 12 per cent in 1965 to about \$55 billion. Their outlays for fixed investment and inventories, however, rose even more rapidly than their internal funds. As a result, businesses reduced their liquidity and relied more on external financing during the year.

In addition to making large outlays for physical assets here,

also reduce their LIQUIDITY



Securities and Exchange Commission data for all U.S. corporations except banks, insurance companies, and savings and loan associations. Data are for end of quarter and are not adjusted for seasonal variation. Liquid assets comprise cash, deposits, and U.S. Govt. securities. Liquidity is measured by the ratio of these assets to total liabilities.

businesses stepped up their outflows for direct investment abroad in late 1964 and early 1965. Capital outflows were lower after midyear, largely as the result of the President's balance of payments program, but for 1965 as a whole the net outflow was considerably more than in the preceding year.

Nonfinancial businesses provided a moderate volume of funds to other sectors of the domestic economy during the year; most of this flow was in the fourth quarter. Corporations added sharply to their holdings of CD's in the first half of 1965—while reducing their holdings of Treasury securities—and moderately expanded their holdings of private short-term securities and consumer credit. But through the third quarter, these increases were largely offset by reductions in their money holdings. In the fourth quarter their liquid assets probably increased somewhat, after allowances for normal seasonal movement, as firms ceased to reduce their money stocks as they had done in the first three quarters of the year.

With their liquidity reduced and with their expenditures rising, corporate nonfinancial businesses raised more than \$20 billion in credit and equity markets during 1965. The increase for the year was \$7.0 billion, or more than 50 per cent, larger than that in 1964.

In the first half—especially in the first quarter—strikes and labor negotiations resulted in rapid accumulation of business inventories and a consequent rapid increase in demand for bank loans. Strong demands stemmed from food processors and commodity dealers, who could not ship their products during the dock strike, and from major metals-using groups. But most other major industries also increased their loans from banks during the first half of the year.

Demands by nonfinancial businesses for bank loans moderated in the summer as corporations stepped up their borrowing in capital markets. In the fourth quarter businesses again increased their demands on banks quite sharply. It should be noted that throughout the year companies financed some of their capital expenditures by borrowing at commercial banks, as indicated by

the large proportion of term loans that these banks made during the year.

In the securities markets, nonfinancial corporations increased their issues—net of retirements—by about 15 per cent to more than \$6 billion. Practically all of the financing was in the form of bonds and notes, whereas in 1964 stock issues—primarily two large flotations by communications companies—had accounted for about one-fourth of the increase in outstanding corporate securities. Issues by manufacturing corporations were particularly large in 1965 and for the year as a whole were nearly double the reduced volume sold in 1964.

Federal Government. The accelerating pace of the economic advance in 1965 was reflected in record Federal tax receipts. Even though its expenditures rose moderately in the first half, the Government was able both to repay more debt than it had in the previous year and to increase sharply its operating cash balance. In the second half of the year, however, a sharp jump in Federal expenditures—as defense outlays rose and as the new social security programs went into effect—together with a tempering of receipts from the first phase of the reduction in excise taxes, increased cash financing needs more than seasonally.

The larger cash deficit after midyear was financed in the third quarter by reducing cash operating balances, which had reached \$11.5 billion at midyear, and in the fourth quarter by issuing \$6.5 billion of tax-anticipation bills.

With expenditures expanding moderately but with tax inflows increasing, the Federal Government found it necessary to borrow only about half as much as in calendar 1964. In financing the deficit, the Government increased its marketable debt by \$2.2 billion over the year. However, the impact of these issues on credit markets was more than offset by net acquisitions of marketable issues by the Federal Reserve and by Treasury agencies and trust funds. These purchases for official accounts totaled about \$5.0 billion, and consequently marketable debt issues held by the public declined by \$2.8 billion over the year as a whole. All of the decline in public holdings was at commercial

TABLE 4
U.S. TREASURY FINANCE
(In billions of dollars)

| Item | 1965 | | | | Year | 1964 | | | | Year |
|--|------|-------|-------|-------|-------|------|-------|-------|-------|-------|
| | I | II | III | IV | | I | II | III | IV | |
| Cash receipts | 30.7 | 37.7 | 29.2 | 25.8 | 123.4 | 30.3 | 33.4 | 27.0 | 24.3 | 115.0 |
| Cash payments | 28.3 | 32.6 | 33.1 | 34.0 | 127.9 | 28.7 | 30.1 | 30.9 | 30.6 | 120.3 |
| Cash surplus (+) or deficit (-) | 2.4 | 5.1 | - 3.9 | - 8.1 | - 4.5 | 1.6 | 3.3 | - 3.9 | - 6.3 | - 5.2 |
| Less: Change in cash balance | 2.0 | 3.1 | - 4.3 | - 2.3 | - 1.4 | 1.5 | 2.4 | - .7 | - 2.7 | .6 |
| Equals: Net cash borrowing (+) or repayment (-) | - .5 | - 2.0 | - .4 | 5.7 | 2.9 | - .2 | - .8 | 3.2 | 3.6 | 5.8 |
| Made up of: | | | | | | | | | | |
| Direct marketable debt | .1 | - 3.8 | - .3 | 6.2 | 2.2 | .7 | - 1.7 | 2.5 | 3.5 | 4.9 |
| Agency debt | * | 1.1 | .4 | .2 | 1.8 | - .5 | .7 | .2 | .1 | .5 |
| Other items ¹ | - .6 | .7 | - .5 | .7 | - 1.1 | - .4 | .2 | .5 | * | .4 |

* Less than \$50 million.

¹ Represents primarily the net change in certain types of nonmarketable debt (mainly foreign series securities, savings bonds, and Investment Series B bonds), and the net investment by Government agencies and trust funds in marketable U.S. Govt. securities.

banks; the nonbank public added slightly to its holdings of marketable Government securities during the year.

The Treasury achieved some extension of debt maturities early in the year mainly through an advance refunding in January in which the public exchanged \$9 billion of shorter-term securities for issues maturing in from 5 to 27 years. In regular refundings during the year the Treasury confined itself mostly to offerings of 15- to 21-month notes, but it sold to the public almost \$2 billion of 9-year bonds in May. In the second half of the year an unfavorable market and the existence of the statutory 4¼ per cent interest rate ceiling on Treasury bonds limited the ability of the Treasury to issue longer-term debt. As a result there was some shortening of the average maturity of marketable securities held by the public. At the end of 1965 the average maturity of publicly held marketable debt was 5 years 4 months, about the same as a year earlier. This was the first year in the last four that the average maturity did not increase.

The effects of Federal Government debt operations on financial markets were not limited to the issuance of direct U.S. Government and Federal agency debt. In addition, Government agencies sold assets to private investors both directly, through sales of mortgages by the Federal National Mortgage Association in the secondary market and sales of loans by the Veterans Administration, and indirectly, through the sale of Export-Import Bank and FNMA certificates of participation (in pools of loans and mortgages). Offsetting this absorption of private funds was the continued extension by the Government of new direct loans. Also, a considerable rise in the amount of private loans insured or guaranteed by the Government continued to influence the terms under which much private financing was done.

State and local governments. State and local governments continued to issue large amounts of long-term securities in 1965 to finance a wide variety of public facilities. Sales during the year totaled \$11 billion, an increase of about 3 per cent over 1964. The increase in State and local government debt outstanding in

1965 was \$7.5 billion, nearly 20 per cent larger than the increase in 1964. The difference in growth rates between gross sales and the net increase in outstandings reflected an unusually large increase in sales of securities in the final quarter of 1964 that were not delivered until early 1965. Issues for refunding were up slightly from 1964, but rising interest rates kept the volume substantially below the record level of 1963.

Rest of the world. Foreign borrowing at U.S. banks accelerated in late 1964 and early 1965 as expectations arose that the interest equalization tax (IET) would be extended to bank loans. At the same time outflows of direct investment funds were growing rapidly. In February the President extended the IET to bank loans maturing in a year or more and requested, as noted earlier, that programs be undertaken for voluntary restraint of foreign lending by financial institutions, for repatriation of liquid funds held abroad, and for slowing the flow of direct investment. The first two of these programs had immediate, favorable effects. The net outflow of U.S. private capital in all forms in 1965 was \$3.5 billion, in contrast to \$6.5 billion in 1964 and \$4.5 billion in 1963.

Even with this reduction in capital outflow, the rest of the world obtained a much larger volume of investment and credit funds from U.S. sources than was supplied to U.S. financial markets from abroad. In fact, the net supply through short-term investment of foreign official reserve funds and investment of foreign private capital in all forms was negligible in 1965. One reason for this was the conversion of a substantial amount of foreign official claims on the United States into gold.

FINANCIAL INTERMEDIATION

Most of the funds supplied to credit and equity markets in 1965 continued to be channeled through financial intermediaries. And as in previous years of the current expansion, commercial banks—by offering more competitive yields on their time and savings deposits and by aggressively using newer types of time deposits

—continued to attract a larger share of funds relative to the volume supplied to other financial institutions and directly to borrowers by the public.

Nonbank financial institutions. In 1965 nonbank financial institutions added almost \$36.5 billion to their holdings of financial assets, slightly less than in 1963 and 1964. Even though their acquisitions of assets were down only slightly, the share of these institutions in total credit expansion declined sharply, and they accounted for only slightly more than half of the funds supplied to the nonfinancial sector of the economy. As recently as 1963 they had accounted for 62 per cent. All of the decline in their share occurred in the nonbank depository group, which continued to face increasing competition from the higher interest rates paid by commercial banks and from higher yields on open market securities. At insurance companies and pension funds, on the other hand, the total inflow of funds continued to rise, as did their investments. At finance companies consumer demands for credit increased during the year, and these companies raised a record amount of funds from sales of securities and commercial paper, as well as by borrowing from banks.

In addition to yield relationships and commercial bank competition, two other factors—lack of growth in demand for mortgage credit and the rulings of the Federal Home Loan Bank Board restricting rate increases on savings and loan associations' share capital—limited expansion of nonbank depository institutions. The net increase in share capital of savings and loan associations, after expanding by \$11 billion in 1963, rose by less than that amount in 1964 and by less than \$8 billion, or about 8 per cent, in 1965. In view of the decreased inflow in 1965, these institutions again increased their borrowing—by \$0.7 billion—from the Federal home loan banks to supplement their lending resources, and at the year-end their total loans outstanding from this source were at a new high of \$6.0 billion. In the closing weeks of 1965, with market rates rising and the Federal Reserve permitting member banks to pay more on time deposits, the Fed-

eral Home Loan Bank Board relaxed its rulings somewhat and permitted increases in rates on shares; some associations raised such rates effective at the beginning of 1966.

Mutual savings banks fared considerably better than savings and loan associations in the competition for funds in 1965. These institutions experienced a record savings inflow of \$4.2 billion in 1964, after they had raised the rates on such deposits, and in 1965 the expansion in their deposits was \$3.1 billion or 7.6 per cent; this was the second largest dollar inflow in the post-war period. In reaction to the December increase in the maximum permissible rates that commercial banks could pay on time deposits, several large mutual savings banks increased their deposit rates, effective at the beginning of 1966, in an effort to maintain their competitive position.

The reduced inflows to nonbank depository institutions and the changes in credit demands and yield structures were reflected in the contribution of financial institutions to the various financial markets. Savings and loan associations continued to reduce their net acquisitions of home mortgages, while insurance companies and pension funds increased their share of such mortgages. Commercial banks, though faced by increasing demands for other types of loans, also continued to increase their share of financing in both the home and other mortgage markets. In the third quarter the FNMA began to provide support to the mortgage market. As offerings from private investors accelerated, the FNMA expanded its purchases sharply and its holdings registered a net increase for the first time in more than 3 years.

Even though the shares of the mortgage market accounted for by the major lenders shifted on balance over 1965—and the inflow of funds to the specialized mortgage lenders declined—the total mortgage flow was well maintained in face of the relatively low housing demand.

In 1965, as in previous years, insurance companies were the dominant buyers of bonds, and pension funds bought the most

stocks, but pension funds also increased their purchases of bonds. Greater yield advantages elsewhere led these types of institutional investors to liquidate holdings of State and local government bonds; as a result commercial banks continued their recent dominance of this market.

Finance companies—even with the large absolute increase in their loans outstanding—did not hold their own in consumer credit markets during 1965. Both bank and nonbank depository institutions—mainly credit unions—increased their share of the market during the year. Sales finance companies in particular have undergone a substantial decline in the share of total automobile credit granted, but they have been increasing their share of personal loans outstanding.

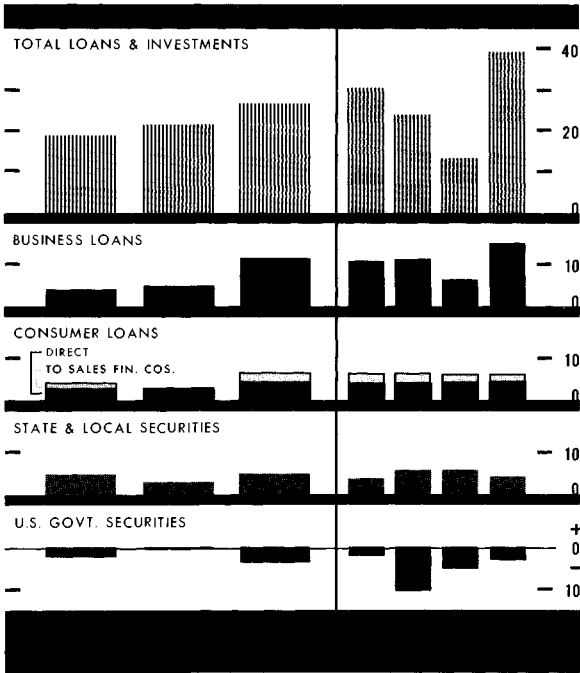
Commercial banks. During 1965 commercial banks provided about \$27 billion, or 38 per cent, of the funds supplied to borrowers in credit and equity markets. The banks' share was the largest of any expansion year in the postwar period and was more than twice as large as the annual average during the periods of economic expansion in the 1950's. As in earlier years of this decade, the higher proportion of credit expansion accounted for by banks reflected the greater public demand for bank time and savings deposits. The greater expansion of such deposits in turn reflected both higher rates permitted and offered on such deposits; the issuance of attractive new instruments; and the continued provision of substantial amounts of reserves by the Federal Reserve.

While bank loans and investments increased by a postwar record of 10 per cent in 1965, the rate of expansion was uneven because of shifting patterns in loan demand and in Treasury financing. Demand for credit by domestic businesses was strong all year, but was particularly strong in the first half when strikes and labor negotiations affected their need for external financing. Foreign demands were also heavy early in 1965, but the volume of credit extended to foreigners was sharply reduced after the VFCR program was announced and the IET was

extended in mid-February to bank loans with maturities in excess of 1 year. Demands by domestic businesses for bank loans moderated for a time during the summer as a result of the end of special factors related to the threatened steel strike and with the shifting of some demand to the capital markets. In the final month of 1965, however, business loans of banks increased sharply as the pace of economic expansion accelerated.

Treasury financing also influenced the pattern of bank credit growth in 1965. After building up its cash balances at banks to much larger than seasonal levels in the first half of the year, the Treasury financed its seasonal deficit in the third quarter by

More rapid BANK CREDIT EXPANSION in '65 concentrated in business and consumer loans



Flow of funds data. Quarterly totals are at seasonally adjusted annual rates, U.S. Govt. securities include nonguaranteed debt of the U.S. Govt. Business loans are to domestic nonfinancial corporate and noncorporate business and include commercial paper and domestic acceptances. Consumer loans include indirect lending in the form of loans to, and purchases of commercial paper issued by, finance companies.

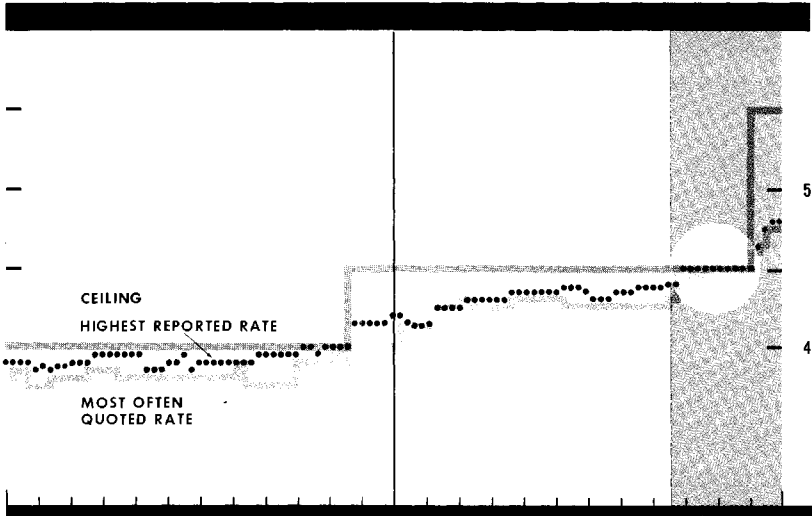
sharply reducing its balances. While part of this decline in the Treasury cash balance at banks was offset by accelerated growth in private deposits, growth in total deposits slowed in the third quarter, and this retarded the expansion of funds available to banks for lending and investing.

Despite all the demands on them from other sources in 1965, banks provided much more credit to consumers than in 1964—not only directly but also indirectly through loans to and purchases of open market paper issued by finance companies. As in other recent years, commercial banks were the biggest single source of consumer instalment credit in 1965. They accounted directly for one-half of the \$8.1 billion increase in consumer instalment credit during the year. And when loans to finance companies are included, they accounted for around three-fourths of the increase.

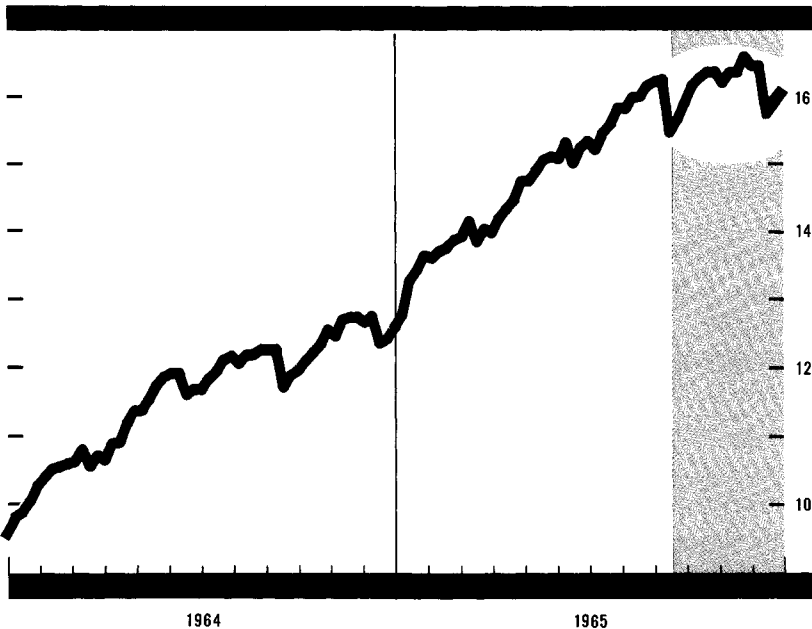
Even with accelerated loan expansion, banks continued to add to their holdings of municipal securities and mortgages throughout most of 1965. In the final months of the year, however, three factors—the cumulative expansion in business loans, the erosion of liquidity, and purchases of new U.S. Government issues—caused banks to reduce their acquisitions of State and local government securities. Some banks did not replace maturing obligations, and other banks liquidated some of their holdings.

In order to increase both their loans and investments in 1965, banks reduced their liquidity further. While total reserves expanded faster than in 1964, the Federal Reserve supplied less of the increase through open market operations, thus impelling member banks to increase their borrowing at Federal Reserve Banks in order to meet credit demands placed upon them. In addition, the over-all ratio of loans to deposits at commercial banks climbed to a postwar high in the second half of the year, after increasing very sharply in the first half. Moreover, until the Treasury issued \$6.5 billion of tax-anticipation bills in the fourth quarter—payable by banks with full tax-and-loan-account credit—banks were steadily reducing their holdings of Govern-

As INTEREST RATES ON CD's approach Regulation Q ceiling



GROWTH in CD's outstanding moderates



Wednesday figures. Rates are for 90- to 179-day issues of major New York City banks. Outstandings are for CD's of \$100,000 or more reported by weekly reporting member banks.

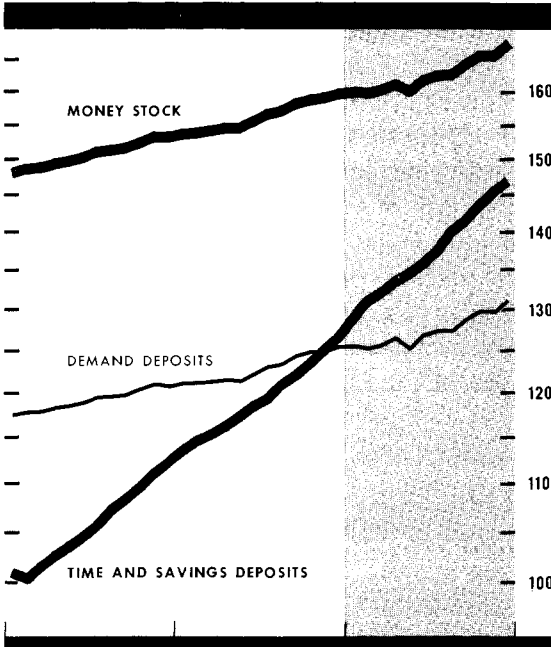
ment securities. For the year as a whole, their holdings of such securities declined by more than \$3 billion.

Bank liquidity was brought under further pressure in the autumn as Regulation Q ceilings, higher market rates of interest, and strained corporate liquidity associated with increased capital expenditures limited the ability of banks to issue CD's. In this period weekly reporting member banks increased their issues of CD's of \$100,000 or more only slightly, and they suffered larger run-offs of these deposits around the tax and dividend dates in December than in the comparable period of 1964. Even though they had considerable leeway to raise interest rates after the new Regulation Q ceilings became effective in early December, banks found it more difficult—as well as more expensive—to tap short-term money markets with CD's. With liquidity reduced and with both the cost of deposits and the volume of loan demand higher, most commercial banks raised the prime loan rate following the December changes in the discount rate and in the Regulation Q ceiling.

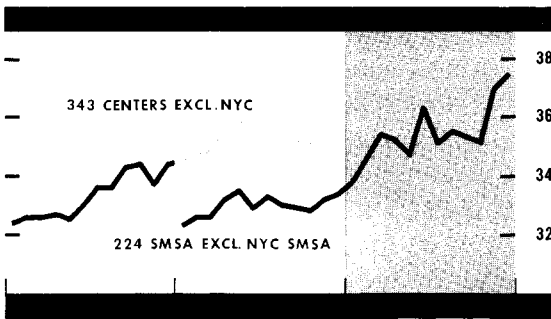
Despite the slower rate of expansion of CD's in the autumn of 1965, growth in total time and savings deposits accelerated over the year. Data for weekly reporting member banks suggest that passbook savings deposits accounted for a larger share of the expansion in interest-bearing deposits at banks in 1965 than in 1964. Moreover, as the year progressed, a greater proportion of the growth of time and savings deposits occurred at banks outside New York and Chicago. This reflected not only the increasing difficulty of selling CD's but also the increased aggressiveness of banks throughout the country in seeking both time and savings deposits to meet increased loan demand. Underscoring the shift in bank liabilities that has developed in recent years, time and savings deposits have exceeded adjusted private demand deposits since late in 1964. By contrast, at the end of 1960 time and savings deposits were less than two-thirds of demand deposits.

Demand deposit growth also increased as the year progressed, reflecting the higher demand for money concomitant with the

MONEY STOCK and bank time deposits grow rapidly



TURNOVER of demand deposits accelerates



Seasonally adjusted monthly averages of daily figures. Money stock consists of demand deposits and currency outside the Treasury, the F.R. System, and the vaults of commercial banks. Demand deposit component excludes deposits due to domestic commercial banks and the U.S. Govt., cash items in process of collection, and F.R. float, but includes foreign demand balances at F.R. Banks. Time deposits exclude those due to domestic commercial banks and the U.S. Govt. Debits are to demand deposit accounts, except interbank and U.S. Govt., as reported by banks in (1) 343 reporting centers and (2) 224 Standard Metropolitan Statistical Areas (SMSA's) beginning with January 1964.

accelerating pace of the economy. The money stock expanded by \$7.7 billion, or 4.8 per cent, the largest increase of the current cycle. The higher level of economic activity was also reflected in an average annual rate of turnover of demand deposits at banks outside of New York City that was 7.6 per cent higher than in 1964.

CREDIT MARKETS AND INTEREST RATES

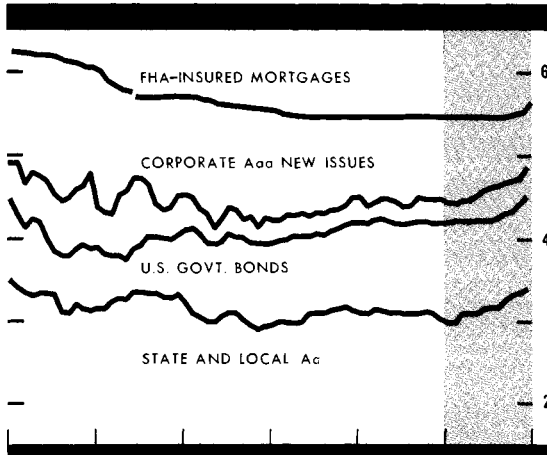
Early in 1965 financial markets were still reflecting forces set in motion by the November 1964 changes in the Federal Reserve discount rate and in Regulation Q. In the municipal bond market in particular, the combination of buying by banks, which were trying to balance attractive after-tax yields against the rising costs of time and savings deposits, and of the usual turn-of-the-year increase in demand for securities depressed yields on State and local government issues. At the same time, yields on corporate bonds edged lower as seasonal demands pressed on a market in which new publicly offered issues had been in small supply for nearly 5 months. With bond markets in a technically strong position in January, the Treasury carried out the largest advance refunding on record.

After declining seasonally in January, yields on short-term Government securities rose in February in response to a reduction in reserve availability. But subsequently, as the large Federal cash surplus permitted repayment of short-term debt, as demand for bills by corporations and public funds strengthened, and as the Federal Reserve bought bills in the open market to offset gold outflows, bill rates edged down from their February peak and declined during the remainder of the first half of the year.

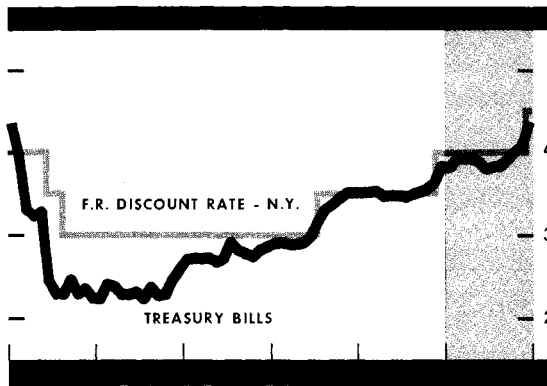
Yields on corporate and municipal bonds, on the other hand, began to rise in the late winter and early spring when the volume of new issues expanded sharply. During the second quarter publicly offered corporate bonds—including offerings of nonfinancial firms, banks, and other financial institutions—reached a rec-

ord volume. The spring upturn in yields on corporate and municipal bonds was not matched in yields on U.S. Government

RISE IN INTEREST RATES accelerates in last half of '65 for both LONG-TERM



and SHORT-TERM securities



Monthly averages except for FHA (based on quotation for 1 day each month). Yields: FHA-insured mortgages, weighted averages of private secondary market prices of certain new-house mortgages converted to annual yield; State and local govt. Aaa bonds, from Moody's Investors Service; corporate bonds, weighted averages of new publicly offered bonds rated Aaa, Aa, and A by Moody's Investors Service and adjusted to an Aaa basis; U.S. Govt. bonds, market yields at constant maturity; and U.S. Treasury bills, market yields on 3-month issues.

bonds, however. The continued stability of yields on long-term Government bonds reflected not only the Treasury's large cash surplus and the expectation that no new long-term issues would be forthcoming in the second half of 1965 but also the feeling on the part of market participants that the general level of interest rates was not likely to move much over the remainder of the year.

In July escalation of the war in Viet Nam, coming as it did on top of the unexpectedly favorable performance of the economy, suddenly reversed these midyear expectations as to interest rates. Bond yields rose generally—particularly for U.S. Government securities, which had previously lagged behind other yields.

With corporate and State and local government bond offerings remaining unseasonally large through the summer, bond yields rose further. Moreover, as the dimensions of the economic expansion and the plans for future capital spending by business became evident, estimates of external financing requirements of corporations into 1966 were revised upward, reinforcing the changed expectations for interest rates and producing further upward adjustments in yields. Similarly, with Federal outlays on military items running larger than previously projected, estimates of what the Treasury's cash needs were likely to be in early 1966 were increased.

Yields on short-term Treasury securities turned up at the end of the third quarter in response to tax date pressures and the large and concentrated borrowing by the Treasury in the bill area that was in prospect for the fourth quarter. With rates on short-term marketable securities advancing, rates on CD's at banks began to rise and were soon pressing against the Regulation Q ceiling.

As the spread between rates on CD's and other money market instruments narrowed, questions began to be raised as to whether banks would be able to replace the large volume of CD's maturing in December without an increase in the Regulation Q ceiling. To help relieve this further strain on their liquid-

ity positions, banks cut back on takings of new municipal securities and in a few cases sold substantial blocks of outstanding municipals in the secondary market. Their actions, which represented a distinct change from earlier months, were quickly reflected in rising market yields.

The mortgage market was another area in which increasing signs of reduced credit availability appeared during the fourth quarter. In the first 8 months of the year interest rates in home mortgage markets had changed little from the levels that had prevailed for the preceding 2½ years. But as the year progressed, increasingly attractive rates on other financial assets began to divert funds from the mortgage market, and after August, rates in this market also turned up.

In view of cumulating pressures from business credit demands and the threatened constriction in the volume of funds flowing through banks, the Federal Reserve raised the discount rate and Regulation Q ceilings in early December, as noted earlier. Interest rate adjustments to these actions were more pervasive than at the time of the previous official rate increases in November 1964. Over the month the prime loan rate charged by banks rose by one-half of a percentage point; short-term market yields, by over 30 basis points; and capital market rates, by almost 10 basis points.

U.S. BALANCE OF PAYMENTS

Restoration of reasonable equilibrium in U.S. transactions with the rest of the world continued to be an important goal of policy in 1965. The difficulties the United States faced in dealing with this problem were highlighted by the rapid rise in imports, which accompanied brisk growth of domestic demand, and by the exceptionally large volume of funds that corporations sent abroad in 1965 to supply capital to their subsidiaries or to acquire new interests in businesses abroad.

In response to requests by the Government for voluntary restraint and in reaction to growing domestic credit demands, U.S. banks greatly slowed the pace at which they extended new credits to foreign customers, and both business corporations and financial institutions pulled back funds from interest-bearing deposits and other liquid investments abroad. In contrast to an outflow of \$3 billion the year before, there was a net reflux in 1965 totaling more than \$0.5 billion from banks' and nonbanks' outstanding short-term claims on foreigners and from the longer-term claims of banks.

As a result of this sharp curtailment and reversal of outflows of bank credit and other short-term capital, one measure of the deficit in the balance of payments registered substantial improvement. The net decline in all U.S. official reserve assets plus the net increase in all U.S. liquid liabilities to foreigners was only \$1.3 billion, as compared with \$2.8 billion the year before. Thus the deficit on the liquidity basis was cut by \$1.5 billion.

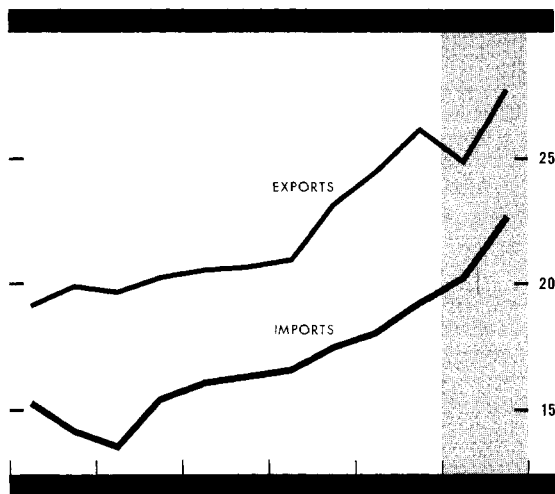
Another measure of the deficit, official reserve transactions, showed little change from the level to which it had fallen the year before. The U.S. reserve loss plus the increase in liabilities to foreign reserve holders was \$1.3 billion, unchanged from the net amount of such official reserve transactions in 1964.

Despite improvement or little change in the deficit—depending on the measure used—the drain on U.S. gold reserves was much larger than it had been in 1964, for reasons touched on below; in 1965 it was \$1.7 billion; in 1964, \$0.1 billion.

**TRANSACTIONS IN GOODS AND SERVICES;
AND AID LOANS AND GRANTS**

The rise in merchandise imports, already brisk in 1964, accelerated sharply in 1965. Rising domestic purchases of consumer goods and of capital equipment were reflected in a more than proportionate increase in imports of finished manufactures. Large imports of materials supplemented domestic supplies in meeting the strong domestic demands for additions to inventories as well as for current use. Demand for imported steel was heavy, especially before a wage settlement was reached in the steel industry. Total imports were 15 per cent greater than in 1964.

**MERCHANDISE IMPORTS rise sharply in '65,
narrowing the trade surplus**



Seasonally adjusted balance of payments data.

Exports of goods, which had shown an unusually rapid rise from early 1963 to late 1964, eased off in the first half of 1965. Later in the year they picked up again. In the second half, exports of agricultural and of nonagricultural goods were above their year-earlier levels by 4 and 6 per cent, respectively.

For the year as a whole, the merchandise trade surplus was smaller than in 1964 by nearly \$2 billion. Shrinkage in the balance on goods and services was not so great, mainly because receipts of investment income continued to grow rapidly. Unlike earlier years, 1965 saw no improvement in the military segment of the balance of payments accounts.

The flow of grants and loans by the U.S. Government for economic aid, much of which is closely related to U.S. exports, continued on about the same scale as in the two preceding years.

PRIVATE CAPITAL MOVEMENTS

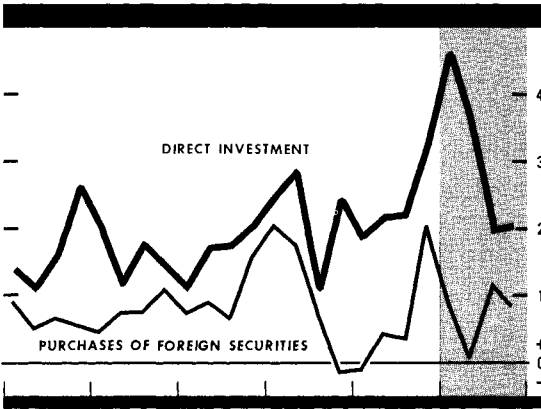
The outflow of U.S. direct investment capital began to build up rapidly toward the end of 1964 and became exceptionally large in the first half of 1965. The underlying forces making for year-to-year increases in the flow of such capital to Europe did not seem to have altered significantly. However, uncertainties about the Government's program for improving the balance of payments may have led to some transfers of funds in advance of immediate needs. The administration's program announced in February had as one of its components a cooperative effort by several hundred large corporations to expand their exports of U.S. products and to reduce the pace at which they were supplying capital to their affiliates in industrial countries.

In the second half of the year outflows of funds for direct investment did decline sharply. Among the factors that made this possible was the flotation of a considerable number of bond issues in European capital markets by subsidiaries of U.S. companies, at higher costs than borrowing in the United States would have entailed. Nevertheless, for the year as a whole, the outflow of direct investment funds from the United States exceeded \$3 billion, compared with \$2.4 billion in 1964.

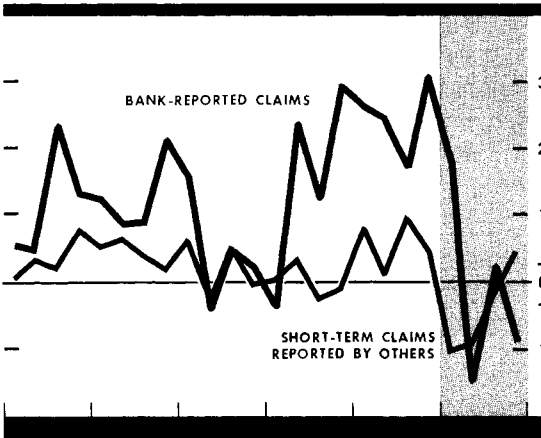
Other parts of the President's program, involving voluntary restraint on foreign lending and investing by banks and other financial institutions and repatriation of liquid funds from abroad, were successful in 1965 beyond expectations. Short-term

claims on foreigners reported by others than banks—that is, by nonbank financial institutions and by nonfinancial corporations—were reduced by about \$0.5 billion, in contrast to a reported

U.S. CAPITAL OUTFLOWS for direct investment fall in second half, and



outflows of bank credit and liquid funds are reversed



Seasonally adjusted balance of payments data. Direct investment outflow as given in Dept. of Commerce basic statistics is here adjusted by deducting the amount of bond issues sold abroad by U.S.-incorporated subsidiaries; such issues in the fourth quarter of 1965 were at an annual rate of \$0.7 billion. Bank-reported claims include some liquid assets and commercial claims of the banks' domestic customers; bank loans maturing in more than 1 year are included.

outflow of \$0.6 billion in 1964. Outstanding term loans of U.S. banks to foreign borrowers, though sharply enlarged in the first few weeks of the year, ended 1965 with a net rise of only \$0.2 billion, compared with more than \$0.9 billion in 1964. Most term loans made after February 11, 1965, to borrowers in industrial countries were subject to the IET—though loans to finance U.S. exports were exempt—and the outflow of term loans to such countries after that date was very small. Short-term claims on foreigners reported by banks—including both the banks' own claims subject to the VFCR program and also customers' claims and certain bank claims exempted under the program—declined by \$0.3 billion, after rising by \$1.5 billion in 1964. Growing pressure of demand for funds by domestic borrowers helped to restrain the outflow of bank credit.

Net purchases of foreign securities produced a capital outflow of \$0.7 billion in 1965, about the same as in 1964. There was a substantial volume of new issues by Canadian governmental and business borrowers and by borrowers in other countries whose obligations are not subject to the IET. A few taxable issues were placed by borrowers willing to pay the tax. Purchases of outstanding foreign securities by U.S. investors continued to be held down by the IET and were less than U.S. sales of such securities.

In sum, the net outflow of U.S. private capital in all forms was \$3.5 billion in 1965.

Foreigners were substantial net sellers of U.S. corporate securities in 1965. A considerable amount of corporate stocks were sold by the U.K. Treasury for reinvestment in more liquid forms.

Restraint of outflow of U.S. bank credit and U.S. liquid funds appears to have had little unfavorable repercussion upon the growth of liquid funds in the United States for the account of private foreigners other than banks. The net inflow of such funds amounted to \$0.3 billion, not much less than the yearly inflow in the two preceding years. Liquid assets of international organizations other than the IMF declined by \$0.3 billion, slightly more than in 1964 or 1963.

Balances held in this country by commercial banks located abroad (including branches of U.S. banks) showed a net increase over the year of only \$0.1 billion. After increasing by \$0.5 billion in the final quarter of 1964, they rose \$0.6 billion more in the first three quarters of 1965 and then declined nearly that much in the fourth quarter.

From January through September the foreign branches of U.S. banks placed about \$0.5 billion of additional funds with their head offices. Canadian banks, which paid off \$0.5 billion of U.S.-dollar deposits to U.S. residents, were able to do so without much of a decrease in their liquid assets in the United States during this period. In both these cases the immediate source of the funds that banks channeled to the United States was the Euro-dollar market, centered in London. Short-term interest rates in that market varied widely during 1965, and though the average relation of Euro-dollar rates to U.S. money market rates was not very different from what it had been in the latter half of 1964, a relatively easy position developed in the Euro-dollar market during the summer of 1965. Net transfers of funds from that market to the United States through the operations of commercial banks were especially large in August. In that one month the net increase in short-term claims on the United States for account of commercial banks in all foreign countries exceeded \$400 million.

At some other times in 1965 conditions in the Euro-dollar market were exceptionally tight. Rates in this market were influenced to some extent by conditions in the financial markets of particular countries; while the Italian authorities, for example, took action to ease their market, German authorities pursued a very tight monetary policy. Other factors making for tightness in the Euro-dollar market included, in the spring, the curtailment of previously large flows of bank credit from the United States to Europe, and later the borrowing operations of U.S. subsidiary companies in Europe. In December some European commercial banks withdrew funds from the market to strengthen their domestic cash positions at the year-end.

Additions to the supply of funds in the Euro-dollar market came from various sources. Italian commercial banks put large amounts into the market during the first 10 months of the year; these funds came, indirectly, from official reserves accruing to Italy as the results of its balance of payments surplus. Also, funds were supplied to the Euro-dollar market by holders shifting from sterling to dollars, but after early September this source of supply dried up as confidence in sterling revived. During the period of tightness that developed near the year-end, funds were returned to the market by branches of U.S. banks and by Canadian banks; as already noted, total balances in the United States of these and other banks located abroad declined by about \$0.5 billion in the fourth quarter.

FINANCING THE DEFICIT

The decrease in U.S. reserve assets plus the increase in liabilities to foreign reserve holders was \$1.3 billion in 1965. Net gold sales were unusually large, amounting to about \$1.4 billion (including net sales of \$0.1 billion to industry). In addition, the United States transferred \$259 million of gold to the IMF in connection with a quota increase, which added to our drawing rights when it came into effect early in 1966.

Several continental European countries added more to their official gold holdings in 1965 than they had in 1964. In doing this, some of them indicated that they considered that the balance of payments deficits of the United States in recent years had added excessively to the supply of dollars in the hands of monetary authorities. Purchases of gold by the United States were comparatively small; of the two countries that had been large sellers in 1964, Britain sold much less than it had in 1964, and Italy repurchased from us part of what it had sold.

U.S. reserve assets other than gold increased somewhat. The U.S. gold tranche position in the IMF, even with inclusion of the gold subscription made in 1965, increased only a little—by \$0.1 billion. This was because drawings of foreign currencies by the United States exceeded other countries' net drawings of dollars

from the Fund. But U.S. holdings of convertible currencies increased by about \$350 million, largely through swaps for sterling with the Bank of England by means of which the Federal Reserve provided dollars to assist in the defense of sterling.

U.S. liabilities, liquid and other, to foreign reserve holders increased by \$0.1 billion in 1965. Liabilities to monetary authorities in Latin America, Asia, and Africa increased, but those to European central banks and exchange funds dropped sharply. Declines in the holdings of claims against the United States were in some cases associated with deficits in the countries' international payments. In other countries declines occurred because their purchases of gold exceeded the surpluses in their balance of payments. In still other countries—most notably in Italy—the authorities encouraged commercial banks to hold dollar claims in the form of deposits in the Euro-dollar market. To the extent that this led to a growth in balances placed in the United States by banks operating in the Euro-dollar market, it restrained the growth of official claims against the United States.

The net increase in total liquid claims against the United States of commercial banks, other private foreigners, and international organizations other than the IMF amounted to only \$0.1 billion in 1965. As there was also little net change in foreign official holdings of short-term assets in the United States and of marketable U.S. Government bonds and notes, most of the financing of the \$1.3 billion deficit in the U.S. balance of payments on the liquidity basis was provided by the net shrinkage of \$1.2 billion in U.S. reserve assets (gold, convertible currencies, and IMF gold tranche).

To guard against further dissipation of U.S. reserve assets and to strengthen the dollar in its role as a pivotal part of the international monetary system, further improvement in the balance of payments was needed. To restore a stable equilibrium that would not be dependent on voluntary restraint programs, such as were used so effectively in 1965, it seemed more essential than ever as the year ended that inflation be avoided in the United States.

PART II

Records, Operations, and Organization

ANNUAL REPORT OF BOARD OF GOVERNORS

RECORD OF POLICY ACTIONS OF THE BOARD OF GOVERNORS

February 26, 1965

Amendment to Regulation M, Foreign Branches of National Banks.

Effective March 1, 1965, Regulation M was amended by adding the following new paragraph (g) to Section 213.4: "Pay to any officer or employee of the branch a greater rate of interest on deposits than that paid to other depositors on similar deposits with the branch."

Votes for this action: Messrs. Balderston, Robertson, Shepardson, Mitchell, and Daane. Votes against this action: None.

This amendment made it possible, so far as Federal law or regulations were concerned, for overseas branches of member banks to pay rates of interest on deposits of their officers and employees higher than those paid on other deposits, if the branches were located in countries where such a procedure was consistent with local law and practice. In the absence of this permission, banks had been precluded from paying such rates by the terms of Section 22(e) of the Federal Reserve Act and had thereby been placed in an unfavorable competitive position in the operation of many of their foreign branches. Authority to grant the permission was provided by the Act of August 15, 1962, under which the Board was empowered to authorize foreign branches of member banks to exercise such powers as were usual in connection with the business of banking in the places where the branches were located.

March 3, 1965

Voluntary foreign credit restraint.

The Board adopted guidelines for the use of banks and nonbank financial institutions in limiting foreign credits voluntarily as part of the President's balance of payments program.

FEDERAL RESERVE SYSTEM

Votes for this action: Messrs. Martin, Robertson, Shepardson, Mitchell, and Daane. Votes against this action: None.

On February 10, 1965, the President sent to the Congress a message in which he presented a program aimed at achieving quickly a substantial improvement in the U.S. balance of payments position. The central focus of this program was on measures that would reduce the outflow of U.S. capital, which had been heavy in recent years and particularly so in recent months. One part of the President's program included a call upon the Federal Reserve System, in cooperation with the Treasury, to work with financial institutions in limiting their foreign lending and investing on a voluntary basis.

On the same date the Federal Reserve System solicited the cooperation of the nation's banks in limiting credits to foreigners that were not clearly and directly for the purpose of financing exports of U.S. goods and services. The over-all objective was to hold outstanding credits (including export credits) to foreigners during 1965 to a level not more than 5 per cent above the volume on December 31, 1964, although it was recognized that within the aggregate limit certain countries might need to be given preferential treatment. On February 18, Chairman Martin and Governor Robertson, the latter having been designated by the Board of Governors to coordinate the System's activities in this matter, discussed the request in detail with representatives of the banking and financial community following a meeting of those representatives with the President.

On March 3, 1965, the Board adopted sets of guidelines to be followed by banks and by nonbank financial institutions in their foreign lending activities. While these guidelines were to be in effect until modified or supplemented, the Board indicated that they might be changed from time to time in the light of new circumstances and in the light of experience gained as the program went forward. Two of the guidelines for banks were later

amended (in April and July, respectively), and amended guidelines for nonbank financial institutions were issued in June. In early December revised guidelines were issued for both banks and nonbank financial institutions, these guidelines to be applicable to their participation in the voluntary foreign credit restraint effort in 1966.

April 19, 1965

Amendment to Regulation T, Credit by Brokers, Dealers, and Members of National Securities Exchanges.

Effective May 15, 1965, the Board amended Section 220.4(c)(3) of Regulation T, relating to special cash accounts, to provide that the maximum time for payment of a new security issued to accomplish a total or partial refunding of an outstanding security would be 7 days after the maturity, redemption, or prepayment date of such outstanding security, if the period from the time the new security was actually available for delivery to the purchasers until such maturity, redemption, or prepayment did not exceed 35 days.

Votes for this action: Messrs. Martin, Balderston, Robertson, Shepardson, and Daane. Votes against this action: None.

The reason for this departure from the ordinary rules of payment was to enable investors to continue an investment in an enterprise, without undue hardship through advancing new funds, by allowing the application of the proceeds of the redemption to the purchase of the new security within a reasonable period.

August 5, 1965

Amendment to Regulation Q, Payment of Interest on Deposits.

Effective August 5, 1965, Section 217.3(a) of Regulation Q was amended so as to continue from October 15, 1965, to October 15, 1968,

the exemption of foreign governments and certain foreign or international institutions from regulation by the Board as to the maximum rates of interest permitted to be paid by member banks on time deposits.

Votes for this action: Messrs. Martin, Balderston, Shepardson, Mitchell, and Maisel. Votes against this action: None.

By Act of Congress approved July 21, 1965 (Public Law 89-79), Section 19 of the Federal Reserve Act was amended so as to continue from October 15, 1965, to October 15, 1968, the exemption of foreign governments, monetary and financial authorities of foreign governments when acting as such, and international institutions of which the United States is a member from regulations of the Board of Governors as to maximum rates of interest permitted to be paid by member banks on time deposits. (The law contained a similar amendment to the Federal Deposit Insurance Act with respect to deposits in nonmember insured banks.) The amendment to Regulation Q was made in order to conform the regulation to the provisions of the amended law.

November 17, 1965

Amendment to Regulation R, Relationships with Dealers in Securities under Section 32 of the Banking Act of 1933.

Effective November 17, 1965, the Board amended Regulation R so as to broaden the list of obligations named in a section of the regulation that exempts from the general prohibitions of the regulation relationships of officers, directors, or employees of member banks with firms dealing only in such obligations.

Votes for this action: Messrs. Martin, Balderston, Robertson, Shepardson, Mitchell, Daane, and Maisel. Votes against this action: None.

Section 32 of the Banking Act of 1933 provides that no officer, director, or employee of any corporation or unincor-

porated association, no partner or employee of any partnership, and no individual primarily engaged in the issue, flotation, underwriting, public sale, or distribution, at wholesale or retail, or through syndicate participation, of stocks, bonds, or other similar securities, shall serve at the same time as an officer, director, or employee of any member bank of the Federal Reserve System. However, the statute authorizes the Board of Governors, by general regulations, to except limited classes of relationships from the prohibitions of the statute.

Pursuant to such authority, the Board had heretofore permitted officers, directors, or employees of member banks to serve at the same time as officers, directors, or employees of securities firms dealing only in U.S. Government securities, obligations fully guaranteed both as to principal and interest by the United States, obligations of Federal intermediate credit banks, Federal land banks, Central Bank for Cooperatives, Federal home loan banks, and the Federal National Mortgage Association, and general obligations of territories, dependencies, and insular possessions of the United States.

The current amendment to Regulation R added to this list obligations of the Tennessee Valley Authority, and, subject to specifications contained in paragraph Seventh of Section 5136 of the U.S. Revised Statutes, obligations of the International Bank for Reconstruction and Development, the Inter-American Development Bank, or any local public agency, and obligations insured by the Federal Housing Administrator. This action was taken because it appeared to the Board that these obligations had generally the same characteristics as the obligations previously listed.

Governor Maisel would have preferred to expand the action to include in the list of exceptions all obligations that member banks are authorized to deal in or underwrite pursuant to paragraph Seventh, including general obligations of States and political subdivisions.

December 3, 1965

1. Increase in rates on discounts and advances by Federal Reserve Banks.

Effective December 6, 1965, the Board approved actions taken by the Boards of Directors of the Federal Reserve Banks of New York and Chicago establishing a rate of 4½ per cent (an increase from 4 per cent) on discounts and advances to member banks under Sections 13 and 13a of the Federal Reserve Act.

Votes for this action: Messrs. Martin, Balderston, Shepardson, and Daane. Votes against this action: Messrs. Robertson, Mitchell, and Maisel.

Pursuant to the policy established by this action, the Board subsequently approved the same rate for the remaining Federal Reserve Banks effective on the following dates:

| | |
|---------------|-------------------|
| Boston | December 8, 1965 |
| Atlanta | December 8, 1965 |
| Philadelphia | December 10, 1965 |
| Cleveland | December 10, 1965 |
| Richmond | December 10, 1965 |
| St. Louis | December 10, 1965 |
| Minneapolis | December 10, 1965 |
| Dallas | December 10, 1965 |
| San Francisco | December 10, 1965 |
| Kansas City | December 13, 1965 |

Effective the same dates the Board approved for the respective Federal Reserve Banks a rate of 5 per cent on advances to member banks under Section 10(b) of the Federal Reserve Act. In addition the Board approved increases at most of the Banks in rates on advances to individuals, partnerships, and corporations other than member banks under the last paragraph of Section 13 of the Act.

(In accordance with provisions of the Federal Reserve Act, the Federal Reserve Banks establish rates on discounts for and advances to member banks at least every 14 days and submit such rates to the Board for review and determination. Prior to this date no changes had been made in these rates since those referred to on pages 44-45 of the Board's ANNUAL REPORT for 1964.)

2. Amendment to Regulation Q, Payment of Interest on Deposits.

Effective December 6, 1965, the Board approved an amendment of the Supplement to Regulation Q to increase to 5½ per cent the maximum rate of interest permitted to be paid by member banks on time deposits and certificates of deposit. (Since November 1964, member banks had been permitted to pay a maximum rate of 4½ per cent on time deposits and certificates with maturities of 90 days or more and a maximum rate of 4 per cent on those with maturities of less than 90 days.) No change was made in the maximum rate of interest of 4 per cent permitted to be paid by member banks on savings deposits.

Votes for this action: Messrs. Martin, Balderston, Shepardson, Mitchell, Daane, and Maisel. Vote against this action: Mr. Robertson.

The discount rate action was designed to reinforce efforts being made to maintain price stability, and thus to foster balance in the economy's continued growth and strength in the dollar's international standing. Its purpose was not to cut back the pace of credit flows but to dampen mounting demands on banks for still further credit extensions that might add to inflationary pressures.

While the discount rate increase was intended to moderate additional bank reliance on short-term borrowings from the Federal Reserve to meet intensifying loan demands, the action contemplated a continued provision of additional reserves to the banking system, in amounts sufficient to meet seasonal pressures as well as the credit needs of an expanding economy, primarily through Federal Reserve purchases of U.S. Government securities in the open market.

The increase in the rates permitted to be paid by member banks on time deposits was intended to enable the banks to attract and retain deposits of businesses and individuals, and thereby to make more effective use of savings funds already available in the economy to finance their loan expansion.

Since November 1964, when the discount rate and maximum time deposit rates were last increased, total borrowing by con-

sumers, businesses, and State and local governments had risen sharply, and interest rates throughout the maturity range had been rising under demand pressures. If all demands for borrowed money at existing rates were to be satisfied, the Federal Reserve would have been forced to increase bank reserves at an accelerated pace. With the slack in manpower and production capacity reduced to narrow proportions, with the economy closer to full potential than at any time in nearly a decade, and with military demands on output and manpower increasing, it was felt that excessive additions to money and credit availabilities in an effort to hold present interest rate levels would spill over into further price increases in goods and services, which increases would endanger the sustainability of the business expansion. Moreover, increases in costs and prices would make it more difficult for American goods to compete in markets at home and abroad. In addition, a pattern of interest rates that was accepted by borrowers and lenders as fully reflecting market forces should, it was thought, add assurance of a smooth flow of funds to all sectors of the economy.

Several additional specific considerations strengthened the Board's judgment on the appropriateness of its actions and their timing. As indicated, the acceleration already evidenced in the pace of Government expenditures, reflecting Viet Nam developments, foreshadowed even heavier than previously expected Federal procurement over the coming months. There was also a very real risk, already becoming apparent, of overstimulating an investment boom in process and prospect, both adding further to price pressures and permitting a distortion between the rate of growth of capital expenditures and the general growth rate of the economy. An additional consideration was the judgment that postponement of action until January would involve a conflict with the Treasury financing schedule, probably necessitating still further postponement. Finally, the Board felt that advantage should be taken of the flexibility of the monetary policy instrument to move promptly against undue and inflationary

credit expansion, in consonance with the statutory responsibilities imposed upon the Board.

In summary, it was believed that the actions taken by the Board would have the effect of backing up the Government's efforts to prevent inflationary excesses from damaging an economy carrying the added burden of military operations in Viet Nam, of bolstering the Government's program to overcome persistent deficits in the U.S. balance of international payments, and of demonstrating anew the determination of the United States to maintain the international strength of the dollar.

Governor Robertson, in dissenting from the discount rate action, commented that changes in monetary policy should not be triggered by fear of prosperity. A prosperous and growing economy had been the goal of public policies, and substantial achievement in that direction in the 1960's should be a cause of gratification rather than concern. It was not inevitable that inflation, boom, and bust must follow from the kind of prosperous performance the U.S. economy had been giving, and consequently he saw no valid grounds for arguing that a tightening of monetary policy was needed to forestall inflationary developments that were sure to come later. This was not to deny the need for careful scrutiny of the progress of economic events and a willingness to restrain credit further if and as excessive demand pressures actually emerged, but he conceived of the present as a time of delicate balance in the economy. Supply and demand forces seemed so tentatively poised that abrupt action to change monetary conditions could tip the scales significantly—toward inflation if policy was actively eased, or toward recession if credit availability was tightened sharply.

Governor Robertson observed that financial markets had only recently calmed somewhat after being buffeted by rumors of an impending discount rate change, and that a rate increase would now come as a distinct surprise, with reactions aggravated by the impending seasonal peak of money market pressures. Such action would insure undoubtedly that the heavy volume of Treas-

ury cash borrowing to be done in January would have to be undertaken at substantially higher interest costs to the Government.

If, for whatever reasons, a tightening action was to be initiated, Governor Robertson felt that an appropriately mild and indirect line of action might be to (1) dampen bank issuance of promissory notes by defining them as deposits; (2) hold the ceilings on time deposit interest rates at existing levels for the time being; and (3) take no action on the discount rate, expecting that banks would have to cover some portion of their net December loss of certificates of deposit by substantial temporary resort to the Federal Reserve discount window. This combination of steps should serve to moderate somewhat the rate of advance in bank credit while not triggering immediate expectations of higher interest rates in the market. At the same time, it would place banks in a position of dependence on the discount window that could lead fairly naturally to a more overt tightening of monetary policy should inflationary developments begin to appear.

Since it could not be predicted whether or not a breakout of inflationary pressures would in fact occur, Governor Robertson believed that the best practical course would be to adopt a policy of "watchful waiting," meanwhile continuing to supply a reasonable flow of reserves to finance economic growth. Despite large and sustained expansion since 1961, a small but significant margin of human and real capital resources remained unutilized, and further orderly expansion in aggregate demand could effectively employ some of those resources. Continued orderly credit expansion was needed if the economy was to move on up to the goal of sustainable full employment of available resources.

Price pressures to date had been small and selective, Governor Robertson pointed out, and they were not the types appropriately dealt with by a dampening of aggregate domestic demand. Neither did he regard the U.S. balance of payments performance as supplying reasonable grounds for further monetary tightening.

The allegedly interest-sensitive components were already performing very well under the discipline of the voluntary foreign credit restraint program, and he saw no sign that this program was weakening in so far as its influence on financial institutions was concerned. Corporate direct investment abroad, the category of capital flow that had been least reduced to date, was notoriously insensitive to changing general credit conditions in the United States.

U.S. interest rates were already high by historical standards, Governor Robertson observed, and he believed they were generating all the credit restraint that ought to be attempted in the current delicate situation. The Federal fiscal position would be shifting to a somewhat less stimulative policy for a time after the turn of the year, and he felt that the Federal Reserve should be wary of imposing a coincident restraining influence from additional monetary tightening at this juncture. The appropriate monetary policy for later in 1966 could best be judged in light of the budget message in January and the public reaction thereto.

Governor Mitchell dissented from the discount rate action because he believed that it could have been delayed to await coordination with other Government policies. His willingness to delay was based on the fact that monetary policy already had tightened, on lack of evidence that inflationary pressures were strong or accumulating, and on a belief that high standards should continue to be set for the performance of the economy, and especially for the reduction of unemployment.

Governor Maisel dissented from the discount rate action because he believed it was premature and posed a net threat to long-run price stability. He concluded that a delay of a month or so to await information on the Federal budget could do little harm and that the availability of such knowledge would enable a sounder decision. He also felt that it was wrong to act without the exertion of more effort to obtain agreement on a coordinated monetary, fiscal, and wage-price policy. In his opinion the

method and timing of the discount rate increase was likely to decrease its hoped-for effect and threatened to introduce undesired, inflationary side effects. It made the future development of sound full employment policies more difficult, and unilateral action of this kind could weaken the President's leadership in a critical period.

Two major arguments cited in favor of immediate discount rate action were, in Governor Maisel's judgment, based on faulty reasoning. These were (1) the continuing use of higher interest rates in the U.S. economy for balance of payments purposes; and (2) the concept that action in advance of changes in demand was warranted on the theory that once demand started to grow it could be contained only with much greater sacrifice. As to the balance of payments argument, he felt that the United States was doing extremely well in restraining interest-sensitive items through existing programs, that further interest rate increases might simply be matched overseas, and that such increases might in fact have a perverse effect. U.S. interest payments abroad would rise, higher financing costs would make American exports less competitive, and slower economic growth in this country might make direct investments abroad more inviting. As to the argument against delay of action until additional information about demand, prices, and credit became available, he understood it was based on an assumption that further small infusions of additional credit were dangerous and could lead to magnified inflationary conditions in the future because the use of credit would gain momentum and run away after some critical point. However, he had been unable to find support for this doctrine among monetary historians or theorists.

Governor Maisel also expressed the view that the Board, in departing from a policy of not making discount rate moves in advance of the market, was investing its current decision with an urgency that was unwarranted.

Governor Robertson dissented from the action to increase the time deposit interest rate ceiling generally for the same rea-

sons that he dissented from the action to raise the discount rate. The latter action, he assumed, was designed to tighten credit, in view of the rapid expansion of bank credit; it surely was not designed simply to raise interest rates. However, in his view, the raising of the ceilings on interest rates payable on time deposits would—in virtually the same breath—enable banks to acquire more funds to expand their lending, but at higher rates. Thus, it would not serve to reduce bank credit expansion—if that were the aim. In addition, he felt that the larger banks would be able to attract funds away from smaller financial institutions which did not actively engage in the issuance of time deposits but relied on inflows of savings and demand deposits with which to meet loan demands, or, alternatively, to force those smaller banks to engage in the risky business of bidding competitively for highly interest-sensitive short-term funds with which to make long-term loans.

RECORD OF POLICY ACTIONS
FEDERAL OPEN MARKET COMMITTEE

The record of policy actions of the Federal Open Market Committee is presented in the ANNUAL REPORT of the Board of Governors pursuant to the requirements of Section 10 of the Federal Reserve Act. That section provides that the Board shall keep a complete record of the actions taken by the Board and by the Federal Open Market Committee on all questions of policy relating to open market operations, that it shall record therein the votes taken in connection with the determination of open market policies and the reasons underlying each such action, and that it shall include in its ANNUAL REPORT to the Congress a full account of such actions.

In the pages that follow, there are entries with respect to the policy actions taken at the meetings of the Federal Open Market Committee held during the calendar year 1965, including the votes on the policy decisions made at those meetings as well as a résumé of the basis for the decisions, as reflected by the minutes of the Committee.

It will be noted from the record of policy actions that in some cases the decisions were by unanimous vote, and that in other cases dissents were recorded. The fact that a decision in favor of a general policy was by a large majority, or even that it was by unanimous vote, does not necessarily mean that all members of the Committee were equally agreed as to the reasons for the particular decision or as to the precise operations in the open market that were called for to implement the general policy.

The policy directives of the Federal Open Market Committee are issued to the Federal Reserve Bank of New York as the Bank selected by the Committee to execute transactions for the System Open Market Account. Both the Manager of the System Open Market Account and the Special Manager of the Account for foreign currency operations attend the meetings of

the Committee. In the area of domestic open market activities the Bank operates under two separate policy directives from the Open Market Committee—a continuing authority directive and a current economic policy directive. At the beginning of the calendar year the continuing authority directive in effect was as follows:

1. The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York, to the extent necessary to carry out the most recent current economic policy directive adopted at a meeting of the Committee:

(a) To buy or sell United States Government securities in the open market, from or to Government securities dealers and foreign and international accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the System Open Market Account at market prices and, for such Account, to exchange maturing United States Government securities with the Treasury or allow them to mature without replacement; provided that the aggregate amount of such securities held in such Account at the close of business on the day of a meeting of the Committee at which action is taken with respect to a current economic policy directive shall not be increased or decreased by more than \$1.5 billion during the period commencing with the opening of business on the day following such meeting and ending with the close of business on the day of the next such meeting;

(b) To buy or sell prime bankers' acceptances of the kinds designated in the Regulation of the Federal Open Market Committee in the open market, from or to acceptance dealers and foreign accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the account of the Federal Reserve Bank of New York at market discount rates; provided that the aggregate amount of bankers' acceptances held at any one time shall not exceed \$125 million or 10 per cent of the total of bankers' acceptances outstanding as shown in the most recent acceptance survey conducted by the Federal Reserve Bank of New York;

(c) To buy United States Government securities with maturities of 24 months or less at the time of purchase, and prime bankers' acceptances with maturities of 6 months or less at the time of purchase, from nonbank dealers for the account of the Federal Reserve

Bank of New York under agreements for repurchase of such securities or acceptances in 15 calendar days or less, at rates not less than (1) the discount rate of the Federal Reserve Bank of New York at the time such agreement is entered into, or (2) the average issuing rate on the most recent issue of 3-month Treasury bills, whichever is the lower; provided that in the event Government securities covered by any such agreement are not repurchased by the dealer pursuant to the agreement or a renewal thereof, they shall be sold in the market or transferred to the System Open Market Account; and provided further that in the event bankers' acceptances covered by any such agreement are not repurchased by the seller, they shall continue to be held by the Federal Reserve Bank or shall be sold in the open market.

2. The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York to purchase directly from the Treasury for the account of the Federal Reserve Bank of New York (with discretion, in cases where it seems desirable, to issue participations to one or more Federal Reserve Banks) such amounts of special short-term certificates of indebtedness as may be necessary from time to time for the temporary accommodation of the Treasury; provided that the rate charged on such certificates shall be a rate $\frac{1}{4}$ of 1 per cent below the discount rate of the Federal Reserve Bank of New York at the time of such purchases, and provided further that the total amount of such certificates held at any one time by the Federal Reserve Banks shall not exceed \$500 million.

This directive was amended on two occasions during the year, as noted in the entries for March 2 and December 14.

The current economic policy directive was changed frequently during the year, as shown in the respective policy record entries. The current economic policy directive that was in effect at the beginning of 1965 instructed the Federal Reserve Bank of New York as follows:

In light of the economic and financial developments reviewed at this meeting, it remains the Federal Open Market Committee's current policy to facilitate continued expansion of the economy by accommodating moderate growth in the reserve base, bank credit, and the money supply, while seeking to avoid the emergence of inflationary pressures and to strengthen the international position of the dollar.

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To implement this policy, and recognizing that international uncertainties and year-end seasonal pressures continue to require a larger than usual degree of flexibility in operations, System open market operations shall be conducted with a view to maintaining about the same conditions in the money market as currently prevail.

In the foreign currency area, the Federal Reserve Bank of New York operates under (1) an authorization regarding open market transactions in foreign currencies, (2) a statement of guidelines for System foreign currency operations, and (3) a continuing authority directive on System foreign currency operations.

The authorization regarding open market transactions in foreign currencies in effect at the beginning of and throughout the year read as follows:

AUTHORIZATION REGARDING OPEN MARKET TRANSACTIONS IN FOREIGN CURRENCIES

Pursuant to Section 12A of the Federal Reserve Act and in accordance with Section 214.5 of Regulation N (as amended) of the Board of Governors of the Federal Reserve System, the Federal Open Market Committee takes the following action governing open market operations incident to the opening and maintenance by the Federal Reserve Bank of New York (hereafter sometimes referred to as the New York Bank) of accounts with foreign central banks.

I. Role of Federal Reserve Bank of New York

The New York Bank shall execute all transactions pursuant to this authorization (hereafter sometimes referred to as transactions in foreign currencies) for the System Open Market Account, as defined in the Regulation of the Federal Open Market Committee.

II. Basic Purposes of Operations

The basic purposes of System operations in and holdings of foreign currencies are:

- (1) To help safeguard the value of the dollar in international exchange markets;

- (2) To aid in making the existing system of international payments more efficient and in avoiding disorderly conditions in exchange markets;
- (3) To further monetary cooperation with central banks of other countries maintaining convertible currencies, with the International Monetary Fund, and with other international payments institutions;
- (4) Together with these banks and institutions, to help moderate temporary imbalances in international payments that may adversely affect monetary reserve positions; and
- (5) In the long run, to make possible growth in the liquid assets available to international money markets in accordance with the needs of an expanding world economy.

III. Specific Aims of Operations

Within the basic purposes set forth in Section II, the transactions shall be conducted with a view to the following specific aims:

- (1) To offset or compensate, when appropriate, the effects on U.S. gold reserves or dollar liabilities of disequilibrating fluctuations in the international flow of payments to or from the United States, and especially those that are deemed to reflect temporary forces or transitional market unsettlement;
- (2) To temper and smooth out abrupt changes in spot exchange rates and moderate forward premiums and discounts judged to be disequilibrating;
- (3) To supplement international exchange arrangements such as those made through the International Monetary Fund; and
- (4) In the long run, to provide a means whereby reciprocal holdings of foreign currencies may contribute to meeting needs for international liquidity as required in terms of an expanding world economy.

IV. Arrangements with Foreign Central Banks

In making operating arrangements with foreign central banks on System holdings of foreign currencies, the New York Bank shall not commit itself to maintain any specific balance, unless authorized by the Federal Open Market Committee.

The Bank shall instruct foreign central banks regarding the investment of such holdings in excess of minimum working balances in accordance with Section 14(e) of the Federal Reserve Act.

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The Bank shall consult with foreign central banks on coordination of exchange operations.

Any agreements or understandings concerning the administration of the accounts maintained by the New York Bank with the central banks designated by the Board of Governors under Section 214.5 of Regulation N (as amended) are to be referred for review and approval to the Committee, subject to the provision of Section VIII, paragraph 1, below.

V. Authorized Currencies

The New York Bank is authorized to conduct transactions for System Account in such currencies and within the limits that the Federal Open Market Committee may from time to time specify.

VI. Methods of Acquiring and Selling Foreign Currencies

The New York Bank is authorized to purchase and sell foreign currencies in the form of cable transfers through spot or forward transactions on the open market at home and abroad, including transactions with the Stabilization Fund of the Secretary of the Treasury established by Section 10 of the Gold Reserve Act of 1934 and with foreign monetary authorities.

Unless the Bank is otherwise authorized, all transactions shall be at prevailing market rates.

VII. Participation of Federal Reserve Banks

All Federal Reserve Banks shall participate in the foreign currency operations for System Account in accordance with paragraph 3 G (1) of the Board of Governors' Statement of Procedure with Respect to Foreign Relationships of Federal Reserve Banks dated January 1, 1944.

VIII. Administrative Procedures

The Federal Open Market Committee authorizes a Subcommittee consisting of the Chairman and the Vice Chairman of the Committee and the Vice Chairman of the Board of Governors (or in the absence of the Chairman or of the Vice Chairman of the Board of Governors the members of the Board designated by the Chairman as alternates, and in the absence of the Vice Chairman of the Committee his alternate) to give instructions to the Special Manager, within the guidelines issued by the Committee, in cases in which it is necessary to reach a decision on operations before the Committee can be consulted.

All actions authorized under the preceding paragraph shall be promptly reported to the Committee.

The Committee authorizes the Chairman, and in his absence the Vice Chairman of the Committee, and in the absence of both, the Vice Chairman of the Board of Governors:

- (1) With the approval of the Committee, to enter into any needed agreement or understanding with the Secretary of the Treasury about the division of responsibility for foreign currency operations between the System and the Secretary;
- (2) To keep the Secretary of the Treasury fully advised concerning System foreign currency operations, and to consult with the Secretary on such policy matters as may relate to the Secretary's responsibilities;
- (3) From time to time, to transmit appropriate reports and information to the National Advisory Council on International Monetary and Financial Problems.

IX. Special Manager of the System Open Market Account

A Special Manager of the Open Market Account for foreign currency operations shall be selected in accordance with the established procedures of the Federal Open Market Committee for the selection of the Manager of the System Open Market Account.

The Special Manager shall direct that all transactions in foreign currencies and the amounts of all holdings in each authorized foreign currency be reported daily to designated staff officials of the Committee, and shall regularly consult with the designated staff officials of the Committee on current tendencies in the flow of international payments and on current developments in foreign exchange markets.

The Special Manager and the designated staff officials of the Committee shall arrange for the prompt transmittal to the Committee of all statistical and other information relating to the transactions in and the amounts of holdings of foreign currencies for review by the Committee as to conformity with its instructions.

The Special Manager shall include in his reports to the Committee a statement of bank balances and investments payable in foreign currencies, a statement of net profit or loss on transactions to date, and a summary of outstanding unmatured contracts in foreign currencies.

X. Transmittal of Information to Treasury Department

The staff officials of the Federal Open Market Committee shall transmit all pertinent information on System foreign currency transactions to designated officials of the Treasury Department.

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XI. Amendment of Authorization

The Federal Open Market Committee may at any time amend or rescind this authorization.

The guidelines for System foreign currency operations in effect at the beginning of the year were as follows:

GUIDELINES FOR SYSTEM FOREIGN CURRENCY OPERATIONS

1. Holdings of Foreign Currencies

Until otherwise authorized, the System will limit its holdings of foreign currencies to that amount necessary to enable its operations to exert a market influence. Holdings of larger amounts will be authorized only when the U.S. balance of international payments attains a sufficient surplus to permit the ready accumulation of holdings of major convertible currencies.

Foreign currency holdings above a certain minimum shall be invested as far as practicable in conformity with Section 14(e) of the Federal Reserve Act.

2. Exchange Transactions

System exchange transactions shall be geared to pressures of payments flows so as to cushion or moderate disequilibrating movements of funds and their destabilizing effects on U.S. and foreign official reserves and on exchange markets.

In general, these transactions shall be geared to pressures connected with movements that are expected to be reversed in the foreseeable future; when expressly authorized by the Federal Open Market Committee, they may also be geared on a short-term basis to pressures connected with other movements.

Subject to express authorization of the Committee, the Federal Reserve Bank of New York may enter into reciprocal arrangements with foreign central banks on exchange transactions ("swap" arrangements), which arrangements may be wholly or in part on a standby basis.

Drawings made by either party under a reciprocal arrangement shall be fully liquidated within 12 months after any amount outstanding at that time was first drawn, unless the Committee, because of exceptional circumstances, specifically authorizes a delay.

The New York Bank shall, as a usual practice, purchase and sell authorized currencies at prevailing market rates without trying to establish rates that appear to be out of line with underlying market forces.

If market offers to sell or buy intensify as System holdings increase or decline, this shall be regarded as a clear signal for a review of the System's evaluation of international payments flows. This review might suggest a temporary change in System holdings of a particular convertible currency and possibly direct exchange transactions with the foreign central bank involved to be able to accommodate a larger demand or supply.

Starting operations at a time when the United States is not experiencing a net inflow of any eligible foreign currency may require that initial System holdings (apart from sums that might be acquired from the Stabilization Fund) be purchased directly from foreign central banks.

It shall be the practice to arrange with foreign central banks for the coordination of foreign currency transactions in order that System transactions do not conflict with those being undertaken by foreign monetary authorities.

3. Transactions in Spot Exchange

The guiding principle for transactions in spot exchange shall be that, in general, market movements in exchange rates, within the limits established in the International Monetary Fund Agreement or by central bank practices, index affirmatively the interaction of underlying economic forces and thus serve as efficient guides to current financial decisions, private and public.

Temporary or transitional fluctuations in payments flows may be cushioned or moderated whenever they occasion market anxieties, or undesirable speculative activity in foreign exchange transactions, or excessive leads and lags in international payments.

Special factors making for exchange market instabilities include (i) responses to short-run increases in international political tension, (ii) differences in phasing of international economic activity that give rise to unusually large interest rate differentials between major markets, or (iii) market rumors of a character likely to stimulate speculative transactions.

Whenever exchange market instability threatens to produce disorderly conditions, System transactions are appropriate if the Special Manager, in consultation with the Federal Open Market Committee, or in an emergency with the members of the Committee designated for that purpose, reaches a judgment that they may help to re-establish supply and demand balance at a level more consistent with the prevailing flow of underlying payments. Whenever supply or demand persists in influencing exchange rates in one direction, System transactions should

be modified, curtailed, or eventually discontinued pending a reassessment by the Committee of supply and demand forces.

4. Transactions in Forward Exchange

Occasion to engage in forward transactions will arise mainly when forward premiums or discounts are inconsistent with interest rate differentials and are giving rise to a disequilibrating movement of short-term funds, or when it is deemed appropriate to supplement existing market facilities for forward cover as a means of encouraging the retention or accumulation of dollar holdings abroad.

Proposals of the Special Manager to initiate forward operations shall be submitted to the Committee for advance approval.

For such operations, the New York Bank may, where authorized, take over from the Stabilization Fund outstanding contracts for forward sales or purchases of authorized currencies.

The New York Bank may also, where authorized, purchase currencies through forward transactions for the purpose of allowing greater flexibility in covering commitments under reciprocal currency agreements.

The New York Bank may further, where authorized, purchase and sell currencies through forward as well as spot transactions for the purpose of settling commitments denominated in one currency by means of utilizing the Bank's holdings of another currency.

5. Exchange Rates

Insofar as practicable, the New York Bank shall purchase a currency through spot transactions at or below its par value, and should lower the rate at which it is prepared to purchase a currency as its holdings of that currency approach the established maximum.

The Bank shall also, where practicable, sell a currency through spot transactions at rates at or above its par value, and should raise the rate at which it is prepared to sell a currency as its holdings of that currency approach zero.

Spot transactions at rates other than those set forth in the preceding paragraphs shall be specially authorized by the members of the Committee designated in Section VIII of the Authorization for Open Market Transactions in Foreign Currencies.

Revisions were made in these guidelines at the meetings of March 2, March 23, and November 23, as noted in the entries for those dates.

The continuing authority directive with respect to foreign currency operations in effect at the beginning of the year was as follows:

The Federal Reserve Bank of New York is authorized and directed to purchase and sell through spot transactions any or all of the following currencies in accordance with the Guidelines for System Foreign Currency Operations reaffirmed by the Federal Open Market Committee on March 3, 1964, as amended October 20, 1964; provided that the aggregate amount of foreign currencies held under reciprocal currency arrangements shall not exceed \$2.35 billion equivalent at any one time, and provided further that the aggregate amount of foreign currencies held as a result of outright purchases shall not exceed \$150 million equivalent at any one time:

Pounds sterling
 French francs
 German marks
 Italian lire
 Netherlands guilders
 Swiss francs
 Belgian francs
 Canadian dollars
 Austrian schillings
 Swedish kronor
 Japanese yen

The Federal Reserve Bank of New York is also authorized and directed to operate in any or all of the foregoing currencies in accordance with the Guidelines and up to a combined total of \$200 million equivalent, by means of:

- (a) purchases through forward transactions, for the purpose of allowing greater flexibility in covering commitments under reciprocal currency agreements;
- (b) purchases and sales through forward as well as spot transactions, for the purpose of utilizing its holdings of one currency for the settlement of commitments denominated in other currencies;
- (c) purchases through spot transactions and concurrent sales through forward transactions, for the purpose of restraining short-term

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outflows of funds induced by arbitrage considerations; and

- (d) sales through forward transactions, for the purpose of influencing interest arbitrage flows of funds and of minimizing speculative disturbances.

The Federal Reserve Bank of New York is also authorized and directed to make purchases through spot transactions, including purchases from the U.S. Stabilization Fund, and concurrent sales through forward transactions to the U.S. Stabilization Fund, of any of the foregoing currencies in which the U.S. Treasury has outstanding indebtedness, in accordance with the Guidelines and up to a total of \$100 million equivalent. Purchases may be at rates above par, and both purchases and sales are to be made at the same rates.

This directive was amended on five occasions during the year, as noted in the entries.

January 12, 1965

1. Authority to effect transactions in System Account.

As 1964 ended, according to reports at this meeting, domestic business activity was recovering vigorously from the effects of the automobile industry strikes in October and November. Industrial production was estimated to have risen to a new record level in December, about 7½ per cent above a year earlier. Automobiles were being produced in exceptionally large volume, and industry schedules called for high output rates to be maintained in the first quarter of 1965. Steel production also was expected to continue large, at least for a time; consumption of steel was high, and users were attempting to accumulate stocks as a precaution against a possible strike in the spring. Manufacturers' inventories, which had risen slowly earlier in the year, increased rapidly in October and November and probably also in December. Retail sales rose sharply in December and may have exceeded the high reached in the summer of 1964.

Estimates of various statistics for the fourth quarter as a whole reflected the effects of the work stoppages in the automobile industry. Gross national product, according to preliminary indications, rose much less than earlier in the year despite the substantial increase in the rate of inventory investment. Industrial production averaged only slightly higher than in the third quarter, and the increase in consumer spending was the smallest for any quarter in the current business expansion, which now had continued for nearly 4 years.

Nonfarm employment reached a new record high in December and the unemployment rate edged down to 4.9 per cent. In manufacturing, the rise during 1964 in compensation per employee—including fringe benefits, which continued to increase more rapidly than money wages—was on the average close to the administration's guideposts, and unit labor costs remained relatively stable. It was noted that the outcome of the contract negotiations in the steel industry would provide a major test of whether labor costs would continue stable.

Recent price movements did not suggest any significant change in the price situation, although some businessmen reportedly were expecting an inflationary price drift partly because of the nature of the steel industry settlement they anticipated. The industrial commodity price index, which had increased by four-tenths of 1 per cent in October, rose only two-tenths of a per cent further in November and one-tenth of a per cent in December, and average consumer prices in November continued 1.2 per cent above the year-earlier level.

For the year as a whole bank credit had expanded by about 8 per cent, the same as in 1963, and the money supply had increased by 4 per cent compared with 3.8 per cent in the prior year. Bank credit continued to expand in December, but by an amount considerably below the large increase in November as banks sold Treasury securities acquired late in the preceding month and security loans rose less than usually. Growth in the money supply also slowed in December, but time and savings

deposits expanded at a rate slightly higher than their 12.6 per cent rise in the year as a whole. A large increase in non-borrowed reserves in December facilitated continued expansion in bank credit and deposits as member bank borrowings declined from the average levels prevailing before the late-November increase in the discount rate.

Money market conditions continued firm in late December and early January, a season in which they normally ease, partly as a result of a sharp shift of reserves to country banks and heavy dealer financing needs associated in part with the Treasury's advance refunding operation, announced on December 30. The refunding was accorded a highly favorable reception by investors, and yields on long-term U.S. Government bonds, which had moved up earlier in part because of market discussion of a possible major financing operation, changed little after its announcement. These yields currently were at about the levels that had prevailed at the beginning of 1964 and again shortly after the November discount rate action. Despite the firmness in the money market, the 3-month Treasury bill rate declined from 3.85 per cent in mid-December to 3.77 per cent on the day preceding this meeting, mainly as a result of the refunding and usual seasonal demands for bills.

The deficit in the U.S. balance of payments was estimated to have increased sharply in the fourth quarter, largely because of a marked increase in capital outflows through foreign security issues in the United States and lending by U.S. banks abroad. Indeed, outflows of private capital were at record or near-record levels throughout the year. Short-term capital outflows were heavy in the first half but diminished later as outflows on long-term bank loans and foreign security issues rose. The deficit for the full year, which seemed likely to exceed \$2.5 billion, was below the 1963 deficit of \$3.3 billion as a result of a marked expansion in net receipts from transactions in goods and services, including income from foreign investment.

Foreign exchange markets had continued in an unsettled state in recent weeks. Sterling was under intermittent pressure, and the demand for gold on the London market was heavy at times. Among the factors contributing to the market unsettlement were uncertainties on the part of participants about the outlook for sterling and press reports that France would increase its gold purchases from the United States substantially.

The Committee decided that a change in policy was precluded at this time by the Treasury's advance refunding, the settlement date for which was January 19. The members agreed that the problems of the U.S. balance of payments and the international position of the dollar had become increasingly serious recently. Some members indicated that if a Treasury financing had not been in process they would have favored reducing the availability of bank credit somewhat as a means of contributing to a solution of these problems. In their judgment such an action would not adversely affect the domestic economy; and it was noted that, if specific measures also were adopted to curtail the volume of bank lending abroad, the availability of credit to domestic borrowers could be affected less than total supply. Other members indicated that they favored no change in policy at present, even apart from the Treasury financing, on the grounds that under current domestic circumstances it was preferable to use selective measures for dealing with the international financial problems.

The following current economic policy directive was issued to the Federal Reserve Bank of New York:

In light of the economic and financial developments reviewed at this meeting, and taking the current Treasury refunding into account, it remains the Federal Open Market Committee's current policy to facilitate continued expansion of the economy by accommodating moderate growth in the reserve base, bank credit, and the money supply, while seeking to avoid the emergence of inflationary pressures and to strengthen the international position of the dollar, particularly in view of the current unsettlement in financial markets abroad.

To implement this policy, and recognizing that international uncertainties and shifting seasonal pressures require a larger than usual degree of flexibility in operations, System open market operations over the next 3 weeks shall be conducted with a view to maintaining about the same conditions in the money market as have prevailed in recent weeks.

Votes for this action: Messrs. Martin, Hayes, Balderston, Daane, Hickman, Mitchell, Robertson, Shepardson, Shuford, Swan, and Wayne. Votes against this action: None.

2. Authority to purchase and sell foreign currencies.

On recommendation of the Special Manager of the System Open Market Account, the Committee amended the second paragraph of its continuing authority directive for System foreign currency operations to increase the combined dollar limit on forward transactions of the several authorized types by \$75 million to \$275 million. With this amendment, the paragraph read as follows:

The Federal Reserve Bank of New York is also authorized and directed to operate in any or all of the foregoing currencies in accordance with the Guidelines and up to a combined total of \$275 million equivalent, by means of:

- (a) purchases through forward transactions, for the purpose of allowing greater flexibility in covering commitments under reciprocal currency agreements;
- (b) purchases and sales through forward as well as spot transactions, for the purpose of utilizing its holdings of one currency for the settlement of commitments denominated in other currencies;
- (c) purchases through spot transactions and concurrent sales through forward transactions, for the purpose of restraining short-term outflows of funds induced by arbitrage considerations; and
- (d) sales through forward transactions, for the purpose of influencing interest arbitrage flows

of funds and of minimizing speculative disturbances.

Votes for this action: Messrs. Martin, Hayes, Balderston, Hickman, Mitchell, Robertson, Sheppardson, Shuford, Swan, and Wayne. Votes against this action: None.

This amendment was made after the Special Manager indicated that a substantial part of the \$200 million authorized earlier for forward transactions currently was committed and that he might have occasion to engage in further useful operations of these types in the near future.

February 2, 1965

Authority to effect transactions in System Account.

Information presented at this meeting indicated that domestic business activity was continuing to expand, while the U.S. international payments position had worsened in late 1964.

Employment increased substantially in December, although the unemployment rate was little changed. Industrial production and retail sales reached new record levels in December, and it appeared that both were rising somewhat further in early January. New orders for durable goods increased in December despite a decline in defense orders. Upward pressures on some commodity prices were evident, but improvement in supplies had reduced pressure in markets for certain nonferrous metals, where the largest price advances had occurred in 1964. At the end of January average prices of common stocks were at record highs.

Much of the support for recent advanced levels of industrial activity was contributed by increased inventory accumulation; for the fourth quarter as a whole business inventories rose at a rate twice that earlier in the year. Record sales of automobiles were limiting replenishment of dealer stocks depleted during

the strike period, but steel users were continuing to increase stocks in anticipation of a possible spring strike in that industry. Inventories of other goods also were expanding, including consumer durable goods other than automobiles.

The administration's budget message, recently transmitted to the Congress, suggested that fiscal policy would be more stimulative in the second half of the calendar year 1965 than in the first half. The projected patterns of expenditures and receipts implied a larger-than-usual swing in the cash budget from a first-half surplus to a second-half deficit. The additional fiscal stimulus expected after midyear stemmed mainly from proposed increases in social security benefit payments and grants to State and local governments and reductions in excise taxes.

The money supply, which had risen more slowly in December than earlier, increased substantially in early January but was estimated to have declined later in the month. Commercial bank time and savings deposits were expanding unusually sharply, suggesting that banks were competing successfully for savings flows under the new higher ceilings established under Regulation Q. A marked strengthening in business loans at city banks in early January was related in part to inventory accumulation and may also have reflected increased foreign lending. Free reserves at member banks averaged about \$90 million in January, compared with a December average of about \$130 million.

Some hesitancy had developed recently in security markets as a result of growing investor concern over possible implications of balance of payments developments for monetary policy. Since mid-January the 3-month Treasury bill rate had risen about 10 basis points to a level of 3.88 per cent. In the latter part of January yields on long-term Treasury issues also advanced somewhat as dealers continued to distribute securities acquired in the January advance refunding. Subscription books were open on the day preceding this meeting for the Treasury's regular February refunding, which involved a cash sale of a

21-month note to refinance the \$2.2 billion of securities maturing at midmonth that remained outstanding.

The U.S. balance of payments deficit in 1964 was now estimated at \$3 billion, well above earlier expectations. Half of the 1964 deficit was incurred in the fourth quarter alone; loans to foreigners by domestic banks rose sharply, and a large volume of foreign security issues was sold in the United States. Outflows of short-term bank loans and liquid funds were particularly heavy in December, although fragmentary data suggested that some of these flows were reversed in January. It was expected that an administration message on special measures to deal with the balance of payments problem would be transmitted to the Congress shortly.

The Committee decided to modify its policy at this time by moving gradually toward slightly firmer money market conditions. In view of the moderate size of the Treasury's current financing and the relatively short maturity of the security to be issued, the Committee agreed that as strict an adherence to an "even keel" policy as was usual during Treasury operations was not required at present. Because of this financing, however, and because distribution of the securities issued in the January advance refunding was still in process, it was decided that the policy change should be implemented cautiously. The objectives sought included some reduction in growth rates of bank credit and the money supply and moderately higher short-term interest rates, all of which would require moderately lower reserve availability.

This action was taken primarily because of the persistence of the deficit in the U.S. balance of payments and the recent sharp increase in capital outflows, and it was hoped that it would buttress the administration's expected program of special measures to strengthen the international position of the dollar. The Committee concluded that the action would not have injurious domestic effects in light of the strength of the economy. Some

members thought that a slight reduction in monetary ease also was appropriate on domestic grounds in view of the latent inflationary pressures they saw, and some expressed the view that it would tend to sustain the current expansion by helping to avoid speculative excesses.

The following current economic policy directive was issued to the Federal Reserve Bank of New York:

In light of the economic and financial developments reviewed at this meeting, including the generally strong and continuing expansion of the domestic economy and the continuing adverse position of our international balance of payments, it remains the Federal Open Market Committee's current policy to accommodate growth in the reserve base, bank credit, and the money supply but at a more moderate pace than in recent months. This policy seeks to avoid the emergence of inflationary pressures and to support other measures that may be taken to strengthen the international position of the dollar.

To implement this policy, while taking into account Treasury financing, System open market operations over the next 4 weeks shall be conducted with a view to moving toward slightly firmer conditions in the money market than have prevailed in recent weeks.

Votes for this action: Messrs. Martin, Hayes, Balderston, Daane, Hickman, Mills, Shepardson, Shuford, Swan, and Wayne. Votes against this action: Messrs. Mitchell and Robertson.

Messrs. Mitchell and Robertson dissented from this action because they believed that additional monetary restraint was not warranted either by present domestic conditions or by the balance of payments situation. They noted that the present high levels of demand for steel and automobiles were likely to be only temporary, and that any expansive effects of the Federal fiscal program would not be felt until the second half of the year. As to the balance of payments, they thought that—in view of the large differentials existing between interest rates in the United States and abroad—a policy change large enough to reduce capital outflows significantly would have severe deflationary effects on the economy. For this reason, Mr. Robert-

son felt that the appropriate remedy for the international payments problem lay elsewhere than in the area of monetary policy, and Mr. Mitchell thought it lay in specific measures to remove the disequilibrating effect of international interest rate differentials. Mr. Robertson added that in his judgment Treasury financing operations and the recent weakness in security markets also argued for keeping policy on a steady course at present.

March 2, 1965

1. Authority to effect transactions in System Account.

Economic activity was continuing to advance after four consecutive years of expansion. In January, steel and automobile production remained at high levels, and output gains in a broad variety of other industries carried total industrial production to a new peak. Retail sales continued strong in January and early February; sales of new domestic cars were at a record annual rate of 9.7 million units in the first month of the year. Although stock-sales ratios remained low, rough estimates suggested that the rate of inventory accumulation continued high in early 1965 after turning up sharply in the closing months of 1964. Much of the accumulation still was related to strikes—both the possible strike in steel and the earlier strike in automobiles—but stocks of other commodities apparently also were growing rapidly. Labor markets were strong in January: nonfarm employment increased further; the average manufacturing workweek was extended to the longest period since World War II; and the unemployment rate declined to 4.8 per cent from 5 per cent in December.

Average industrial commodity prices, which had risen six-tenths of 1 per cent in the fourth quarter of 1964, edged up one-tenth of a per cent in January. Weekly estimates through mid-February suggested no further change, and the average remained within the broad range of recent years.

Growth in commercial bank credit accelerated in January and early February, and banks reduced their holdings of Government securities to help accommodate record demands for business loans. Part of the exceptional rise in business loan volume reflected various temporary factors, but part was due to the general strength of business activity. Time and savings deposits at commercial banks continued to expand rapidly in response to the higher interest rates now being paid on such deposits. The money supply rose at a reduced rate in both December and January and declined in the first half of February. Recent money supply performance no doubt was affected by some transfers of funds from demand into time and savings deposits and, in early February, by a larger than usual rise in U.S. Government deposits. Member bank borrowings rose in February, and free reserves were estimated to have averaged about \$30 million compared with a revised figure of \$114 million in January.

Yields on U.S. Government securities had advanced recently, partly as a result of the somewhat reduced level of reserve availability and of market interpretations of that development as reflecting a mild shift in monetary policy. Rates on 3-month Treasury bills rose about 10 basis points in February to about the 4 per cent discount rate, and Government bond yields also increased slightly. Average prices of common stocks declined in early February but more recently returned to levels near their earlier highs.

In a message to the Congress on February 10, the President had set forth a program to improve the nation's balance of payments position. Steps subsequently were taken by the Federal Reserve System and the Department of Commerce, in cooperation with the Treasury Department, to implement the part of the program that called for voluntary efforts by banks, other financial institutions, and nonfinancial businesses to restrain foreign lending and investment. In January and early February, prior

to the Presidential message, the U.S. payments deficit had continued large, according to tentative data. Long-term bank loans to foreigners were particularly heavy, perhaps partly because of expectations that the interest equalization tax soon would be extended to such loans.

In the Committee's discussion of prospective business conditions, it was noted that the current high output rates for steel and automobiles probably were unsustainable—declines appeared likely in steel if and when the threat of a strike was removed and in automobiles after previous strike losses were made up—and that downturns in those industries might check the rate of over-all expansion. On the other hand, some members thought that the widespread nature of recent production gains suggested sufficient underlying strength in the economy to cushion the expected readjustments in steel and autos, and that prospects for sustained growth now appeared brighter than earlier.

The Committee concluded that over the next 3 weeks, while the President's balance of payments program was getting underway, it would be appropriate to maintain the slightly firmer money market conditions that had been achieved under the policy adopted at the meeting a month earlier. Some members, although not advocating a policy change at present, expressed concern about the recent high rate of growth in bank credit and indicated that a somewhat more restrictive policy might be necessary in coming months to achieve a reduction in that rate.

The following current economic policy directive was issued to the Federal Reserve Bank of New York:

In light of the economic and financial developments reviewed at this meeting, including the generally strong and continuing expansion of the domestic economy and the continuing adverse position of our international balance of payments, it remains the Federal Open Market Committee's current policy to accommodate growth in the reserve base, bank credit, and the money supply but at a more moderate pace than in recent months. This policy seeks to support fully the national program to

strengthen the international position of the dollar, and to avoid the emergence of inflationary pressures.

To implement this policy, System open market operations over the next 3 weeks shall be conducted with a view to maintaining the slightly firmer conditions in the money market that have prevailed in recent weeks.

Votes for this action: Messrs. Martin, Hayes, Bryan, Daane, Mitchell, Robertson, Scanlon, and Clay. Votes against this action: Messrs. Balderston, Ellis, and Shepardson.

Messrs. Balderston, Ellis, and Shepardson dissented from this action because they favored a further slight firming of money market conditions. Mr. Balderston noted that bank credit had expanded at a considerably higher rate than GNP throughout the current business expansion. This, in his judgment, had added to the volume of funds seeking investment abroad and might have created potentially inflationary pools of liquidity. Messrs. Ellis and Shepardson observed that if the program to restrain foreign lending by U.S. banks was effective, more funds presumably would be available for domestic loans, thus adding to what they considered to be an undesirably high rate of domestic bank lending. Mr. Ellis thought that a firmer monetary policy might result, beneficially, in the deferral of some current domestic demands and indicated that he also favored such a policy for balance of payments reasons.

2. Amendment of continuing authority directive.

The Committee amended Section 1(c) of the continuing authority directive to the Federal Reserve Bank of New York relating to transactions in U.S. Government securities and bankers' acceptances to remove the maturity limitation on Government securities that might be held under repurchase agreements with nonbank dealers during Treasury refunding operations. The directive previously in effect, as set forth in the preface to this record of Federal Open Market Committee policy actions for 1965, limited Government securities acquired under repur-

chase agreements to those having maturities of 24 months or less at the time of purchase. The new directive authorized repurchase agreements involving Government securities of any maturity during any period beginning the day after the Treasury had announced a refunding operation and ending on the settlement date for the exchange. As amended, Section 1(c) of the continuing authority directive read as follows:

To buy U.S. Government securities with maturities as indicated below, and prime bankers' acceptances with maturities of 6 months or less at the time of purchase, from nonbank dealers for the account of the Federal Reserve Bank of New York under agreements for repurchase of such securities or acceptances in 15 calendar days or less, at rates not less than (1) the discount rate of the Federal Reserve Bank of New York at the time such agreement is entered into, or (2) the average issuing rate on the most recent issue of 3-month Treasury bills, whichever is the lower; provided that in the event Government securities covered by any such agreement are not repurchased by the dealer pursuant to the agreement or a renewal thereof, they shall be sold in the market or transferred to the System Open Market Account; and provided further that in the event bankers' acceptances covered by any such agreement are not repurchased by the seller, they shall continue to be held by the Federal Reserve Bank or shall be sold in the open market. U.S. Government securities bought under the provisions of this section shall have maturities of 24 months or less at the time of purchase, except that, during any period beginning with the day after the Treasury has announced a refunding operation and ending on the day designated as the settlement date for the exchange, the U.S. Government securities bought may be of any maturity.

Except for the change resulting from this amendment the directive was renewed in its existing form.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bryan, Daane, Ellis, Mitchell, Scanlon, Shepardson, and Clay. Votes against this action: None.

Under the provisions of the previous directive it had been the practice of the Account Management to terminate any repurchase agreements against "rights" (securities eligible for ex-

change in a Treasury refunding) when the dealer by whom they were to be repurchased entered a subscription to exchange the rights in question for new securities offered by the Treasury with maturities of 24 months or more. During some Treasury refundings such terminations had proved to be inconvenient from the point of view of efficient market operations. Accordingly, the Committee decided to amend the directive so that they would no longer be required.

3. Authority to purchase and sell foreign currencies.

The Committee approved a number of revisions in the guidelines for System foreign currency operations, the purposes of which were (1) to delete passages relating to the original launching of operations in foreign currencies in 1962 and passages that had been found by experience to be unnecessarily detailed; (2) to consolidate certain provisions that had been incorporated into the guidelines at different times into a form that lent itself more readily to operational requirements; and (3) to clarify the language at a number of points. The guidelines previously in effect are shown in the preface to this record of policy actions. As amended, the guidelines read as follows:

1. Holdings of Foreign Currencies

Until otherwise authorized, the System will limit its holdings of foreign currencies to that amount necessary to enable its operations to exert a market influence. Holdings of larger amounts will be authorized only when the U.S. balance of international payments attains a sufficient surplus to permit the ready accumulation of holdings of major convertible currencies.

Foreign currency holdings shall be invested as far as practicable in conformity with Section 14(e) of the Federal Reserve Act.

2. Exchange Transactions

System exchange transactions shall be geared to pressures of payments flows so as to cushion or moderate disequilibrating movements of funds and their destabilizing effects on U.S. and foreign official reserves and on exchange markets.

In general, these transactions shall be geared to pressures connected with movements that are expected to be reversed in the foreseeable future;

when expressly authorized by the Federal Open Market Committee, they may also be geared on a short-term basis to pressures connected with other movements.

Subject to express authorization of the Committee, the Federal Reserve Bank of New York may enter into reciprocal arrangements with foreign central banks on exchange transactions ("swap" arrangements), which arrangements may be wholly or in part on a standby basis.

Drawings made by either party under a reciprocal arrangement shall be fully liquidated within 12 months after any amount outstanding at that time was first drawn, unless the Committee, because of exceptional circumstances, specifically authorizes a delay.

The New York Bank shall, as a usual practice, purchase and sell authorized currencies at prevailing market rates without trying to establish rates that appear to be out of line with underlying market forces.

If market offers to sell or buy intensify as System holdings increase or decline, this shall be regarded as a clear signal for a review of the System's evaluation of international payments flows.

It shall be the practice to arrange with foreign central banks for the coordination of foreign currency transactions in order that System transactions do not conflict with those being undertaken by foreign monetary authorities.

3. Transactions in Spot Exchange

The guiding principle for transactions in spot exchange shall be that, in general, market movements in exchange rates, within the limits established in the International Monetary Fund Agreement or by central bank practices, index affirmatively the interaction of underlying economic forces and thus serve as efficient guides to current financial decisions, private and public.

Temporary or transitional fluctuations in payments flows may be cushioned or moderated whenever they occasion market anxieties, or undesirable speculative activity in foreign exchange transactions, or excessive leads and lags in international payments.

Special factors making for exchange market instabilities include (i) responses to short-run increases in international political tension, (ii) differences in phasing of international economic activity that give rise to unusually large interest rate differentials between major markets, or (iii) market rumors of a character likely to stimulate speculative transactions.

Whenever exchange market instability threatens to produce disorderly conditions, System transactions are appropriate if the Special Manager,

in consultation with the Federal Open Market Committee, or in an emergency with the members of the Committee designated for that purpose, reaches a judgment that they may help to re-establish supply and demand balance at a level more consistent with the prevailing flow of underlying payments. Whenever supply or demand persists in influencing exchange rates in one direction, System transactions should be modified, curtailed, or eventually discontinued pending a reassessment by the Committee of supply and demand forces.

Insofar as is practicable, the New York Bank shall purchase a currency through spot transactions at or below its par value, and sell a currency through spot transactions at rates at or above its par value.

Spot transactions at rates other than those set forth in the preceding paragraph shall be specially authorized by the Committee or by the members of the Committee designated in Section VIII of the Authorization for Open Market Transactions in Foreign Currencies, except that purchases of exchange to meet System commitments may be executed without special authorization at rates above par when necessary.

4. Transactions in Forward Exchange

Transactions in forward exchange, either outright or in conjunction with spot transactions, may prove desirable:

- (1) When forward premiums or discounts are inconsistent with interest rate differentials and are giving rise to disequilibrating movements of short-term funds;
- (2) When it is deemed appropriate to supplement existing market supplies of forward cover, as a means of encouraging the retention or accumulation of dollar holdings by private foreign holders;
- (3) To allow greater flexibility in covering System commitments, including those under swap arrangements;
- (4) To facilitate the use of holdings of one currency for the settlement of commitments denominated in other currencies.

Forward sales of authorized currencies to the U.S. Stabilization Fund out of existing System holdings or in conjunction with spot purchases of such currencies may also prove desirable in order to allow greater flexibility in covering commitments of the U.S. Treasury.

In all other cases, proposals of the Special Manager to initiate forward operations shall be submitted to the Committee for advance approval.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bryan, Daane, Ellis, Mitchell, Scanlon, Shepardson, and Clay. Votes against this action: None.

4. Review of continuing authorizations.

This being the first meeting of the Federal Open Market Committee following the election of new members from the Federal Reserve Banks to serve for the year beginning March 1, 1965, and their assumption of duties, the Committee followed its customary practice of reviewing all of its continuing authorizations and directives. The actions taken with respect to the continuing authority directive for domestic open market operations and the guidelines for System foreign currency operations have been described in the preceding portions of the entry for this date.

The Committee reaffirmed its authorization regarding open market transactions in foreign currencies and its continuing authority directive on foreign currency operations, in the form in which they were outstanding at the beginning of the year 1965, as set forth in the preface to this record of policy actions.

Votes for these actions: Messrs. Martin, Hayes, Balderston, Bryan, Daane, Ellis, Mitchell, Scanlon, Shepardson, and Clay. Votes against these actions: None.

March 23, 1965

1. Authority to effect transactions in System Account.

The domestic business situation continued strong, according to reports at this meeting. Industrial production, retail sales, and nonfarm employment all rose to new record levels in February, although the unemployment rate returned to 5.0 per cent after dipping to 4.8 per cent in January. Weekly estimates suggested that average industrial commodity prices remained stable from mid-January through early March at a level less

than 1 per cent above that prevailing in the first 9 months of 1964.

The near-term outlook appeared generally favorable despite uncertainties related to labor negotiations in the steel industry and to apparently unsustainable rates of activity in steel and automobiles. As to the latter, it seemed doubtful that sales of new cars would maintain the exceptionally high rate set in the first 2 months of 1965, which was about one-fifth above the year-earlier level. On the other hand, a survey by the U.S. Department of Commerce and the Securities and Exchange Commission of business plans for plant and equipment expenditures, taken in February, implied that capital outlays would grow throughout 1965, and for the year as a whole would average about 12 per cent above their 1964 level.

Bank credit expanded at an annual rate of about 11½ per cent in the first 2 months of the year, considerably above the 8 per cent rise in 1964, and time and savings deposits continued to increase rapidly. In addition to meeting strong loan demands, banks added to their holdings of municipal issues, while substantially reducing their holdings of Treasury bills. Credit growth continued rapid in early March, according to data for city banks, but the rate of increase in time and savings deposits moderated. The money supply, which had declined in February, advanced sharply in the first half of March. Aggregate borrowings of member banks from the Reserve Banks were greater than their excess reserves in the first 3 weeks of March, with net borrowed reserves averaging about \$40 million; in February excess reserves had exceeded borrowings by about \$30 million.

Interest rates on most money market instruments continued firm or rose in recent weeks against the background of seasonally heavy liquidity needs associated with the March corporate dividend and tax dates, but the 3-month Treasury bill yield had declined about 5 basis points since early March to 3.92 per cent. The disparate behavior of bill yields apparently partly

reflected temporary investments in bills of corporate funds being repatriated under the administration's program calling for voluntary efforts to restrain foreign lending and investment; any concomitant liquidation of dollar assets by foreign holders may have involved a broader variety of instruments. Treasury bond yields also declined, and yields on corporate and municipal bonds, which had advanced from late January to early March, stabilized at about the levels prevailing in the autumn of 1964.

The Treasury's gold stock declined by \$825 million in the first 11 weeks of 1965, after decreasing by only \$125 million in all of 1964. Although little firm statistical information was available as yet on the impact of the administration's balance of payments program, announced February 10, incomplete weekly figures suggested a surplus in the over-all U.S. payments balance in the most recent 4 weeks, following substantial deficits in the preceding 6 weeks. Outflows on long-term bank loans to borrowers in developed countries apparently dropped abruptly after mid-February from their high rate earlier in the year. Consistent with this development and also with larger than seasonal withdrawals of U.S. corporate funds from the Euro-dollar market, interest rates advanced in that market, and the dollar strengthened in markets for foreign exchange.

The Committee decided that a further slight firming of money market conditions was desirable at this time. The object, in part, was to reinforce the program of voluntary efforts to restrain foreign lending and investment, but the action also was considered appropriate in view of the strength of the domestic economy and the potential threat to general price stability that might be posed by a continuation of recent high rates of bank credit expansion. Other reasons cited by some members for a slight firming in policy were the recent decline in Treasury bill rates—considered undesirable on balance of payments grounds—and the fact that repatriation of funds formerly invested abroad added to the availability of credit to domestic borrowers.

The following current economic policy directive was issued to the Federal Reserve Bank of New York:

The economic and financial developments reviewed at this meeting indicate a generally strong further expansion of the domestic economy and the continuing need to improve our international balance of payments, as highlighted by heavy gold outflows in recent months. In this situation, it is the Federal Open Market Committee's current policy to reinforce the voluntary restraint program to strengthen the international position of the dollar and to avoid the emergence of inflationary pressures, while accommodating moderate growth in the reserve base, bank credit, and the money supply.

To implement this policy, System open market operations over the next 3 weeks shall be conducted with a view to attaining slightly firmer conditions in the money market.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bryan, Daane, Ellis, Scanlon, and Shepardson. Votes against this action: Messrs. Mitchell, Robertson, and Clay.

Messrs. Mitchell, Robertson, and Clay dissented from this action on both domestic and balance of payments grounds. In their judgment the likely pace of the advance in business activity did not call for a firmer policy, particularly in view of the declines expected before long in the steel and automobile industries. In connection with the balance of payments, Messrs. Robertson and Clay felt that the recently launched administration program also provided grounds for not changing policy at this time. None of the dissenting members thought a change in policy was called for by the recent decline in Treasury bill rates relative to other money market rates. Mr. Robertson did not consider international bill rate differentials to be a good measure of rate incentives to capital flows; moreover, there appeared to be a reflux of short-term funds, rather than an outflow, at present. In Mr. Mitchell's judgment, higher Euro-dollar interest rates could give foreign central banks a desirable incentive to dispose of some of their dollar holdings to their own nationals

to relieve pressures in that market, and it would be a mistake to offset any such tendency by higher U.S. interest rates.

2. Authority to purchase and sell foreign currencies.

On March 2, 1965, the Committee had approved a number of revisions in the guidelines for System foreign currency operations. At this meeting the Committee approved further revisions, affecting the first and second paragraphs of Section 4 of the guidelines, for the purpose of language clarification. The revisions in both paragraphs involved replacing the words, "may prove desirable" with the words, "may be undertaken." As amended, Section 4 of the guidelines read as follows:

4. Transactions in Forward Exchange

Transactions in forward exchange, either outright or in conjunction with spot transaction, may be undertaken:

- (1) When forward premiums or discounts are inconsistent with interest rate differentials and are giving rise to disequilibrating movements of short-term funds;
- (2) When it is deemed appropriate to supplement existing market supplies of forward cover, as a means of encouraging the retention or accumulation of dollar holdings by private foreign holders;
- (3) To allow greater flexibility in covering System commitments, including those under swap arrangements;
- (4) To facilitate the use of holdings of one currency for the settlement of commitments denominated in other currencies.

Forward sales of authorized currencies to the U.S. Stabilization Fund out of existing System holdings or in conjunction with spot purchases of such currencies also may be undertaken in order to allow greater flexibility in covering commitments of the U.S. Treasury.

In all other cases, proposals of the Special Manager to initiate forward operations shall be submitted to the Committee for advance approval.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bryan, Daane, Ellis, Mitchell, Robertson, Scanlon, Shepardson, and Clay. Votes against this action: None.

The Committee also amended the continuing authority directive for foreign currency transactions to increase, from \$2.35 billion to \$2.65 billion, the dollar limit specified in the first paragraph on the aggregate amount of foreign currencies held under reciprocal currency arrangements. It had been the Committee's practice to set this limit at the sum of the amounts currently specified by the Committee for all individually authorized reciprocal currency arrangements, which represented the maximum of System covered holdings of foreign currencies under these arrangements in the remote possibility that they might all simultaneously be fully drawn on. This revision reflected authorization earlier in the present meeting to increase the sizes of the reciprocal currency arrangements with the Bank of Italy from \$250 million to \$450 million, and with the Bank of Japan from \$150 million to \$250 million.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bryan, Daane, Ellis, Mitchell, Robertson, Scanlon, Shepardson, and Clay. Votes against this action: None.

April 13, 1965

Authority to effect transactions in System Account.

Reports at this meeting indicated that the business expansion was vigorous and broadly based. Nonfarm employment advanced in March to a level more than 2 million higher than a year earlier, and the unemployment rate dropped to 4.7 per cent, the lowest figure in more than 7 years. Industrial production also rose to a new high, with gains widespread among materials and finished products. Tentative weekly data suggested that retail sales had declined moderately in March after allowance for usual seasonal influences, as consumer purchases of automobiles and other durables rose less than seasonally. Retail sales figures

for January and February had been revised upward, however, and first-quarter sales were at a record level.

Output in the steel and automobile industries continued at extraordinarily high rates. Although auto production currently exceeded consumer purchases, it was expected to remain large at least for a few more months as dealers increased inventories. The prospects for steel depended on the outcome of current wage negotiations, since users were continuing to accumulate stocks against the possibility of a strike. The present labor contract in the steel industry was scheduled to expire on May 1.

Some sensitive commodity prices, particularly of nonferrous metals and products, recently had begun to advance again, but average industrial prices had been essentially stable thus far in 1965 following a rise of three-fourths of 1 per cent during the preceding autumn. The consumer price index was unchanged in February at a level 1.2 per cent above a year earlier.

The demand for business loans at commercial banks continued unusually strong in March, and bank credit rose at an even faster rate than in the first 2 months of the year. At the same time the earlier rapid expansion in time and savings deposits slackened markedly, while the money supply increased by the amount it had declined in February. In the first quarter as a whole, bank credit expanded at a 13 per cent annual rate, compared with about 7 per cent in the fourth quarter of 1964; time and savings deposits and the money supply combined advanced at a rate of about 9 per cent, little changed from the preceding quarter.

Net borrowed reserves of member banks averaged about \$130 million in the last week of March and the first week of April, compared with an average of \$30 million earlier in March. The tone of the money market was somewhat firmer, with Federal funds frequently trading at rates about the 4 per cent discount rate. However, yields on Treasury securities and corporate and municipal bonds had shown little net change since the preced-

ing meeting of the Committee. Bond markets exhibited some hesitancy in the early part of the interval as a result of continued concern over the position of sterling, evidences of strength in the domestic economy, and attempts to appraise the prospects for monetary policy. The market atmosphere improved subsequently, however, following budget proposals by the British Government and a reduction in the discount rate of the Bank of France. An announcement of the terms on which the Treasury would refund securities maturing on May 15, of which \$4.1 billion were held by the public, was expected near the end of April.

Tentative estimates of the U.S. balance of payments in the first quarter suggested that the deficit was at a seasonally adjusted annual rate of roughly \$2.5 billion, somewhat below the \$3.1 billion deficit of 1964 and well below the fourth-quarter deficit of \$6.0 billion, annual rate. There were encouraging additional indications that net outflows of U.S. private capital had diminished sharply after announcement of the administration's balance of payments program in the middle of the quarter. It was still too early to determine, however, how substantial and enduring an improvement was being achieved under the program.

The Committee concluded that no change should be made in its policy at this time, and that open market operations over the next 4 weeks should be conducted with a view to maintaining the firmer money market conditions that had prevailed recently. While this decision took into account the forthcoming Treasury financing operation, in the judgment of most members such a policy was appropriate in the light of current domestic and international conditions. At the same time, a considerable degree of concern was expressed about the acceleration in the rate of bank credit expansion of recent months; and some members indicated that they would welcome a slightly higher level of domestic short-term interest rates if market forces worked in that direction.

The following current economic policy directive was issued to the Federal Reserve Bank of New York:

The economic and financial developments reviewed at this meeting indicate a generally strong further expansion of the domestic economy and the continuing need to improve our international balance of payments, as highlighted by heavy gold outflows in recent months. In this situation, it is the Federal Open Market Committee's current policy to reinforce the voluntary restraint program to strengthen the international position of the dollar, and to avoid the emergence of inflationary pressures, while accommodating moderate growth in the reserve base, bank credit, and the money supply.

To implement this policy, while taking into account the forthcoming Treasury financing, System open market operations over the next 4 weeks shall be conducted with a view to maintaining the firmer conditions in the money market that have recently prevailed.

Votes for this action: Messrs. Martin, Balderston, Bryan, Daane, Ellis, Mitchell, Robertson, Scanlon, Shepardson, Clay, and Treiber. Votes against this action: None.

May 11, 1965

Authority to effect transactions in System Account.

The business situation remained strong and, while some information for April suggested that the pace of the advance had moderated from the very high first-quarter rate, prospects for further expansion in coming months were strengthened by two recent developments. First, an interim labor agreement reached in the steel industry postponed the possibility of a strike at least until September 1 and offered an opportunity for a more orderly adjustment of steel production to final consumption rates. Secondly, businesses apparently had increased their anticipated capital expenditures in 1965 from levels reported earlier in the year. According to a private survey taken in March and early April, outlays on new plant and equipment in 1965 would be 15 per cent larger than in 1964. This compared with an expected

rise of 12 per cent indicated in the Commerce-SEC survey, employing somewhat different methods, that had been conducted in February.

Industrial production evidently increased less in April than in other recent months; output gains in a variety of industries were partly offset by a reduction of 5 per cent in automobile assemblies from their record March level. Nonagricultural employment was about unchanged, and the seasonally adjusted unemployment rate rose to 4.9 per cent from 4.7 per cent in March because of a larger than usual increase in teenagers seeking work. Retail sales, which had declined 2 per cent in March from the February peak, eased slightly further in April, according to preliminary data, but remained high.

Recent information confirmed that businesses had continued to accumulate inventories at a rapid rate in the first quarter. Most of the rise was at distributors, particularly wholesalers and retail automobile dealers. Manufacturers' stocks, which had increased by a large amount in the fourth quarter, subsequently rose only moderately although steel stockpiling continued at a substantial pace.

Average industrial prices edged up in April as further advances occurred in some sensitive commodity prices. The consumer price index increased slightly in March but continued 1.2 per cent above its level a year earlier. Common stock prices reached a record high in early May.

Some of the temporary factors that earlier had stimulated business loan demand at commercial banks abated in April, and bank credit expansion moderated from the near-record first-quarter rate to about the average rate of 1964. Loan demand remained vigorous, however, and a further sharp increase in business loans occurred at city banks in early May. The money supply rose at a 5.3 per cent annual rate in April, as it had in March, but growth in time and savings deposits slackened further.

Average net borrowed reserves of member banks increased to about \$130 million in April from \$50 million in the preceding month, and money market conditions remained generally firm. Bond yields moved up slightly or held close to earlier highs, and the tone in corporate and municipal bond markets was generally cautious in the face of large May calendars of public offerings. However, yields on 3-month Treasury bills declined several basis points recently, to 3.88 per cent, under pressure of strong demands, including demands from sellers of "rights" in the Treasury's May refunding, and substantial official purchases. In the refunding, holders of maturing issues were offered a choice of a 15-month, 4 per cent note (priced to yield about 4.12 per cent) or a 9 year, 4¼ per cent bond (priced to yield about 4.22 per cent) with settlement scheduled for May 17. The refunding was well received by the market and public subscriptions to the 4¼ per cent bonds were somewhat larger than most market participants had expected.

Surpluses were recorded in U.S. international payments in March and April, according to early indications, in contrast to large deficits in the first 2 months of the year. The improvement reflected a significant decline in outflows on domestic bank loans to foreigners and a substantial reflux of U.S. liquid funds from abroad, as well as a sharp rise in exports resulting from the end of an earlier longshoremen's strike. Further sales of gold by the Treasury to foreign monetary authorities brought the total reduction in the U.S. gold stock thus far in 1965 to nearly \$1 billion.

The Committee agreed that in view of the current Treasury financing it was appropriate to maintain an "even keel" in money markets for the next 2 weeks. Recent signs of moderation in the pace of the business advance and in bank loan demand also were offered as reasons for continuing policy unchanged. On the other hand, several members indicated that they thought it would be desirable to consider seeking somewhat firmer money market conditions and slower growth in member bank reserves

in the near future on the ground that recent rates of expansion in bank credit were excessive, particularly in view of the inflationary pressures they believed were latent in the economy.

The following current economic policy directive was issued to the Federal Reserve Bank of New York:

The economic and financial developments reviewed at this meeting indicate a generally strong further expansion of the domestic economy and some improvement in our international balance of payments, but with gold outflows continuing. In this situation, it remains the Federal Open Market Committee's current policy to reinforce the voluntary restraint program to strengthen the international position of the dollar, and to avoid the emergence of inflationary pressures, while accommodating moderate growth in the reserve base, bank credit, and the money supply.

To implement this policy, while taking into account the current Treasury financing, System open market operations over the next 2 weeks shall be conducted with a view to maintaining about the same conditions in the money market as have prevailed in recent weeks.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bryan, Daane, Ellis, Galusha, Maisel, Robertson, Scanlon, and Shepardson. Votes against this action: None.

May 25, 1965

Authority to effect transactions in System Account.

Earlier indications that expansion in domestic economic activity had slowed in April from its advanced first-quarter pace were confirmed by reports at this meeting. As preliminary estimates had suggested, the rise in industrial production was small and retail sales edged down further; and in addition to the lack of advance in nonagricultural employment reported earlier, the average length of the workweek in manufacturing was reduced. There were a number of favorable factors in the outlook, including the recent results of a private survey suggesting a step-up in business plans for capital spending, other evidences of continuing business optimism, and administration proposals for reduc-

tions in excise taxes. It appeared, however, that GNP would increase by considerably less in the second quarter than in the first, when an unusually large rise of \$14 billion (seasonally adjusted annual rate) had been recorded under the combined stimuli of recovery from earlier automobile strikes and anticipations of a possible steel strike.

According to weekly data, average prices of industrial commodities advanced slightly further in May to a level fractionally higher than the 1960 peak and 1 per cent above a year earlier, mainly as a result of increases in metals and machinery. The total wholesale price index had risen somewhat more in the past year—1.5 per cent—as prices of meats and fruits and vegetables also moved up.

Data for city banks indicated that loan demand remained strong in the first part of May, but total bank credit was expanding at the slower rate evident in April as banks reduced security holdings. The money supply, which increased rapidly in March and April, dropped sharply in the first half of May as Treasury deposits rose substantially, and time deposits continued to grow at the reduced rate of the previous 2 months.

Although net borrowed reserves of member banks averaged about \$155 million in the first 3 weeks of May, somewhat higher than the April average of about \$130 million, conditions in money markets were little changed. Rates on 3-month Treasury bills fluctuated in a narrow range near 3.90 per cent. Yields on Treasury notes and bonds also continued generally stable, although they were under some upward pressure stemming in part from the slow progress by Government securities dealers in distributing issues acquired in the recent Treasury refunding. Corporate bond yields moved to new highs for the year—reflecting the heavy volume of public offerings in May—and prices of common stocks eased somewhat from the record level reached at midmonth.

More detailed data on U.S. balance of payments developments in March and April confirmed previous estimates of surpluses

in those months, and tentative figures suggested that the nation's international payments were roughly in balance in early May. The improvement that had occurred appeared to reflect largely the initial success of the voluntary foreign credit restraint program and the aftereffects of the dock strike rather than basic adjustments of longer-run consequence. Additional gold sales by the Treasury to foreign monetary authorities were reported.

The Committee concluded that no change in current money market conditions was required at this time on either domestic or international grounds, although a minority favored a shift toward firmer conditions on one or both bases. While the members differed somewhat in their assessments of the prospects for domestic business activity and prices, it was generally agreed that the recent slowing in the pace of the expansion was not surprising in view of the special factors making for extremely rapid growth earlier. A number of members—including some who favored no change in policy at present—thought that the economic outlook remained highly favorable, but others were less certain about prospects. With respect to prices, some members thought that upward pressures might pose a serious problem. The view also was expressed, however, that recent price increases had been moderate in size and limited in scope, particularly when the unusual strength of demand pressures in the first quarter was considered. The reduction in the growth rate of bank credit in April and early May and the recent decline in the money supply were noted by some members as reasons for not seeking firmer money market conditions, as was the possibility that such conditions might lead to a significant rise in longer-term interest rates under present circumstances.

The following current economic policy directive was issued to the Federal Reserve Bank of New York:

The economic and financial developments reviewed at this meeting indicate a generally strong further expansion of the domestic economy, although at a somewhat slower pace, and some improvement in our international balance of payments, but with gold outflows continuing.

In this situation, it remains the Federal Open Market Committee's current policy to reinforce the voluntary restraint program to strengthen the international position of the dollar, and to avoid the emergence of inflationary pressures, while accommodating moderate growth in the reserve base, bank credit, and the money supply.

To implement this policy, System open market operations over the next 3 weeks shall be conducted with a view to maintaining about the same conditions in the money market as have prevailed in recent weeks.

Votes for this action: Messrs. Martin, Bryan, Daane, Galusha, Maisel, Mitchell, Robertson, and Scanlon. Votes against this action: Messrs. Hayes, Balderston, Ellis, and Shepardson.

Mr. Balderston dissented from this action because he believed that the progress being made in effecting improvement in the U.S. balance of payments would be undermined unless it was supported by some reduction in domestic credit availability. Mr. Hayes shared this view, and also felt that the domestic business and price outlook now permitted and might even require a somewhat firmer policy. Mr. Ellis, who described the Committee's actions on February 2 and March 23 as "cautious probing toward modest credit restraint," thought that a continuation of such probing would be desirable on both domestic and international grounds. Mr. Shepardson concurred in these judgments.

June 15, 1965

Authority to effect transactions in System Account.

Domestic economic activity expanded in May but, as in April, the advance was slower than earlier in the year. Industrial production and total employment rose moderately and, with the labor force little changed, the unemployment rate dropped to 4.6 per cent from 4.9 per cent in the previous month. Retail sales, which were now indicated by revised data to have increased in April, rose further in May to a level slightly above the February peak.

Prices of common stocks continued to decline in recent weeks, apparently reflecting as well as contributing to some increase in uncertainty about business prospects. At the time of this meeting average prices of common stocks had fallen about 6 per cent from their mid-May high.

Reports at this meeting suggested that the current pace of the business advance was likely to be maintained over the near term. It was noted that consumer spending would be bolstered in coming months by prospective reductions in Federal excise taxes and increases in social security payments. The decline in sales of new automobiles, to which much of the recent slowdown was attributable, apparently had halted; sales of domestic cars in May, at an annual rate of 8.1 million units, were little changed from April although well below the exceptionally high poststrike rate of 9.3 million units recorded in the first quarter. The numbers of consumers planning to buy cars and other durable goods remained large, according to a Census Bureau survey taken in April, and sales of nondurable goods in May were high and rising.

As to business spending, the May Commerce-SEC survey of plans for fixed investment outlays failed to support the step-up implied by a recent private survey. However, it did confirm the indications of the February official survey that capital expenditures would rise by about 12 per cent in 1965 and would advance more rapidly in the second half of the year than in the first two quarters. The evidence available on business inventories in the second quarter suggested that accumulation was continuing close to the high first-quarter rate and that steel users were adding further to their stocks of that metal.

Average wholesale prices were estimated to have increased about 1 per cent since the end of March. The rise was due mainly to sharply higher prices of foodstuffs as a result of reduced supplies and to a continued upward drift in prices of nonferrous metals and machinery. Higher food prices also contributed to the advance of the consumer price index in April

to a level 1.4 per cent above a year earlier. Further increases in food prices, particularly for meats, were in prospect, but their effects on the consumer index were expected to be offset in part by reductions in excise taxes.

Bank credit expanded at an annual rate of 8 per cent in May, about the same as in April and considerably below the first-quarter rate of over 12 per cent. Growth in time and savings deposits slackened slightly further, and the money supply declined to the January level. The reduction in the money supply was associated with a large increase in Treasury deposits at commercial banks after mid-April, when tax payments were greater than usual. Net borrowed reserves of member banks averaged about \$160 million in May and the first 2 weeks of June, compared with an April average of about \$130 million.

Despite continued firmness in money market conditions, rates on 3-month Treasury bills declined to about 3.80 per cent in early June from the levels near 3.90 per cent that had prevailed through most of May. In part, the bill rate decline reflected a change in market expectations following a reduction, on June 3, in the discount rate of the Bank of England from 7 to 6 per cent. In addition, continued investor demands for Treasury bills may have been augmented by funds awaiting placement in the capital markets and by shifts in preferences away from common stocks. Meanwhile, supplies of short-term Treasury securities available to the public had been reduced, and were expected to be further reduced, by sizable debt repayments by the Treasury and by Federal Reserve purchases in supplying bank reserves.

In markets for longer-term securities, average yields on new corporate bonds rose about 10 basis points to their highest levels since early 1962 in the face of relatively heavy flotations. Yields on State and local bonds, the markets for which also were somewhat congested, advanced about the same amount to a new 1965 high, but Treasury note and bond yields changed little.

Preliminary data for U.S. international payments in May and early June showed a continued small surplus, reflecting the administration's balance of payments program and further progress in clearing merchandise trade shipments held up by the earlier dock strike. Present indications were that a surplus would be recorded for the second quarter as a whole, in contrast with the large first-quarter deficit, now estimated to have been at a seasonally adjusted annual rate of \$2.8 billion. Abroad, the combined external payments of major continental European countries moved from surplus to near-balance in March and April, and Japan's international payments concurrently shifted from surplus to deficit. There had been no marked improvement as yet in Britain's external position, and sterling continued under intermittent pressure in foreign exchange markets.

The Committee agreed that no change should be made in policy at this time. Considerations underlying this decision included the prevailing uncertainties in business and financial markets, the more moderate recent rates of expansion in economic activity and of growth in bank credit, and the maintenance of improvement in the U.S. balance of payments.

Although the Committee's conclusion was unanimous, in their initial expressions of views some members leaned toward a slightly firmer policy or noted that they found the choice between no change and slight firming to be close. These members, along with certain others, were concerned about the implications of upward price movements, both for the domestic economy and for the longer-run position of the U.S. balance of payments. They were not convinced that the pace of bank credit growth, although lower recently than earlier, had fallen to an appropriate level, and they noted the lack of evidence that the more basic forces were working toward improvement in the nation's international payments.

Some members thought, however, that recent and prospective price pressures were not of a character to call for further monetary restraint, and that the possibility of declines in rates of re-

source utilization later in the year warranted close watching by the Committee. The lack of growth in the money supply thus far in 1965 was noted, and the view was expressed that a firmer policy at this juncture would not make the recent balance of payments improvement more lasting.

The following current economic policy directive was issued to the Federal Reserve Bank of New York:

The economic and financial developments reviewed at this meeting indicate continuing expansion of the domestic economy, although at a somewhat slower pace than in the first quarter, and maintenance of earlier improvement in our international balance of payments, but with gold outflows continuing. In this situation, it remains the Federal Open Market Committee's current policy to reinforce the voluntary restraint program to strengthen the international position of the dollar, and to avoid the emergence of inflationary pressures, while accommodating moderate growth in the reserve base, bank credit, and the money supply.

To implement this policy, System open market operations over the next 4 weeks shall be conducted with a view to maintaining about the same conditions in the money market as have prevailed in recent weeks.

Votes for this action: Messrs. Martin, Hayes, Bryan, Daane, Ellis, Galusha, Maisel, Mitchell, Robertson, Scanlon, and Shephardson. Votes against this action: None.

July 13, 1965

Authority to effect transactions in System Account.

The economic advance continued in June, according to reports at this meeting. Employment rose moderately and the unemployment rate—at 4.7 per cent—was little changed from the 4.6 per cent recorded in May. Tentative estimates suggested that both industrial production and retail sales maintained, or possibly bettered, their record May levels. Unit sales of new domestic automobiles rose sharply to an annual rate of 8.8 million units, perhaps partly as a result of purchases that had been postponed earlier because of uncertainty about excise taxes.

Prices of common stocks, which had declined further in late June to a level about 10 per cent below their mid-May peak, subsequently recovered about half of that loss. The continued strength in retail sales, and the fact that no important reappraisals of business plans for fixed capital expenditures had been reported, suggested that the earlier stock market decline had had little effect on spending.

Although the rate of business inventory accumulation decreased in May, according to preliminary data, automobile dealers added further to their relatively large inventories of new cars, and stocks of steel continued to rise rapidly. There was some evidence suggesting that growth in aggregate inventories thus far in 1965 might have been greater than indicated by official figures.

The consumer and wholesale price indexes advanced in May, to levels 1.7 and 2.0 per cent, respectively, above a year earlier, and average wholesale prices rose further in June. Higher prices for foods continued to account for most of the increases. However, wholesale prices of industrial commodities were estimated to have risen by about three-fourths of 1 per cent in the first half of the year, following a rise of a similar amount in the fourth quarter of 1964.

Bank credit expanded substantially more in June than in April or May, as strong underlying demands for loans were augmented by various temporary factors, including heavy borrowing for corporate tax and dividend payments at midmonth. The money supply also increased sharply in June, bringing the annual rate of growth for the first half of 1965 to about 2.5 per cent, and time deposit expansion accelerated from its reduced May pace. Net borrowed reserves of member banks averaged about \$180 million in June and the first week of July, as compared with an average of \$160 million in May.

Money market conditions remained generally firm in recent weeks. On most days the effective rate on Federal funds was

4⅛ per cent, and a few transactions in such funds reportedly were executed at one-fourth of a percentage point above the 4 per cent discount rate. Yields on 3-month Treasury bills continued to drift down in the latter part of June, but subsequently they rose about 10 basis points to levels above 3.85 per cent. The rise in bill rates was attributable in part to light investor demand and higher borrowing costs to dealers. Also important, however, was the fact that the Federal Reserve met the substantial reserve needs of the period mainly by purchases of longer-term Treasury securities, acquisitions of bills in direct transactions with foreign accounts, and other means, rather than—as many traders had expected—by sizable purchases of Treasury bills in the market.

In long-term security markets yields on new corporate bonds receded slightly from their mid-June peaks but were still about one-quarter of a percentage point above their levels early in the year; State and local bond yields continued under upward pressure; and yields on Treasury notes and bonds showed little net change. It was expected that late in July the Treasury would announce the terms on which securities maturing in mid-August would be refunded. About \$3.2 billion of these securities were held by the public.

Tentative estimates indicated a surplus in U.S. international payments in the second quarter of about \$200 million, seasonally adjusted. Much of the marked improvement from the large deficit of the first quarter reflected the initial impact of the administration's balance of payments program, particularly on bank credit flows; in contrast to the large first-quarter outflows of bank credit, there were inflows in the form of net repayments in April and May. Also, the trade surplus increased in the second quarter, because delays in shipments caused by the earlier dock strike were greater for exports than for imports.

It did not appear likely that all of the second-quarter improvement in the payments balance would be sustained, and the reap-

pearance in the second half of 1965 of at least a moderate deficit seemed probable. By the end of May aggregate foreign loans of U.S. banks were below the target levels established under the voluntary foreign credit restraint program, thus leaving room for a resumption of net outflows later in the year. Also, recent trends in U.S. merchandise trade, while partly obscured by distortions due to the dock strike, suggested that the gain in U.S. exports from 1964 to 1965 would not be large and might well be substantially less than the rise in imports, with a consequent reduction in the trade surplus.

In the course of the discussion some members of the Committee characterized the domestic business outlook as strong and expressed concern about recent and prospective price developments, the renewed rapid increase in bank credit, and the longer-term outlook for the balance of payments. These considerations, they thought, offered some grounds for seeking a firmer tone in the money market. At the same time certain of these members, as well as others, doubted that a modest policy change would have significantly useful effects under prevailing conditions, and they felt that a larger change was undesirable partly because of the expected Treasury financing. Also, some members noted that an overt change in money market conditions might require an increase in the Federal Reserve discount rate, a step they did not favor at present. However, the view also was expressed that a discount rate increase would be appropriate if bank credit continued to expand at a rapid pace, and that a modest firming of policy now would provide a better basis for such action later.

Other members—noting the possibility of inventory adjustments later in the year and indications that final demands were not likely to expand as rapidly as productive capacity—were less confident about prospects for the economy. In their judgment neither domestic price and bank credit developments nor the balance of payments situation warranted a firmer policy;

indeed, they believed that the Committee shortly might find it necessary to move in the direction of greater ease. Still other members found little basis in current domestic and international circumstances for either firmer or easier money market conditions.

While their reasons differed, at the conclusion of the discussion all but one member of the Committee agreed that no change should be made in policy at this time. The following current economic policy directive was issued to the Federal Reserve Bank of New York:

The economic and financial developments reviewed at this meeting indicate continuing expansion of the domestic economy, although at a slower pace than in the first quarter. Reflecting the large initial impact of the administration's balance of payments program, there was a surplus in our international payments in the second quarter. In this situation, and with gold outflows continuing, it remains the Federal Open Market Committee's current policy to reinforce the voluntary restraint program to strengthen the international position of the dollar, and to avoid the emergence of inflationary pressures, while accommodating moderate growth in the reserve base, bank credit, and the money supply.

To implement this policy, and taking into account the forthcoming Treasury financing, System open market operations over the next 4 weeks shall be conducted with a view to maintaining about the same conditions in the money market as have prevailed in recent weeks.

Votes for this action: Messrs. Martin, Balderston, Bryan, Daane, Galusha, Maisel, Mitchell, Robertson, Scanlon, Shepardson, and Treiber. Vote against this action: Mr. Ellis.

Mr. Ellis dissented from this action because he favored a further slight step toward less ease similar to the several such actions the Committee had taken during the past 12 months. In his judgment this would help to hold any autumn credit surge within bounds; and, if credit demands should weaken, it would have established a base from which a policy move toward ease would have greater impact.

August 10, 1965

1. Authority to effect transactions in System Account.

Business activity expanded further in July, and the outlook for coming months was affected by a number of developments, including a Presidential announcement on July 28 of a planned enlargement of U.S. military efforts in Viet Nam. The additional defense spending presently planned did not appear large enough in itself to result in excessive levels of aggregate demand or in widespread production bottlenecks, but the volume of expenditures that might ultimately prove necessary was, of course, impossible to foresee. Amendments to the Social Security Act signed into law on July 30 provided, among other things, for increases in benefit payments retroactive to the first of the year, which appeared likely to add to consumer spending. On the other hand, it was expected that production for inventory would abate later in the year from its current rate. In particular, steel output was likely to decline after September 1—when the 4-month interim labor agreement was scheduled to expire—even if a settlement was reached, as users worked off stocks accumulated as a precaution against a strike.

In July the rate of unemployment declined to 4.5 per cent, the lowest monthly rate since October 1957, despite a sharp rise in the labor force. Early indications were that industrial production rose further to a new peak, and retail sales, which had edged down in June, were tentatively estimated to have exceeded their previous high. These July gains followed a second quarter in which, according to preliminary Department of Commerce estimates, GNP rose at a seasonally adjusted annual rate of about \$9 billion—less than the unusual first-quarter advance of \$14 billion, but more than had been generally expected.

Average wholesale prices of industrial commodities apparently changed little in July. Increases for some basic commodities,

related to developments in Viet Nam, proved—with the exception of copper—to be largely temporary. The consumer price index advanced one-half of 1 per cent in June as prices of foods rose further.

At commercial banks business loans continued to grow rapidly in July. Total bank credit probably declined a little during the month, however, as a result of repayments of various kinds of temporary credits that had contributed to the large increase in June and of further reductions in bank holdings of Government securities. Growth in the money supply was less rapid than in June, but time deposits expanded at the highest rate since February. Average net borrowed reserves of member banks, at about \$180 million, were unchanged from June.

Securities markets were characterized by a cautious tone in recent weeks as a result of uncertainties relating both to developments in Viet Nam and to continued intermittent pressures on sterling in markets for foreign exchange. Treasury note and bond yields edged up in late July and early August, and the 3-month Treasury bill rate, after declining in the latter part of July, advanced somewhat in early August to levels in the neighborhood of 3.85 per cent. Despite such market weakness, the Treasury's mid-August refunding, which involved slightly more than \$3 billion in publicly held maturing securities, was well received.

The U.S. balance of payments continued in surplus in July, according to tentative estimates. Available data for June, however, provided further indications of a deterioration in the trade surplus; exports were about unchanged from the level of the previous autumn but imports were sharply higher.

On July 27 Britain announced further measures designed to improve its external position. There was no substantial abatement of exchange market pressures on sterling, however, partly because of uncertainties arising from published figures indicating further reductions in Britain's international reserves

in July. Most recently, publication of British foreign trade figures for July revealed a substantial increase in that country's exports.

Members of the Committee differed somewhat in their assessment of the forces affecting the outlook for the domestic economy. They agreed, however, that no change should be made in policy at this time, particularly in light of the various uncertainties presently existing at home and abroad. The current Treasury financing, although moderate in size and about to be completed, also was advanced as providing some ground for maintaining present policy.

The following current economic policy directive was issued to the Federal Reserve Bank of New York:

The economic and financial developments reviewed at this meeting indicate that the domestic economy has expanded further, but at a slower pace than early in the year, and that the improvement in our international payments that occurred in the second quarter has been maintained for the time being, although gold outflows have continued and international developments are creating uncertainties in securities and foreign exchange markets. In this situation, it remains the Federal Open Market Committee's current policy to strengthen the international position of the dollar, and to avoid the emergence of inflationary pressures, while accommodating moderate growth in the reserve base, bank credit, and the money supply.

To implement this policy, System open market operations over the next 3 weeks shall be conducted with a view to maintaining about the same conditions in the money market as have prevailed in recent weeks, while taking into account the Treasury financing about to be completed and the unsettled conditions in securities and foreign exchange markets.

Votes for this action: Messrs. Martin, Balderston, Galusha, Maisel, Mitchell, Robertson, Scanlon, Shephardson, Bopp, Irons, and Treiber. Votes against this action: None.

2. Authority to purchase and sell foreign currencies.

At this meeting the Committee revised its continuing authority directive for transactions in foreign currencies in two respects.

One revision involved a change, from \$2.65 billion to \$2.8 billion, in the dollar limit specified in the first paragraph of the directive on the aggregate amount of foreign currencies held under reciprocal currency arrangements. As indicated in Section 2 of the entry for March 23, 1965, it had been the Committee's practice to set this limit at the sum of the amounts currently specified by the Committee for all individual authorized reciprocal currency arrangements. Today's revision was made because earlier in the present meeting the Committee had ratified an increase in the size of the reciprocal currency arrangement with the Bank for International Settlements from \$150 million to \$300 million. The second revision involved the addition of a new final paragraph to the directive authorizing purchases of sterling by the Federal Reserve Bank of New York on a covered or guaranteed basis up to a total of \$50 million equivalent, in addition to the foreign currency purchases authorized in preceding paragraphs. This supplementary authorization provided a further potential for cushioning or moderating disequilibrating movements of funds in foreign exchange markets.

Reflecting these revisions, the continuing authority directive for transactions in foreign currencies read as follows:

The Federal Reserve Bank of New York is authorized and directed to purchase and sell through spot transactions any or all of the following currencies in accordance with the Guidelines for System Foreign Currency Operations as amended March 23, 1965; provided that the aggregate amount of foreign currencies held under reciprocal currency arrangements shall not exceed \$2.8 billion equivalent at any one time, and provided further that the aggregate amount of foreign currencies held as a result of outright purchases shall not exceed \$150 million equivalent at any one time:

Pounds sterling
 French francs
 German marks
 Italian lire
 Netherlands guilders
 Swiss francs

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Belgian francs
Canadian dollars
Austrian schillings
Swedish kronor
Japanese yen

The Federal Reserve Bank of New York is also authorized and directed to operate in any or all of the foregoing currencies in accordance with the Guidelines and up to a combined total of \$275 million equivalent, by means of:

- (a) purchases through forward transactions, for the purpose of allowing greater flexibility in covering commitments under reciprocal currency agreements;
- (b) purchases and sales through forward as well as spot transactions, for the purpose of utilizing its holdings of one currency for the settlement of commitments denominated in other currencies;
- (c) purchases through spot transactions and concurrent sales through forward transactions, for the purpose of restraining short-term outflows of funds induced by arbitrage considerations; and
- (d) sales through forward transactions, for the purpose of influencing interest arbitrage flows of funds and of minimizing speculative disturbances.

The Federal Reserve Bank of New York is also authorized and directed to make purchases through spot transactions, including purchases from the U.S. Stabilization Fund, and concurrent sales through forward transactions to the U.S. Stabilization Fund, of any of the foregoing currencies in which the U.S. Treasury has outstanding indebtedness, in accordance with the Guidelines and up to a total of \$100 million equivalent. Purchases may be at rates above par, and both purchases and sales are to be made at the same rates.

The Federal Reserve Bank of New York is also authorized and directed to make purchases of sterling on a covered or guaranteed basis in terms of the dollar up to a total of \$50 million equivalent.

Votes for this action: Messrs. Martin, Balderston, Daane, Galusha, Maisel, Mitchell, Robertson, Scanlon, Shepardson, Bopp, Irons, and Treiber.
Votes against this action: None.

August 31, 1965

Authority to effect transactions in System Account.

Reports at this meeting confirmed earlier estimates that industrial production and retail sales had reached new highs in July. Production gains in both June and July were larger than in most earlier months of the year as a result of further advances in output of business equipment and of materials, including steel; consumer goods output continued to show little change at a level about 5 per cent above a year earlier. Manufacturers' inventories rose considerably in July, following three quarters in which total business inventories had increased at a more rapid rate than earlier in the current business expansion. The unemployment rate, which had declined to 4.5 per cent in July, remained at that level in August.

Business sentiment recently had become more buoyant, as activity continued to expand faster than had been expected and as prospects for further advances were enhanced by expected rises in military outlays in connection with the Viet Nam hostilities. To date, however, developments in Viet Nam did not appear to have given any sharp, direct stimulus to consumer or business spending, and the timing and amount of expected increases in military expenditures remained highly uncertain.

Additional major uncertainties were associated with the situation in the steel industry. Labor negotiations were still in process at the time of this meeting, and the interim agreement, originally scheduled to expire on September 1, had been extended 8 days at the request of the President. It was not clear whether a settlement would be arrived at without a strike, nor what the terms of the settlement would be. Also in doubt were the probable dimensions and timing of the reduction in

steel inventories expected to follow the conclusion of a labor agreement; it was possible that the amount of liquidation, while still substantial, would be less than anticipated earlier, particularly if it appeared that military needs for steel would rise rapidly or if the terms of the labor agreement made future increases in steel prices more likely.

Average wholesale prices of industrial commodities, which were stable in July, appeared to have edged up in August, but changes continued selective, without any general response to developments in Viet Nam. The total wholesale price index was estimated to have declined slightly in August as a result of some reductions for foods, which had accounted for most of the rise in the index earlier in the year. The consumer price index rose slightly further in July, despite declines for some products resulting from reductions in excise taxes.

The demand for business loans at banks continued strong and commercial bank credit, which had declined in July, was expanding again in August. Growth of time deposits accelerated from the high July rate, but growth in the money supply moderated further. Average net borrowed reserves of member banks continued to show little change.

The latest information on U.S. international payments indicated that a deficit occurred in August and, contrary to earlier reports, that payments probably were in deficit in July also. Gold outflows continued, but at a lower rate than in the first half of the year. In foreign exchange markets, there had been some improvement recently in attitudes with respect to the outlook for sterling, but the situation remained delicate.

Conditions in domestic money markets generally were steady in recent weeks, although yields on 3-month Treasury bills rose several basis points. Bond markets weakened considerably. Treasury bond yields advanced to their highest levels since the spring of 1964, and yields on new issues of high-grade corporate bonds broke through their June peaks to levels not reached since the summer of 1961. To some extent, the rise in corporate

bond yields stemmed from unseasonably large recent and prospective flotations; and the rise in yields on Treasury bonds reflected the growing attractiveness of corporate yields for institutional investors. Also, dealer holdings of longer-term issues were still sizable, despite recent reductions as a result of official purchases. To a major extent, however, the yield advances reflected a shift in investor expectations regarding the economic outlook and the future course of interest rates. A variety of factors contributed to this shift, including the unexpectedly strong performance of the economy, developments in Viet Nam, uncertainties regarding the probable terms of the steel wage settlement, continued nervousness about the prospects for sterling, and the possibility that a firmer monetary policy might be required for domestic or balance of payments reasons.

The Committee decided that no change should be made in policy at this time, partly because of the various existing uncertainties. Cited in this connection were the uncertainties about the outcome of wage negotiations in the steel industry and about the likely magnitude and duration of the expected subsequent reduction in steel inventories; the lack of reasonably precise information regarding the probable impact of developments in Viet Nam on the economy; the still sensitive position of sterling in foreign exchange markets; and the possibility that, in view of the recent weakening in bond prices, domestic security markets might over-react to any firming of monetary policy, however modest was the intended change.

Some members who agreed that such factors made a policy change inappropriate at present indicated that in the absence of these factors they might have been inclined toward a shift in the direction of firming. Among the grounds for firming mentioned by members in this group were the strength in the business outlook and the prospects for further price advances; the continued rapid growth in business loans at banks; and the recently less favorable balance of payments situation. Other members expressed the view that even apart from the existing

uncertainties a firmer policy was not warranted at present. In their judgment a reduction in the rate of over-all inventory accumulation was likely to act as an offset to the economic stimulus of developments in Viet Nam, and they saw little ground at the moment for expecting inflationary pressures to develop in the near future.

The following current economic policy directive was issued to the Federal Reserve Bank of New York:

The economic and financial developments reviewed at this meeting indicate that the domestic economy has expanded further, but with markets characterized by uncertainties as to possible developments in steel, sterling, and Viet Nam. Our international payments have reverted to deficit in August, and gold outflows have continued, although at a more moderate rate. In this situation, it remains the Federal Open Market Committee's current policy to strengthen the international position of the dollar, and to avoid the emergence of inflationary pressures, while accommodating moderate growth in the reserve base, bank credit, and the money supply.

To implement this policy, System open market operations until the next meeting of the Committee shall be conducted with a view to maintaining about the same conditions in the money market as have prevailed in recent weeks, while taking into account unsettled conditions in securities and foreign exchange markets.

Votes for this action: Messrs. Martin, Balderston, Daane, Ellis, Galusha, Maisel, Mitchell, Robertson, Scanlon, Shepardson, and Irons. Vote against this action: Mr. Treiber.

Mr. Treiber dissented because he believed that domestic considerations warranted some restriction in credit availability before inflationary pressures gained momentum, and because in his judgment the need to bring about a fundamental improvement in the international payments of the United States was pressing. While agreeing that, in light of the various existing uncertainties, caution would be required in reducing the degree of credit availability, he felt that moderate action of that kind would not have untoward consequences.

September 8, 1965

Authority to purchase and sell foreign currencies.

At this meeting, which was held by telephone, the Committee amended the final paragraph of the continuing authority directive for foreign currency transactions to increase the dollar limit specified for purchases of sterling by the Federal Reserve Bank of New York on a covered or guaranteed basis in terms of the dollar to \$200 million equivalent from \$50 million equivalent.

Votes for this action: Messrs. Martin, Balderston, Daane, Ellis, Maisel, Robertson, Scanlon, Shepardon, Clay, Irons, and Treiber. Votes against this action: None.

For several weeks negotiations had been in process among Britain, the United States, and a number of other countries on a program designed to assist the recovery of sterling, and today's action was taken in connection with that program, on recommendation of the Special Manager of the System Open Market Account. The U.S. Treasury was planning to participate with the Federal Reserve in the package of assistance.

September 28, 1965

Authority to effect transactions in System Account.

Economic activity advanced further against a background of optimistic business sentiment, and most analysts reportedly

were now expecting the expansion to continue for some time. Conditions in financial markets had become firmer, and average prices of common stocks had recovered to about their spring highs on heavy trading volume.

Some of the major uncertainties existing at the time of the preceding meeting had since been clarified. The position of sterling in foreign exchange markets improved markedly following announcements by the British Government in the early part of September of further measures to restrain wage and price increases and of new international agreements in support of the pound. Domestically, labor negotiations in the steel industry had been concluded with a settlement that appeared to be about in line with the administration's guideposts.

Industrial production and nonfarm employment rose slightly in August, and the unemployment rate continued at the reduced level of 4.5 per cent reached in July. Retail sales declined by 1 per cent from their high July rate but appeared to be rising again in early September, with automobile sales particularly strong. Average prices of industrial commodities edged up in August but, according to preliminary estimates, had changed little further by mid-September.

Business inventory investment, which had been tending down from the exceptionally high rate reached in the first quarter, was expected to moderate further following the settlement of wage negotiations in the steel industry. Nevertheless, further gains seemed likely in final purchases by businesses as well as by government and consumers. The latest Commerce-SEC survey of business plans for fixed capital outlays indicated that such outlays in 1965 would be about 13.5 per cent above 1964, in contrast to rises of about 12 and 12.5 per cent shown in the February and May surveys, respectively. Moreover, sharply advanced capital appropriations reported by large manufacturing companies in a private survey suggested that the momentum of the expansion in capital spending was likely to

carry forward into 1966. Although the dimensions of the expected increase in Federal expenditures as a result of the hostilities in Viet Nam were still in doubt, Federal spending—for both defense and nondefense purposes—was rising, and spending by State and local governments was continuing to grow. Personal incomes were expected to show an unusually large increase in September because of higher social security benefit payments retroactive to the first of the year and increased military pay rates. According to a Census Bureau survey taken in July, consumers were optimistic about their income prospects, and more of them reported plans to buy new automobiles and houses than a year earlier.

The money supply expanded substantially in September as Treasury deposits were drawn down sharply, but the rate of growth in time and savings deposits fell off somewhat. According to data for city banks, the rate of increase in commercial bank credit, which was high in August as a whole, moderated late in that month and early in September. Among the factors accounting for the more moderate recent growth were the reduction in Treasury deposits, some liquidation of inventory loans by metal-using companies following the steel settlement, slackened growth in bank holdings of municipal and other securities, and cumulating pressures on bank reserve positions. Renewed heavy borrowing by businesses around the September tax date suggested that underlying demands for business loans remained strong, and there were indications that interest rate and other terms on bank loans were becoming firmer. Average net borrowed reserves of member banks in the first 4 weeks ending in September were estimated at about \$120 million, down from the August average of about \$170 million.

Interest rates on Treasury and corporate bonds rose further in September, and State and local government bond yields, which had been relatively stable in August, increased sharply.

Yields on 3-month Treasury bills changed comparatively little over the first 3 weeks of the month, but subsequently the rate moved up about 10 basis points and reached a level of 3.99 per cent on the day preceding this meeting. The Treasury had announced that on October 5 it would auction \$4 billion of tax anticipation bills, and the rise in bill rates in part reflected the forthcoming additions to supplies. But it also reflected a general heightening of money market pressures following the mid-September tax date that resulted from strong credit demands and a distribution of bank reserves away from the central money markets. In addition to bill yields, other short-term rates advanced, including the effective rate on Federal funds and rates offered by New York banks on negotiable certificates of deposit with maturities of less than 6 months.

In July and August the deficit in the U.S. balance of payments on the "regular transactions" basis now appeared to have been at an annual rate slightly higher than the \$1¼ billion rate recorded in the first half of the year. The trade balance apparently improved somewhat after midyear, but net U.S. private capital outflows increased more as reflows of liquid funds and bank credit appeared to be tapering off. In the second quarter, according to newly available data, outflows of direct investment capital were much larger than most analysts had expected.

Prior to reaching a decision on the appropriate objective of monetary policy at this juncture, the Committee explored several possible alternatives. These included maintaining approximately the current conditions in the money market; supplying reserves in sufficient quantity that the money market rates that had prevailed before the recent increase in pressures would again be approached; and reinforcing the recent trend in the market toward firmer conditions, or at least not offsetting a furtherance of this trend if produced by market forces. The

conclusion of the majority was that it would be desirable to maintain about the current conditions, while a minority favored fostering a return to the general market conditions that had prevailed earlier. Some members of the majority felt that neither domestic nor international considerations warranted further firming at this time, although they did not consider it desirable to pursue the course recommended by the minority. Other members of the majority thought that the main reason for maintaining the status quo, as contrasted with a further firming, was the forthcoming Treasury financing, with Britain's continuing effort to restore the position of sterling mentioned as another consideration. Otherwise, they indicated, factors such as the inflationary pressures they thought were inherent in the strong business outlook and the continuing balance of payments problem might have been persuasive influences to them.

The following current economic policy directive was issued to the Federal Reserve Bank of New York:

The economic and financial developments reviewed at this meeting indicate that the domestic economy has expanded further in a climate of optimistic business sentiment and firmer financial conditions, and that our international payments have been in deficit since midyear. Some of the uncertainties previously affecting foreign exchange markets have diminished. In this situation, it remains the Federal Open Market Committee's current policy to strengthen the international position of the dollar, and to avoid the emergence of inflationary pressures, while accommodating moderate growth in the reserve base, bank credit, and the money supply.

To implement this policy, and taking into account the current Treasury financing, System open market operations until the next meeting of the Committee shall be conducted with a view to maintaining about the current conditions in the money market.

Votes for this action: Messrs. Martin, Hayes, Balderston, Daane, Ellis, Galusha, Scanlon, Shephardson, and Irons. Votes against this action: Messrs. Maisel, Mitchell, and Robertson.

Messrs. Maisel, Mitchell, and Robertson dissented from the action taken by the Committee on two grounds. First, they felt that the recent sharp increases in both short- and long-term interest rates were partly the result of the fact that nonborrowed reserves were not being supplied at the rate required by the growing economy. They anticipated that there would be still further increases in interest rates and tightening of credit availability in longer-term financial markets if reserve growth continued to be held below the economy's needs. In their judgment evidence was lacking that inflation either existed or was just around the corner and, accordingly, their preference was to see no greater credit restraint develop at this time. To assure such an outcome they favored open market operations designed to move conditions in the central money markets back to around their averages for the month of September. Second, the dissenting members felt that the language in the directive referring to "maintaining about the current conditions in the money market" was vague and open to misinterpretation, especially in the light of the sharp tightening in market conditions that actually had taken place over the past month when open market operations were being conducted under a similar "no change" directive. In particular, they were concerned that the wording of the directive would permit further tightening of credit conditions, even though couched in terms which could be otherwise construed.

October 12, 1965

Authority to effect transactions in System Account.

Information that had become available in the 2-week period since the previous Committee meeting lent further confirmation

to the view that domestic economic activity was generally strong and was continuing to expand.

Industrial production appeared to have declined slightly in September, principally because excess steel inventories were beginning to be reduced. The labor market remained strong, however, and the unemployment rate dropped to 4.4 per cent, the lowest level in many years. Retail sales remained at a high level.

According to weekly estimates, the industrial commodity price index had edged up since mid-August, bringing the total rise to 1.5 per cent since the summer of 1964, but foodstuffs continued to decline from their July peak and the total wholesale price index remained at the June-August level. The consumer price index, after rising more than 1 per cent from March to July, declined two-tenths of 1 per cent in August due to the drop in average food prices.

Sales of new domestic automobiles in September remained at the 8.9 million annual rate of the previous 3 months, and prices for the 1966 models—most of which had now been introduced—appeared close to those for the 1965 models. The growth of consumer instalment credit slowed in August, on a seasonally adjusted basis, but early reports for September suggested a return of the rate of net borrowing to levels somewhat above August.

New orders for durable goods showed somewhat less decline in August than preliminary figures had indicated, due mainly to an upward revision in new orders for defense production. Business inventory accumulation in August was not as large as in July; but for the 2 months combined accumulation exceeded the second-quarter rate and approached the high rate of the first quarter. Construction expenditures during the third quarter were unchanged from their second quarter level as higher outlays for business, other private nonresidential, and public con-

struction offset a downdrift in residential construction activity.

In financial markets there was a slackening in the pace of bank credit expansion in September. The annual rate of growth in the third quarter was estimated at 5.5 per cent compared with approximately 12.5 per cent and 10 per cent in the first and second quarters, respectively. However, when security loans were excluded, total loans rose at an annual rate of about 13 per cent in the third quarter, which was 1 percentage point above the 1964 rate. The demand for business loans had been strong recently after moderating somewhat in late August and early September; for the month of September as a whole such loans expanded at an annual rate of almost 13 per cent.

Following a slowdown in August, the money supply rose in September at a seasonally adjusted annual rate of almost 12 per cent; this reflected in part an unusually sharp reduction of U.S. Government deposits. For the year to date the money supply had grown at an annual rate of 3.8 per cent, a little below the rate for 1964. Time and savings deposit growth in September was at an annual rate of 12 per cent, considerably below the rates of the previous 2 months. While savings deposit inflows remained strong, run-offs of negotiable certificates of deposit were heavy during the September tax and dividend period and only about half had been replaced by the end of the month. Certain major banks had recently pushed their offering rates on certificates to, or close to, the ceiling of 4.5 per cent.

Money market conditions had eased slightly since the period of considerable pressure toward the end of September, with bill rates and other interest rates dropping back somewhat. The supply situation as to Treasury bills had been eased considerably by the System's large purchases of bills to supply needed reserves during the late September period. This abatement of market pressures enabled the Treasury to auction \$4 billion of tax anticipation bills at somewhat lower rates than earlier anticipated, and the demand for these bills in the secondary market

proved to be better than many had expected earlier. The Treasury was expected to announce in late October the terms of its November refunding; \$3.3 billion of maturing securities were held by the public. Trading activity in the stock market remained heavy, although the volume was somewhat below the high daily average for the month of September. Prices continued to move in a rather narrow range at about the highs reached in the spring of the year.

U.S. foreign trade showed some improvement in July and August. The trade surplus exceeded a \$6½ billion annual rate in those months as exports rose by about 4 per cent in July and again in August while the growth in imports appeared to have tapered off. Nevertheless, preliminary data for the third quarter suggested a payments deficit on the "regular transactions" basis at an annual rate in the order of magnitude of \$1¼ billion, and it appeared that in September the "official settlements" balance may have reverted to deficit on a seasonally adjusted basis. In foreign exchange markets the outstanding recent development had been the further recovery of sterling, which was now trading at a spot rate above par.

In the Committee's discussion of the course of monetary policy, some members noted that any significant move toward further firming would almost inevitably soon require consideration of changes in the discount rate and in the maximum rates of interest permitted to be paid on time and savings deposits. It was the predominant view that such changes would not be advisable at this particular time. Accordingly, the discussion focused on a relatively narrow range of policy objectives during the forthcoming 3-week period. Most members of the Committee believed that the best short-run alternative would be to maintain about the existing degree of money market firmness, recognizing that objectives expressed in terms such as bill rates, net borrowed reserves, and Federal funds rates might not prove to be mutually compatible. In this regard, there was some dis-

position to feel that the level of net borrowed reserves, one of the indicators of market conditions, should be assigned a less prominent role than usual in the current context. Other members of the Committee, who expressed concern about potential inflationary pressures against a background of large cumulative increases in bank credit and the international payments problem, thought that any doubts in the conduct of open market operations should be resolved on the side of a firmer market tone. On the other hand, some members felt that in the absence of clear evidence of a break-out of inflationary conditions care should be exercised against basing actions on expectations, and that any doubts therefore should be resolved on the side of easing bank reserve positions slightly.

At the conclusion of the discussion, the following current economic policy directive was issued to the Federal Reserve Bank of New York:

The economic and financial developments reviewed at this meeting indicate that over-all domestic economic activity has expanded further in a continuing climate of optimistic business sentiment and firmer financial conditions, and that our international payments have been in deficit on the "regular transactions" basis since midyear. In this situation, it remains the Federal Open Market Committee's current policy to strengthen the international position of the dollar, and to avoid the emergence of inflationary pressures, while accommodating moderate growth in the reserve base, bank credit, and the money supply.

To implement this policy, and taking into account the Treasury financing schedule, System open market operations until the next meeting of the Committee shall be conducted with a view to maintaining a firm tone in the money market.

Votes for this action: Messrs. Martin, Hayes, Balderston, Daane, Ellis, Galusha, Maisel, Mitchell, Robertson, Scanlon, Shepardson, and Irons. Votes against this action: None.

November 2, 1965

Authority to effect transactions in System Account.

Gross national product advanced at an annual rate of \$11 billion in the third quarter of 1965, according to preliminary estimates, compared with an increase of \$9.5 billion in the preceding quarter. Although the adjustment of steel inventories was producing a considerable drop in the rate of business inventory accumulation and a leveling off in industrial production in the fourth quarter, another substantial rise in GNP appeared likely as marked further gains were expected in outlays for business fixed investment, in Federal defense outlays, and in consumer incomes and spending.

Contrary to earlier indications, average prices of industrial commodities were stable from mid-August to mid-September, and weekly estimates showed little change through late October. The consumer price index rose by two-tenths of 1 per cent in September, the amount by which it had declined in August, with seasonal increases in apparel and fuels accounting for much of the rise.

Partial data for October suggested that industrial production might have been maintained at about the September level, 1 per cent below the previous month, despite a further decline in steel output. In September, strikes in a number of industries and the impact of "Hurricane Betsy" on crude oil output had served to reinforce the effects of the steel contraction on total output; subsequently, however, settlement of the strikes and recovery of oil production had acted to offset the further contraction.

Growth in the money supply was rapid in early October—although less so than during September—partly because U.S. Government deposits were reduced further. Loan demand at commercial banks continued strong and seemed likely to remain vigorous over the final months of the year despite reduced needs for funds by firms that had been stockpiling steel. Net borrowed

reserves of member banks averaged about \$130 million in October, compared with about \$140 million in September and \$170 million in August.

Interest rates on short- and long-term Treasury securities, which had declined in the first half of October, subsequently edged up again. The general tone of security markets was cautious in the face of good business prospects and heavy actual and anticipated demands for funds. Average prices of common stocks rose to new highs on very heavy trading volume. On the day preceding this meeting the Treasury offered a 4¼ per cent 18-month note for cash, to refund issues maturing on November 15. It was expected that the Treasury also would auction between \$2 billion and \$2.5 billion of tax anticipation bills within the next few weeks.

The U.S. trade surplus improved substantially in the third quarter, according to preliminary estimates, to an annual rate somewhat over \$6 billion. The latest information on the over-all balance of payments in the quarter, however, indicated that the deficit on the "regular transactions" basis was considerably larger than had been estimated earlier—at an annual rate about double that of the first half—and that the surplus on the "official settlements" basis was smaller than had been anticipated. In September, taken alone, the accounts were in deficit on both bases of calculation.

The Committee agreed that the Treasury financing now in process precluded a change in monetary policy at this time. The possibility was noted that market forces might exert upward pressure on interest rates over coming weeks, and divergent views were expressed regarding the appropriate response in such an eventuality. Some members advocated active resistance to any such forces, while others favored permitting rates to rise in response to them.

Views also differed with respect to the type of policy that was likely to be required following completion of the Treasury

financing. Some members felt that it would prove desirable then for the System to adopt a firmer policy stance, and a possible increase in the discount rate was mentioned in this connection. These members thought a firmer policy, by reducing the rate of bank credit expansion and damping incipient inflationary pressures, would prove helpful both in promoting the sustainability of the domestic expansion and in ameliorating the balance of payments problem. Other members were of the opinion that current domestic and international conditions did not warrant a firmer policy on the part of the Committee nor an increase in the discount rate. They disagreed with the view that such actions would help to maintain the domestic expansion, and they did not consider general instruments of monetary policy to be the appropriate means for dealing with the balance of payments problem under present circumstances.

The following current economic policy directive was issued to the Federal Reserve Bank of New York:

The economic and financial developments reviewed at this meeting indicate that over-all domestic economic activity has expanded further in a continuing climate of optimistic business sentiment and firmer financial conditions, and that our international payments have remained in deficit. In this situation, it remains the Federal Open Market Committee's current policy to strengthen the international position of the dollar, and to avoid the emergence of inflationary pressures, while accommodating moderate growth in the reserve base, bank credit, and the money supply.

To implement this policy, and taking into account the Treasury financing schedule, System open market operations until the next meeting of the Committee shall be conducted with a view to maintaining about the same conditions in the money market that have prevailed since the last meeting of the Committee.

Votes for this action: Messrs. Martin, Hayes,
Balderson, Daane, Ellis, Galusha, Maisel, Mitchell,
Patterson, Robertson, Scanlon, and Shepardson.

Votes against this action: None.

November 23, 1965

1. Authority to effect transactions in System Account.

Prospects for continued substantial gains in business activity in the current quarter and in early 1966 were firmer than 3 weeks earlier, according to reports at this meeting. It now appeared that the fourth-quarter reduction in the rate of business inventory accumulation might be somewhat smaller than anticipated earlier, and the outlook was strong for all major categories of final demand except residential construction, which had declined slightly in the third quarter.

Industrial production increased somewhat in October as another large monthly decline in steel output was more than offset by production gains in business equipment, defense, and some consumer goods industries. Retail sales rose appreciably in the month to a new record level. The demand for labor continued strong, and the unemployment rate edged down further to 4.3 per cent from 4.4 per cent in September.

According to a private survey taken in October, businesses planned to spend about 8 per cent more on new plant and equipment in 1966 than they had in 1965. It was possible that the actual gain in capital spending would be larger than these plans implied; in each of the past 4 years expenditures rose substantially more than indicated by this survey in the preceding autumn.

The index of industrial prices edged up in October, and weekly estimates suggested a further slight rise in November. Since midyear the average of these prices had advanced at an annual rate of about 1 per cent, compared with a rate of about 2 per cent in the preceding 9 months.

The money supply increased substantially in October; for the first 10 months of the year growth was at a 4.4 per cent annual rate, about the same as in the year 1964. Time and savings deposits continued to expand at the third-quarter annual rate of nearly 17 per cent. In late October and early November

interest rates on negotiable certificates of deposit at New York banks generally were at the maximums permissible under the Board's Regulation Q.

Bank credit grew at a rapid pace in October, with much of the expansion accounted for by acquisitions of U.S. Government issues and loans to Government security dealers reflecting Treasury financing activity. Business loan expansion moderated, partly because of liquidation of inventory borrowings by metals-using firms but also, perhaps, because of increased capital market financing. Corporate bond issues were large in recent weeks, and the calendar of forthcoming issues was heavy.

Rates on 3-month Treasury bills fluctuated in a 4.04-4.10 per cent range recently, on balance rising somewhat. Yields on corporate and municipal bonds and on Treasury notes and bonds advanced further in early November. The initial reception to the Treasury's November refunding, involving sale of an 18-month $4\frac{1}{4}$ per cent note for cash, was less favorable than expected. This introduced a new element of uncertainty in the Government securities market, although the reaction was moderated by purchases of the new security on a "when issued" basis for Treasury investment accounts. In a telephone conference meeting held on November 4 to review the situation, the Committee agreed that the Manager should make similar purchases for the System Account if he judged that circumstances warranted them. Such purchases, however, did not prove necessary. Subsequently, yields on Treasury notes and bonds retreated somewhat from their peaks and the tone in the corporate market improved, although municipal yields continued to move up. A Treasury auction on November 17 of \$2.5 billion of tax anticipation bills due in June proceeded uneventfully. The Treasury was expected to announce, before the end of the year, another cash financing to be held in January.

Starting with preliminary data for the third quarter, the Department of Commerce began summarizing the U.S. international payments position in a new way, involving "liquidity"

and "official settlements" balances.¹ On the previously used "regular transactions" basis of calculation, the deficit (seasonally adjusted) was \$615 million in the third quarter and \$1.3 billion in the first 3 quarters. On the "liquidity" basis, the third-quarter deficit was \$485 million and that for the first 3 quarters \$940 million. The alternative "official settlements" balance showed a surplus in the third quarter of \$260 million, and a deficit in the first 3 quarters of \$160 million. The outlook, based partly on available data for October, appeared to be for a deficit on the "regular transactions" basis in the fourth quarter at about the same rate as in the year to date, but a shift in the "official settlements" balance from surplus in the third quarter to deficit in the fourth.

In the course of the Committee's discussion some members expressed the opinion that an overt move to a firmer monetary policy, in the form of an increase in the Federal Reserve discount rate, would be in order in the very near future, assuming economic conditions continued as at present. To facilitate orderly market adjustments in the event such an action was taken, they advocated open market operations directed toward maintaining the present, or if necessary a somewhat greater, degree of reserve availability. In the judgment of these members a discount rate increase would contribute to more balanced and sustainable economic growth domestically and to a stronger dollar internationally, by countering the inflationary pressures inherent in the prospects for rising aggregate demands, augmented by increasing Federal defense expenditures, and declining margins

¹The "liquidity" balance reflects changes in U.S. reserves and in liquid U.S. liabilities to all foreigners; it differs from the "regular transactions" balance by including debt prepayments and military prepayments as receipts that reduce the deficit instead of helping to finance it. The "official settlements" balance reflects changes in U.S. reserves and in liquid and certain nonliquid U.S. liabilities to foreign official accounts, mainly monetary authorities. It differs from the "liquidity" balance by (1) treating changes in U.S. liabilities to foreigners other than official agencies as ordinary capital flows, and (2) treating changes in certain nonliquid liabilities to foreign monetary authorities as financing items rather than capital flows.

of unutilized resources. The view also was expressed that a discount rate increase and a concurrent upward adjustment in the maximum rates permitted to be paid by member banks on time deposits would help eliminate obstacles to the efficient flow of funds in credit markets that had resulted from recent changes in the interest rate structure. The members of this group thought that postponement of these steps might pose a serious problem of deposit run-offs for banks if market rates rose further at a time when the rates being paid for time certificates of deposit were pressing against current regulatory ceilings. Also, if these actions were not taken shortly, Treasury financing operations might preclude their being taken for some time.

Other members of the Committee, while sympathetic with the need for some firming of policy, expressed a preference for initially restraining growth in bank credit by a slight reduction in net reserve availability, and for considering an increase in the discount rate if and when market rates rose further. The possibility was noted that, in the present sensitive state of financial markets, discount rate action might lead to undesirably large market reactions. It also was suggested that if higher market rates, confirming the need for a discount rate increase, were to eventuate, they should reflect the pressure of rising credit demands against a steadily growing reserve base. The members of this group believed that a course of action such as they favored could be accommodated under a current economic policy directive similar to the one issued by the Committee at its meeting on November 2, 1965.

Still other members thought that neither a reduction in reserve availability nor a higher discount rate was warranted at this time; in their judgment a continuation of present System policies was best calculated to maintain the current strong performance of the economy. They noted that the rate of increase in industrial commodity prices had slackened recently, and they saw no present evidence of pervasive inflationary pressures. Also, they felt that it would be desirable to await

the detailed information on Federal budget prospects that would be available in January before considering an increase in the discount rate.

At the conclusion of the discussion the following current economic policy directive was issued to the Federal Reserve Bank of New York:

The economic and financial developments reviewed at this meeting indicate that over-all domestic economic activity is continuing a rate of expansion comparable to that of the third quarter despite the contractive effect of a reduction in steel inventories. Business sentiment continues optimistic and financial conditions are firmer. Meanwhile, our international payments have remained in deficit. In this situation, it remains the Federal Open Market Committee's current policy to strengthen the international position of the dollar, and to avoid the emergence of inflationary pressures, while accommodating moderate growth in the reserve base, bank credit, and the money supply.

To implement this policy, System open market operations until the next meeting of the Committee shall be conducted with a view to maintaining about the same conditions in the money market that have prevailed since the last meeting of the Committee.

Votes for this action: Messrs. Martin, Hayes,
Balderston, Daane, Ellis, Galusha, Maisel, Mitchell,
Patterson, Robertson, Scanlon, and Shepardson.

Votes against this action: None.

2. Authority to purchase and sell foreign currencies.

At this meeting the Committee amended its continuing authority directive for foreign currency operations by adding a new final paragraph reading as follows:

The Federal Reserve Bank of New York is also authorized and directed to assume commitments for forward sales of lire up to \$500 million equivalent as a means of facilitating the retention of dollar holdings by private foreign holders.

Concurrently, the Committee amended Section 4(2) of its guidelines for System foreign currency operations by adding the phrase, "directly or indirectly" after the first clause. As amended, Section 4 read as follows:

4. Transactions in Forward Exchange

Transactions in forward exchange, either outright or in conjunction with spot transactions, may be undertaken:

- (1) When forward premiums or discounts are inconsistent with interest rate differentials and are giving rise to disequilibrating movements of short-term funds;
- (2) When it is deemed appropriate to supplement existing market supplies of forward cover, directly or indirectly, as a means of encouraging the retention or accumulation of dollar holdings by private foreign holders;
- (3) To allow greater flexibility in covering System commitments, including those under swap arrangements;
- (4) To facilitate the use of holdings of one currency for the settlement of commitments denominated in other currencies.

Forward sales of authorized currencies to the U.S. Stabilization Fund out of existing System holdings or in conjunction with spot purchases of such currencies also may be undertaken in order to allow greater flexibility in covering commitments of the U.S. Treasury.

In all other cases, proposals of the Special Manager to initiate forward operations shall be submitted to the Committee for advance approval.

Votes for these actions: Messrs. Martin, Hayes,
Balderston, Daane, Ellis, Galusha, Maisel, Mitchell,
Patterson, Robertson, Scanlon, and Shepardson.
Votes against these actions: None.

In 1964 and 1965 the Italian authorities had dealt with large international payments surpluses in the same manner they had employed in 1961 and 1962; namely, channeling back into private hands dollars that otherwise would have added to their official reserves, by providing commercial banks in that country with forward cover into lire without cost. In 1965, as in 1962, the U.S. Treasury had facilitated such operations by acquiring some of the technical commitments to Italian commercial banks for forward sales of lire. The contracts acquired by the Treasury in 1962 ultimately were all reacquired by the Italian authorities when the balance of payments of that country subsequently shifted to a deficit.

The Committee noted that the operations that had been undertaken by the Italian authorities were beneficial in reducing strains on the international payments structure and that the assumption by the U.S. Treasury of some of the forward commitments reduced the pressure on the Bank of Italy to convert part of its total dollar holdings—spot and forward—into gold. The Committee concluded that it was desirable for the System to participate along with the U.S. Treasury in this cooperative undertaking with the Italian authorities, consistent with the System's general policy of operating parallel with the Treasury whenever appropriate.

December 14, 1965

1. Authority to effect transactions in System Account.

Reports at this meeting indicated that economic activity was increasing vigorously and that the outlook appeared more expansive than previously. Recent developments in financial markets reflected the actions by the Board of Governors, effective December 6, approving increases in Federal Reserve discount rates from 4 to 4½ per cent and increasing to 5½ per cent the maximum rate member banks were permitted to pay on time deposits other than savings deposits.²

With respect to business activity, in November the rise in nonfarm employment was the largest for any month in 1965, and the unemployment rate again declined, to 4.2 per cent. Retail sales were maintained at their record October volume. Despite further reductions in output of steel mill products, industrial production rose substantially from an October level that itself had been revised upward.

² These actions are described in the entry for December 3, 1965, in the Record of Policy Actions of the Board of Governors (see pp. 63-70).

Estimates of the recent pace of business investment also had been raised. Inventory accumulation was larger in the third quarter than previously indicated and the rate of accumulation showed an unexpectedly small decline in October. A Commerce-SEC survey of business expenditures on plant and equipment revealed that outlays in the second half of 1965 were running above earlier projections and that for the year as a whole they would exceed 1964 outlays by over 15 per cent.

As to the outlook, the new Commerce-SEC survey also indicated that businesses planned to increase capital expenditures further in the first half of 1966 at a rate about as rapid as in 1965 and considerably higher than that implied by a recent private survey reporting plans for all of 1966. According to a Census Bureau survey taken in mid-October, consumers intended to buy new cars and major household durable goods at a high rate over the following 6 months. Federal expenditures, particularly outlays for defense, had been rising rapidly since midyear on a national-income-account basis, and a further substantial increase in the first half of 1966 was implied by tentative new administration estimates of Government expenditures in the current fiscal year.

Average prices of industrial commodities continued to edge up in November, but the total wholesale price index increased more as a result of a renewed rise in food prices. The consumer price index advanced by two-tenths of 1 per cent in October, to a level 1.8 per cent above a year earlier.

At commercial banks, growth in business loans in November was moderately above the reduced October pace. Total bank credit continued to expand at a rapid rate, partly because of further Treasury financing activity. The money supply rose by only a small amount, but time and savings deposits continued to grow at an annual rate of nearly 17 per cent despite a relatively modest net increase in negotiable certificates of deposit. Following the Federal Reserve actions of December 6 most large banks raised their prime rate on business loans from $4\frac{1}{2}$ to 5

per cent and a number of banks increased their offering rates on new certificates of deposit. Excess reserves of member banks, which had averaged about \$80 million less than their borrowings in November, were estimated to have exceeded borrowings slightly in the statement week ending December 8; this reflected System open market operations directed to the provision of reserves in order to facilitate market adjustments to the official rate actions.

In security markets initial reactions to the increases in the discount rate and the maximum rate on time deposits were swift but orderly. Short- and long-term security yields, which generally had been under upward pressure prior to the actions, rose sharply on December 6, the day the actions became effective. Yields on long-term Treasury, corporate, and municipal bonds generally moved up about 5-10 basis points, and those on intermediate-term Treasury securities and on Treasury bills advanced 15-20 basis points. For the rest of the week market yields were relatively stable, with the 3-month Treasury bill rate fluctuating in a narrow range around 4.35 per cent and some bond prices showing a slight improvement. On the following Monday (the day preceding this meeting), however, most market rates advanced again, apparently partly because of reports implying further strengthening of the economic outlook. Money market conditions, which had been comfortable in the preceding week, again became firm.

With respect to the U.S. balance of payments, direct investment outflows in the third quarter were now reported to have been substantially smaller than in the first 2 quarters. On the other hand, imports in the 4 months after midyear were larger than previously indicated and were one-sixth greater than in the corresponding period of 1964. Preliminary data for October and November suggested that there would be some improvement in the "regular transactions" balance in the fourth quarter as compared with the third, but thus far a deficit was indicated on this basis of calculation as well as on the "liquidity" and

“official settlements” bases. Abroad, the Bank of Canada raised its discount rate from 4¼ to 4¾ per cent immediately after the increase in the Federal Reserve discount rate, and rates in Euro-dollar markets rose more than seasonally.

The Committee agreed that open market operations in the period until its next meeting should be directed toward moderating any further adjustments that might occur in money and credit markets. Maintaining relatively steady financial market conditions during the next few weeks was deemed particularly desirable because of the large and shifting seasonal pressures typical of this period and because of the likelihood that the Treasury would be engaging in financing operations early in the new year, with the first stage probably under way before the year-end.

The following current economic policy directive was issued to the Federal Reserve Bank of New York:

The economic and financial developments reviewed at this meeting indicate that domestic economic expansion is gaining in strength in a climate of optimistic business sentiment, with continuing active demands for credit and some further upward creep in prices. Although there appears to have been some recent improvement in our international payments, the need for further progress remains. In this situation, it is the Federal Open Market Committee's policy to complement other recent measures taken to resist the emergence of inflationary pressures and to help restore reasonable equilibrium in the country's balance of payments, while accommodating moderate growth in the reserve base, bank credit, and the money supply.

Until the next meeting of the Committee, and taking into account the forthcoming Treasury financing activity and widely fluctuating seasonal pressures at this time of year in addition to the recent increase in Reserve Bank discount rates, System open market operations shall be directed to moderating any further adjustments in money and credit markets that may develop.

Votes for this action: Messrs. Martin, Hayes, Balderston, Ellis, Galusha, Maisel, Mitchell, Patterson, Robertson, Scanlon, and Shepardson. Votes against this action: None.

2. Ratification of amendment of continuing authority directive.

On the morning of December 6 the Manager of the System Account had reported that the remaining "leeway" at that time for open market purchases, under the limitation established in Section 1(a) of the Committee's continuing authority directive on changes in holdings of U.S. Government securities in the System Open Market Account between meetings of the Committee, was \$322 million, and that it was conceivable that purchases in excess of that amount might be necessary before the Committee's next meeting to carry out the intent of the current economic policy directive then in effect. Committee members approved (those outside of Washington by telegram) an amendment to Section 1(a) of the continuing authority directive, raising from \$1.5 billion to \$2.0 billion the limit on changes in holdings of Government securities between meetings. With this amendment, Section 1(a) read as follows:

(a) To buy or sell U.S. Government securities in the open market, from or to Government securities dealers and foreign and international accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the System Open Market Account at market prices and, for such Account, to exchange maturing U.S. Government securities with the Treasury or allow them to mature without replacement; provided that the aggregate amount of such securities held in such Account at the close of business on the day of a meeting of the Committee at which action is taken with respect to a current economic policy directive shall not be increased or decreased by more than \$2.0 billion during the period commencing with the opening of business on the day following such meeting and ending with the close of business on the day of the next such meeting.

The December 6 action was ratified at this meeting of the Committee.

Votes for ratification of this action: Messrs. Martin, Hayes, Balderston, Ellis, Galusha, Maisel, Mitchell, Patterson, Robertson, Scanlon, and Shepardson. Votes against ratification of this action: None.

OPERATIONS OF THE SYSTEM OPEN MARKET ACCOUNT

The following two reports describe the actions taken during 1965 to carry out the policy directives of the Federal Open Market Committee. The first one is a chronological review of operations in domestic securities. In providing the reserve base for rapid expansion in commercial bank credit and for substantial growth in the money supply—and in view of the public's changing preferences for currency, demand deposits, and time deposits—the Federal Reserve acquired during the year \$3.7 billion, net, of U.S. Government securities (including repurchase agreements).

The report on operations in domestic securities was prepared by Alan R. Holmes, Manager of the System Open Market Account, who supervises these operations. It is written from the vantage point of the Trading Desk at the Federal Reserve Bank of New York, where operations in these securities are effected to carry out the policy directives of the Federal Open Market Committee. The report stresses the factors—including variations in reserve elements, money market tendencies, and Treasury financings—that the Manager takes into account in the day-to-day provision of bank reserves.

The second report is a review of Federal Reserve operations in foreign currencies. The Federal Reserve has been buying and selling such currencies since early 1962 as part of the efforts to defend the dollar and strengthen the world payments system. During 1965 the volume of Federal Reserve operations in foreign currencies was substantial, and the reciprocal currency, or "swap," network linking the Federal Reserve with foreign central banks and the Bank for International Settlements was enlarged by \$450 million.

The report on foreign currency operations was prepared by Charles A. Coombs, Special Manager of the System Open Market Account, who supervises the Federal Reserve's operations in such

currencies. All these operations for the System Account are carried out, under the authorization of the Federal Open Market Committee, by the Federal Reserve Bank of New York, which also handles foreign currency transactions for the U.S. Treasury. This report begins on page 197.

**REVIEW OF OPEN MARKET OPERATIONS IN
DOMESTIC SECURITIES**

During most of 1965 the Federal Reserve conducted its operations in domestic securities with a view to accommodating moderate growth in the reserve base, bank credit, and the money supply in an environment marked by (1) rapid growth, diminishing margins of unused resources, and increased price pressures within the domestic economy and (2) a continuing deficit in the U.S. balance of payments that required special measures to defend the dollar.

For the year as a whole, purchases of securities for the System Open Market Account served to offset the reserve drains stemming from the decline of \$1.7 billion in the monetary gold stock and from the continued rapid increase in currency in the hands of the public, as well as to provide for an increase of \$1 billion in the reserve base. Under the pressures of the demands for credit and with the shift in the composition of bank deposits that occurred, this increase in the reserve base supported a record expansion of bank credit and deposits.

After the Treasury had concluded large-scale financing operations in January, the Federal Reserve provided reserves somewhat less freely than in earlier years. Meanwhile, credit demands became stronger as business activity drew nearer to capacity levels of operation. As a result, generally firm conditions prevailed in the money market during the year, and interest rates gradually came under upward pressure.

By the year-end short-term interest rates were about 75 basis points higher than at the end of 1964, and long-term rates were 50 basis points higher. About two-thirds of these advances had occurred before the Federal Reserve discount rate was raised in early December.

In describing the System's operations in Government securities in 1965 in more detail, it is useful to divide the year into five periods.

ANNUAL REPORT OF BOARD OF GOVERNORS

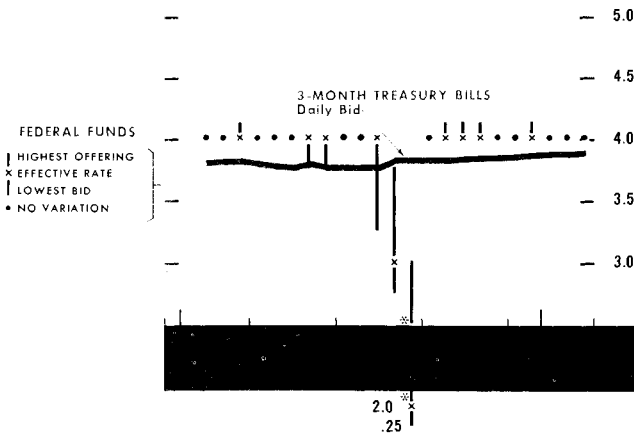
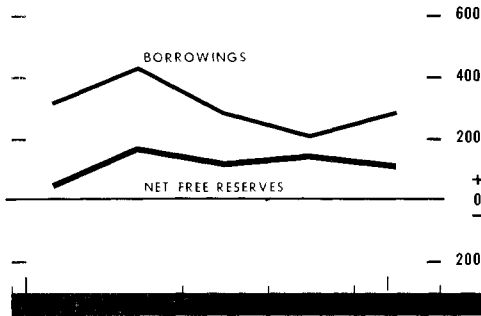
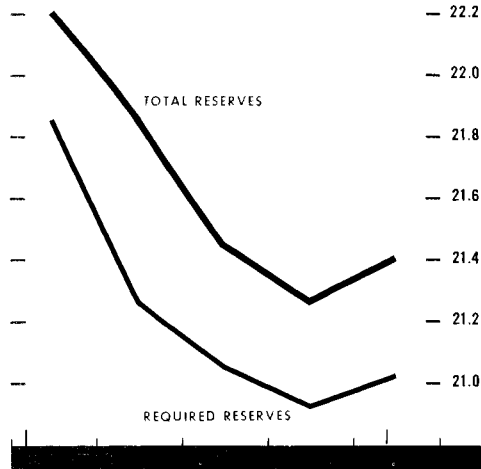
January 4–February 3: “Even keel” during period of large-scale Treasury financing operations. At the beginning of 1965 financial markets were completing the process of adjustment to the November 1964 change in the discount rate and in the Regulation Q ceilings and were emerging from heavy year-end demands on reserve availability. The Treasury had announced a large-scale advance refunding operation to be conducted during the first week of January, involving \$22 billion of publicly held issues scheduled to mature over the next 3 years. As this financing proceeded, it was accompanied by the money market “churning” that is often associated with such operations. Further churning developed around mid-January when the Treasury raised \$1.75 billion in new cash through the sale of tax-anticipation bills due to mature in June. Market activity increased again toward the end of the month when the Treasury announced a cash financing to refund the remainder of the securities maturing on February 15 that had not been exchanged by holders in the advance refunding.

SYSTEM OPERATIONS IN GOVERNMENT SECURITIES DURING 1965 (In millions of dollars)

| Type of operation | Jan. 4– Feb. 3 | Feb. 4– Mar. 24 | Mar. 25– July 28 | July 29– Dec. 1 | Dec. 2– Dec. 31 | Total |
|-----------------------------|-------------------|--------------------|---------------------|--------------------|--------------------|--------|
| Outright purchases: | | | | | | |
| Treasury bills: | | | | | | |
| From market | 567 | 502 | 1,119 | 4,069 | 606 | 6,863 |
| From foreign accounts..... | 348 | 214 | 879 | 650 | 3 | 2,094 |
| Coupon issues..... | | 104 | 570 | 257 | | 931 |
| Outright sales: | | | | | | |
| Treasury bills: | | | | | | |
| To market | 201 | 146 | 574 | 1,496 | 515 | 2,932 |
| To foreign accounts..... | 60 | 51 | 142 | 941 | 100 | 1,294 |
| Coupon issues..... | | | | | | |
| Redemptions..... | 12 | 471 | 350 | 560 | 297 | 1,690 |
| Repurchase agreements: | | | | | | |
| Purchases..... | 1,991 | 1,096 | 7,585 | 2,590 | 1,661 | 14,923 |
| Sales..... | 2,290 | 1,334 | 7,157 | 3,018 | 1,372 | 15,171 |
| Net change in holdings..... | +343 | – 86 | +1,930 | +1,551 | – 14 | +3,724 |

NOTE.—All figures are as of date of delivery.

Member Bank Reserves and Borrowings, and Rates on Treasury Bills and Federal Funds



To facilitate the financial flows arising out of the Treasury operations—and being mindful of the uncertainties that had been generated in financial markets abroad by concern about the U.S. balance of payments situation—the Federal Reserve conducted its open market operations during January with a view to maintaining generally steady conditions in the domestic money market and accommodating a moderate expansion of bank credit and deposits. At the same time, it allowed the net reserve availability in the banking system to recede somewhat from the high levels that had been provided in December 1964 to ease the special pressures prevailing during that month.

As usual, the task of the Federal Reserve in early January was to absorb the large seasonal reflux of reserves as currency flowed back into the banks after the Christmas and New Year's holidays and as seasonal loans were paid off. This absorption was accomplished in part by the maturity in early January of sizable repurchase agreements against Government securities that had been utilized by the Federal Reserve to supply part of the temporary reserve need at the end of December. During the opening days of the new year, however, net free reserves were consistently less than had been projected, as the seasonal repayment of loans—and the consequent reduction in required reserves—proved to be much smaller than expected. This marked the first of a number of such situations during the year when substantially greater-than-seasonal strength in loan demand absorbed reserves and tended to tighten the money market.

During the first several days of the January 4–February 3 period, when net reserve availability proved to be less than had been expected, the Manager of the System Open Market Account arranged new short-term repurchase agreements against Government securities and bankers' acceptances as earlier agreements were terminated or matured. Later on in January, as movements in required reserves and other market factors worked in combination to release some reserves, the Federal Reserve undertook

outright sales of Treasury bills. The reserve inflow during the period was markedly smaller than projected, however, and during the period as a whole the System's sales and redemptions of bills totaled only \$273 million, compared with sales and redemptions of bills totaling \$924 million during the comparable period of 1964. During the last two statement weeks of the interval the System purchased securities, both outright and under repurchase agreements, in sufficient volume to offset the reserve drains stemming from the month-end decline in float and other factors.

For the period as a whole, net free reserves of member banks averaged about \$100 million. Only in the first few days of January were there any signs of undue firming in the money market. At that time the financing needs of Government securities dealers were enlarged by their substantial purchases of rights issues involved in the Treasury's advance refunding operation. The System's injection of reserves through repurchase agreements met a portion of the dealers' needs for financing, but there was still a sizable residual need that had to be financed by New York City banks. These banks in turn sought to obtain the reserves required to support their lending operations by bidding strongly for Federal funds at a rate equal to the 4 per cent discount rate. The availability of Federal funds proved limited, however, and consequently the New York City banks found it necessary to meet a portion of their reserve requirements by borrowing at their Reserve Bank.

The availability of Federal funds increased in subsequent weeks. Indeed, these funds traded in volume at a rate below the discount rate late in the statement week ended January 13, as the money-center banks sold the reserve excesses they had accumulated by large borrowings from their Reserve Banks before the preceding weekend. Federal funds again became plentiful at nominal rates at the end of the following week when country banks channeled into the market sizable amounts of the excess reserves that they had accumulated.

There was little demand for these late-in-the-week reserve

excesses, however, inasmuch as the reserve pressures on New York City banks—which normally buy country banks' excess reserves in volume—had lessened considerably with the reduction in dealers' financing needs after they had settled on January 19 for the securities involved in the Treasury refunding. Even when trading in Federal funds returned to a predominantly 4 per cent rate over the final 2 weeks of the interval, the supply of funds remained ample and member bank borrowing from the Federal Reserve continued at a relatively low level—averaging only about \$240 million a day. Over the five statement weeks ended February 3, borrowings averaged just under \$300 million a day, about \$50 million more than in December 1964.

A favorable atmosphere prevailed in the market for Treasury bills at the start of the year. Although bills with very short maturities were being sold into the market by investors who were reversing year-end window-dressing operations, a fairly active demand emerged for longer-term bills. Some of this demand came from investors who were selling their holdings of the securities serving as rights in the Treasury's refunding operation. As dealers met this demand, their positions in bills declined to just over \$1.1 billion by Friday, January 8. Bill rates edged steadily downward, with the rate on the 3-month bill falling to 3.77 per cent (bid) on January 11, compared with a rate averaging about 3.85 per cent in December 1964.

As these lower bill rates emerged, investors became somewhat more cautious. Commercial banks bid strongly, however, for the \$1.75 billion of June tax-anticipation bills, auctioned on January 12, in order to obtain the tax-and-loan-account deposits that could be created to pay for 50 per cent of the issue. Yet the auction itself, together with the Treasury's announced decision to add to the regular weekly bill auctions over the coming weeks, was generally interpreted as a mark of official concern over the level to which bill rates had fallen. In these circumstances, the investor interest that remained after the completion of the refunding operation was somewhat selective, and it tended

to favor longer-term bills, which offered higher yields. Meanwhile, there continued to be some selling of shorter-term bills.

This aura of caution was reinforced toward the end of the period as participants in the market focused on the possible implications for short-term interest rates of the sharp deterioration in the U.S. balance of payments in the fourth quarter of 1964 and of the apparent continuation of substantial amounts of lending abroad by U.S. banks in the early weeks of 1965. As a consequence, bill rates worked upward over the final weeks of the period and by February 3 were as much as 14 basis points above their mid-January lows and 2 to 10 basis points above the levels prevailing at the beginning of the year. The 3-month bill closed the period at a rate of 3.89 per cent (bid), compared with a rate of 3.82 per cent (bid) on December 31.

The dominant factor in the market for Treasury notes and bonds at the start of the period was the Treasury's massive refunding operation. The market adjustment that followed the November 1964 increase in the discount rate had been sufficiently orderly that by the end of the year the Treasury decided to attempt a significant extension of the debt. Accordingly, on December 30, 1964, the Treasury announced that holders of eight issues due from 1965 to 1967—including the February 1965 maturities—would be given the opportunity to exchange their holdings for new 4 per cent bonds maturing in February 1970, new $4\frac{1}{8}$ per cent bonds due in February 1974, or additional amounts of the $4\frac{1}{4}$ per cent bonds due in August 1987-92. Market participants reacted favorably to the offer, and the exchange by the public of \$9.1 billion, or 41 per cent of the \$22 billion of eligible securities held by the public, exceeded expectations. Interest was particularly strong in the $4\frac{1}{4}$'s of 1987-92, for which public subscriptions totaled \$2.3 billion. Subscriptions to the new 4's of February 1970 totaled \$4.4 billion, and those to the new $4\frac{1}{8}$ per cent bonds of 1974 totaled \$3.1 billion.

The very large size of the combined subscriptions, which

lengthened the average maturity of the total marketable debt by about 5 months, was viewed by market participants as a reflection of widespread confidence in the current level and structure of interest rates. Thus, despite the increased supply of long-term issues, prices of outstanding long-term bonds remained relatively unchanged following the very mild adjustments that occurred immediately after the announcement of the terms of the refunding. As this increased confidence in the structure of interest rates spread, underwriters began to bid more aggressively for new issues of corporate and tax-exempt bonds. In turn, the successful flotation of a new Aaa-rated corporate bond offering a yield of 4.37 per cent, only 14 basis points more than the yield on the Treasury's new 4¼'s of 1987-92, further reinforced the favorable atmosphere in the Treasury bond market. A report that the British trade deficit had declined in December also encouraged participants in the bond market.

Against this background, investors initially took in stride reports of the fourth-quarter-1964 deterioration in the U.S. balance of payments as well as a sharp rise in the price of gold in the London market. As investor demand for the new Treasury issues remained strong, producing a steady reduction in dealer positions, prices of outstanding Treasury notes and bonds inched higher and by January 22 stood 4/32 to 16/32 of a point above the levels prevailing at the opening of the year.

Subsequently, a technical reaction to these price gains took place. Factors contributing to the downward price adjustments were increased market attention to the underlying U.S. balance of payments deficit, the accompanying declines in the U.S. gold stock, and the increase of one-half percentage point in the discount rate of the German Federal Bank. Demand for the new Treasury issues remained fairly active, however, and price declines were modest. When the Treasury announced on January 27 that it planned to refund the remaining February 15 maturities through a cash offering of about \$2.2 billion of new 21-month, 4 per cent notes priced at a discount to yield 4.09 per

cent, the initial reaction of the market was one of caution. On the subscription date, however, the issue attracted a substantial amount of investor interest, and large subscriptions were subjected to a 15 per cent allotment. At the close of the period prices of most Treasury notes and bonds were unchanged to 18/32 of a point higher than at the end of 1964, and the three issues offered in the advance refunding were bid at a premium compared with their initial offering prices.

February 4—March 24: Shift away from ease in support of measures to defend the dollar. At the beginning of February a large outflow of capital—particularly in the form of U.S. bank loans abroad—was contributing to a very sharp worsening in the U.S. balance of payments deficit. Furthermore, domestic business conditions were strong and domestic demands for credit were unseasonally large. As a result bank credit was expanding at a considerably more rapid pace than it had earlier.

With the need for an “even keel” policy reduced after subscriptions to the Treasury’s February financing had closed on February 1, the Federal Open Market Committee at its meeting on February 2 instructed the Manager of the System Open Market Account to move toward slightly firmer conditions in the money market than had prevailed in the early weeks of the year in order to moderate the rate of growth in bank credit and the money supply. The shift in policy served to support the administration’s voluntary foreign credit restraint program, announced a few days later on February 10—a program that suggested limits on lending abroad by bank and nonbank financial institutions and requested large nonfinancial corporations to improve their individual balance of payments positions.

Open market operations over succeeding weeks were conducted with a view to providing reserves somewhat less freely in response to expanding demands for reserves and absorbing promptly whatever reserve excesses were generated temporarily by market factors. As a result, reserve availability at member banks was reduced to a net borrowed reserve figure of about

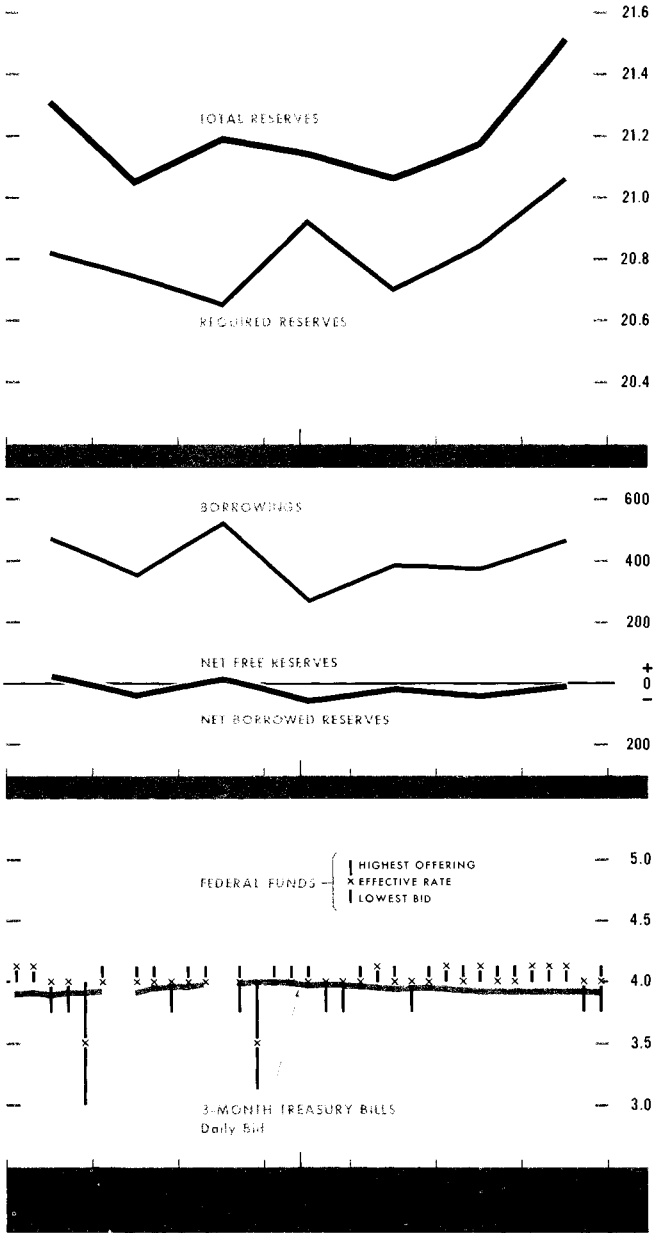
\$20 million in the 7 weeks ended March 24, compared with average net free reserves of about \$100 million during January.

Slightly firmer conditions prevailed in the money market throughout the February 4–March 24 period. Federal funds were quoted at or above the 4 per cent discount rate on most days during this interval. Trading in Federal funds at a premium rate as compared with the discount rate—a market innovation that had first appeared in October 1964—became fairly common, as firmness in the money market continued and as banks with persistent basic deficiencies in their reserve positions sought to avoid resort to the discount window. However, there were a few days at the end of statement weeks when large amounts of Federal funds were traded at rates below the discount rate, chiefly because some banks had built up sizable holdings of excess reserves by borrowing heavily at their Reserve Banks earlier in the week. Borrowings from the Reserve Banks for the period as a whole averaged about \$400 million a day, more than \$100 million a day higher than in January.

Two considerations that entered into the conduct of operations during this period continued to play a role in subsequent months. One was the introduction, after a period of testing, of a new sampling technique for estimating the current reserve positions of country banks. Prior to the introduction of the new procedure, the reserve estimates initially published each week were constructed without direct current information as to levels of vault cash and required reserves at country banks; as actual data became available in subsequent weeks, the initial estimates were revised, sometimes substantially. The new sampling procedure provided current-week data for country banks promptly enough to enable the Manager to make some corresponding adjustments in open market operations.

The second consideration influencing Federal Reserve open market operations during the second half of the February–March period was a recurrence of a problem that had arisen in earlier years—namely, a persisting downward trend in short-term in-

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terest rates, particularly rates on Treasury bills. In the firmer money market that had characterized most of the winter months, Treasury bill rates had held at levels sufficiently high relative to foreign rates to create no special incentive to liquid capital flows abroad. U.S. bill rates actually rose during most of February, as market participants became more concerned about the war in Viet Nam, the possibility of a firming of monetary policy, and the prospect of a seasonal slackening in demand for bills in March. In these circumstances the rate on the 3-month bill climbed to the 4 per cent discount rate on February 24. In the weeks that followed, however, bill rates edged steadily lower. The expected drying up of demand for bills did not occur; on the contrary, sizable purchases were made by public funds and also by corporations seeking investment outlets for funds being repatriated to the domestic market under the impetus of the VFCR program.

Corporate selling of bills around the mid-March dividend and tax dates was light, and dealers rapidly digested the bills returning to them at that time from maturing corporate repurchase agreements. In addition, toward the end of the period under review, banks in Chicago began their annual large-scale buying of bills in preparation for the April 1 Cook County personal property tax date. As a result, by the end of the period, on March 24, 3-month bills were bid at a rate of 3.91 per cent.

To avoid adding to such downward pressures on bill rates and thereby enhancing the incentive for capital to flow out of the country, the Federal Reserve met the modest reserve needs that emerged around mid-March in large part by purchasing securities under short-term repurchase agreements or directly from foreign accounts. It also injected a small amount of reserves during this period by buying Treasury coupon issues.

An atmosphere of caution dominated the markets for high-grade notes and bonds at the start of the interval. Market participants had become increasingly concerned over the seriousness of the nation's balance of payments problem amid news of cur-

rent gold outflows and reports that France and some other countries in the Common Market would be making more large-scale purchases of gold in the months to come. The President's balance of payments message on February 10 announcing plans for the new VFCR program tended to steady the securities markets for a time. A hesitant atmosphere reappeared, however, as market participants reassessed prospects for a less stimulative monetary policy in the light of the published reports indicating lower levels of net reserve availability and as renewed concern developed over the war in Viet Nam.

Against this background, prices of Treasury notes and bonds drifted lower at the start of the period; by the middle of February declines ranged from $1/32$ to $11/32$ of a point. The downward pressures on prices developed mainly in response to offerings from professional and trading sources, while investors generally moved to the sidelines for a time in the cautious market atmosphere. With the increased availability of coupon securities, the System made some reserve injections around the Washington's Birthday holiday by buying Treasury notes and bonds in the market. As note and bond prices reached the lower levels, purchases by investors reappeared, although a cautious undertone remained in the market over the remainder of the month.

By early March, indications of positive results from the VFCR program began to relieve the earlier concern that the U.S. balance of payments deficit might necessitate a sharp rise in domestic interest rates. Market psychology also was buoyed by reports of continued improvement in the British trade position, which generated some discussion of the possibility of a reduction in the discount rate of the Bank of England. Government securities dealers, who had succeeded in reducing their portfolios during February, no longer pressed offerings aggressively. In addition, investment demand continued to expand, particularly for the various $2\frac{1}{2}$ per cent bonds selling at deep discounts. For most Treasury issues, price gains more than offset the February declines, and by the end of the period most issues maturing in more

than 3 years were priced $2/32$ to $10/32$ of a point higher than at the beginning of February. Short-term coupon issues recorded small net price declines over the period.

Developments in the corporate and municipal markets during the period generally paralleled those in the market for Government securities. Investors showed little interest in new offerings or seasoned issues during February. Although the volume of new publicly offered corporate issues was modest in that month, a large number of private placements contributed to a hesitant atmosphere in the market. Syndicate price restrictions were removed on large unsold balances of several current offerings, with upward adjustments in yields on these issues generally ranging from 3 to 7 basis points.

On March 3 a new issue of Aa-rated utility bonds was offered at 4.51 per cent, 7 basis points above the yield on a similar issue sold a month earlier. A heavy tone in the tax-exempt market during February was magnified by a sizable build-up in the calendar of new offerings and in dealer inventories. Most offerings were accorded only a fair reception at best, and by February 28 dealers' advertised offerings of municipal securities had risen to a record level of over \$800 million, despite their aggressive price cutting on older issues, which had raised yields by as much as 10 basis points during the month.

As in the Government securities market, the emergence of higher yields brought about an increase in investor interest in corporate and municipal securities. Dealer inventories of unsold municipal bonds remained quite large in March, but a lighter calendar of future offerings helped to restore dealers' confidence and caused underwriters to bid aggressively for new issues. Investor interest in bonds was temporarily diverted, however, as attention focused on the large volume of secondary stock offerings in March, highlighted by the U.S. Government's offering of almost \$350 million of stock of General Aniline and Film Corporation.

The February rise in municipal bond yields was only partially

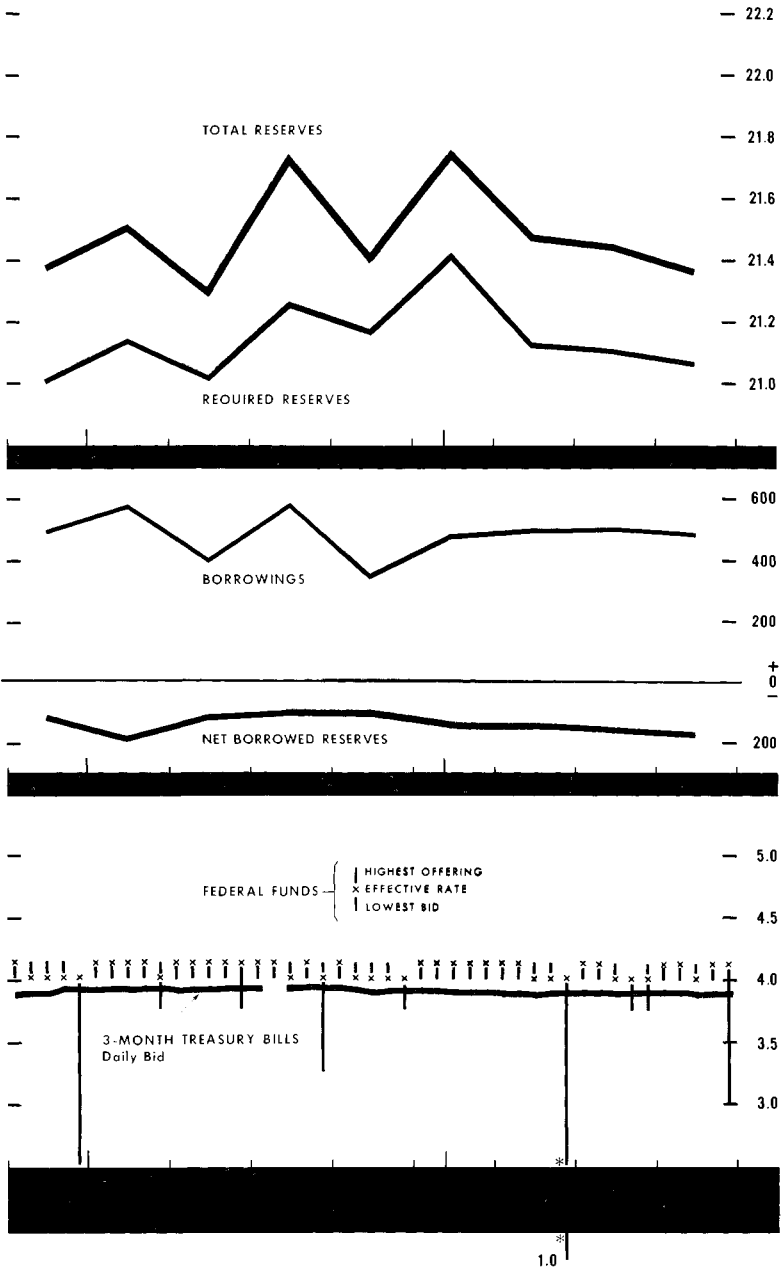
offset by declines during March, and by the close of the interval the *Bond Buyer's* index of 20-year seasoned tax-exempt bonds stood at 3.16 per cent, 12 basis points above its February 4 level. Yields on new corporate offerings also rose on balance over the period, while Moody's index of yields on Aaa-rated seasoned corporate bonds—at 4.42 per cent on March 24—was about the same as in early February.

March 25–July 28: Further shift toward mild monetary restraint. Potential inflationary pressures accompanying the vigorous expansion of the domestic economy as well as the need to reinforce the VFCR program led the Federal Open Market Committee at its March 23 meeting to instruct the Manager of the Open Market Account to promote somewhat firmer conditions in the money market while accommodating moderate growth in the reserve base, bank credit, and the money supply.

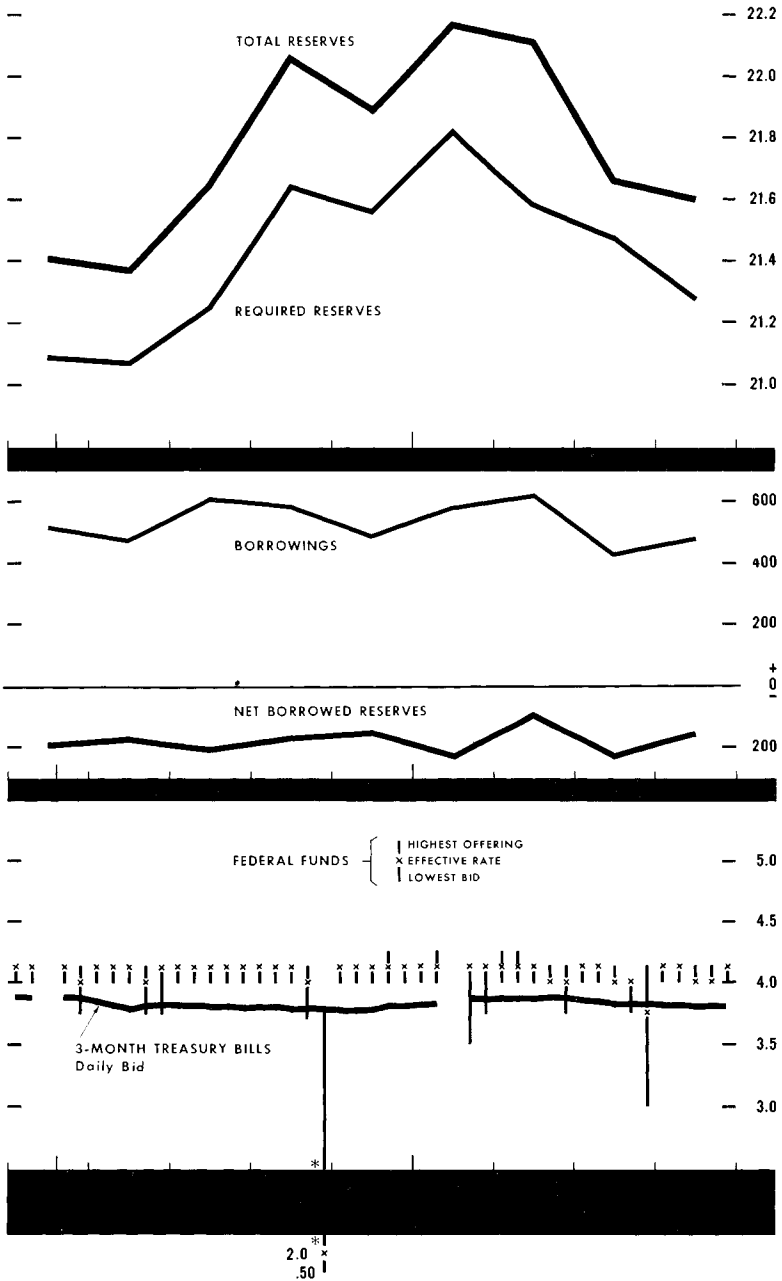
By early April Federal Reserve open market operations had achieved a firmer tone in the money market. Daily average borrowing by member banks from the Reserve Banks rose to around \$500 million in the March 25–July 28 interval, compared with about \$400 million in the preceding 7 weeks. Net borrowed reserves generally ranged from \$100 million to \$200 million on a weekly average basis during the 4-month period, compared with an average of about \$20 million for the 7 weeks ending March 24. During these 4 months, Federal funds traded predominantly at $4\frac{1}{8}$ per cent.

As the period progressed, economic opinion was concerned about the possibility that the business expansion might slow down in the last half of the year. The pace of both economic and monetary growth—while still strong—was a little slower than the unusually rapid rate of the first quarter. Bank credit expansion fell back to much the same annual rate as in earlier years of the current business expansion. More importantly, there were expectations that liquidation of the steel inventories built up as a strike hedge would exert a dampening influence after the September 1 wage-contract deadline. At the same time, it

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seemed to many market participants that the evident effectiveness of the VFCR program was reducing the likelihood of further moves toward monetary restraint for balance of payments reasons.

Over the entire period, the Federal Reserve purchased \$1.9 billion of Government securities on a net basis. These purchases offset the continued reserve drains stemming from movements in market factors and provided for a growth of \$213 million in member bank required reserves. The bulk of this reserve provision was concentrated in the period from mid-June to early July as the banks first provided the credit and deposit expansion required around the corporate dividend and tax payment dates and later supplied the enlarged needs for currency around the July 4 holiday.

As toward the end of the preceding 7-week interval, the conduct of open market operations during the March 25–July 28 period was repeatedly conditioned by the tendency of rates on Treasury bills to drift lower. Since outright purchases of Treasury bills in the market would have added to an already strong investor demand for bills, the Federal Reserve continued to rely heavily on purchases of Treasury coupon securities, repurchase agreements, and purchases directly from foreign accounts, to supply needed reserves. The aim was to smooth the over-all flow of reserves by means that would add least to the already strong downward pressures on bill rates that were evident in the market.

Over the period as a whole purchases of securities under repurchase contracts totaled \$7.6 billion and exceeded sales by \$428 million. Net purchases of \$737 million of Treasury bills from foreign accounts accounted for the major part of the \$932 million net increase in outright holdings of bills. The Federal Reserve also bought \$570 million of Treasury coupon securities over the interval.

During April and most of May, the Federal Reserve limited its outright transactions in the market largely to sales of a moderate amount of Treasury bills in the latter part of April. It off-

set large drains on reserves, particularly in early May, by executing substantial new repurchase agreements with dealers on maturing Treasury issues that constituted rights in the Treasury's May refinancing. These rights had to be financed by the dealers until May 15 when delivery was made of the new securities sold to customers on a when-issued basis. Such Federal Reserve repurchase agreements on rights issues represented the first use of a broadened authority granted in the March 2, 1965 revision of the Federal Open Market Committee's continuing directive to remove the maturity limitation on Treasury issues bought under repurchase agreements during periods of Treasury financing.

Large-scale reserve drains appeared again around Memorial Day, and during this period the market was less receptive to short-term repurchase agreements. However, following the Treasury's May refunding operation the Manager of the Account was able to purchase substantial amounts of the Treasury notes and bonds offered freely by dealers at attractive prices. As necessary, the Manager supplemented these purchases with moderate amounts of outright buying of Treasury bills in the market.

The mid-June dividend and tax dates produced a sharp increase in bank credit demands and a spurt of required reserves above projected levels. This was followed in short order by large-scale reserve drains caused by the month-end decline in float and the sizable currency outflow over the Independence Day holiday. However, the Federal Reserve was able to provide all the reserves it regarded as appropriate by means other than purchases of Treasury bills: continued outright purchases of Treasury coupon securities; short-dated repurchase agreements after the tax-date pressure on the money market appeared; and a temporary reduction in the level of Treasury balances at Federal Reserve Banks planned in coordination with the Treasury. A large British drawing on its swap arrangement with the Federal Reserve had the effect of adding to member bank reserves during this interval.

Despite a moderate reduction in net reserve availability on average during the March 25–July 28 period, the money market experienced periods of greater and lesser firmness as reserves moved away from and then back to money centers. This reflected in part a frequent tendency for some country banks to accumulate more reserves than they needed in the first half of their biweekly reserve periods, and then to sell Federal funds or otherwise transfer the accumulated excess to the money market banks as the second week progressed. This kind of influence was particularly evident around the end of March and again after mid-April.

A more powerful influence producing shifts in reserve distribution and in money market pressure during the second quarter, however, was the flow of Treasury receipts. The April 15 payment date for individual and corporate Federal income taxes placed heavy demands on the money market, and banks in the money centers had to borrow heavily from the Reserve Banks. Toward the end of April, Treasury balances at the Reserve Banks were swelled by the collection of tax checks drawn on banks in all parts of the country, and as the Treasury made large redeposits with the “C” banks, the pressure on banks in the money centers subsided.

While the money market handled smoothly the large flows of funds and securities accompanying the June dividend and tax dates, the money market banks—especially those in New York City—came under increased pressure as the temporarily enlarged demands of corporations and securities dealers for credit focused on them. Collection of funds in Treasury balances at the leading banks temporarily helped to relieve money market pressures in the week ended June 23; but this influence was reversed subsequently as the Treasury made heavy calls on the class “C” bank depositories.

In contrast to the fluctuations in most other money market measures, rates on short-term Treasury bills came under repeated downward pressure throughout the second quarter. The chief

cause was a vigorous demand for bills from corporations and public funds. In the first few weeks of the March 25–July 28 period 3-month bill rates moved within a narrow range—3.89 to 3.95 per cent—as investor demands were offset by the combined influence of the developing firmness in the money market, the lower level of net borrowed reserves, and an increase in market supplies—the latter stemming from an addition of \$200 million of bills to the April 5 weekly auction and from sizable liquidations of bills by the banks in Chicago following the April 1 Cook County tax date.

With the passing of the mid-April Federal tax date, however, rates on Treasury bills started to move lower as investment demand, particularly from public funds, proved unusually strong. The Treasury's May refinancing brought a surge in demand for bills from those who were selling their rights to the new issues offered by the Treasury, and surprisingly strong demand for bills from public funds continued through May and even into June, a time when these funds normally begin to reduce their holdings. A downward drift in bill rates through this period was also encouraged by availability of dealer financing at rates as low as $4\frac{1}{4}$ per cent from the New York City banks. As noted earlier, these banks were accumulating abnormally high balances in their Treasury deposit accounts at this time, a development that led to a marked easing in the pressures on their reserve positions.

Against this background, bidding for the attractive September and December maturities was aggressive in the weekly bill auction on June 7, and average issuing rates of 3.78 and 3.86 per cent were set on the new 3- and 6-month issues, the lowest levels since November 1964. Very large awards of the new bills to dealers produced an element of caution, reinforced by some subsequent sales of Treasury bills, which the Manager of the Account made for both System and foreign accounts.

But the bill market quickly recovered its affirmative tone, and bills returning to dealers from maturing repurchase agreements

over the June dividend and tax dates were readily absorbed despite their substantial volume. Additional demand for bills developed later in June out of the funds investors obtained from the redemption of over \$1.1 billion of tax-anticipation bills due June 22 that had not been used for tax payments and from the step-up in buying by commercial banks in preparation for the June 30 quarterly statement publishing date. Dealer anticipation that the Federal Reserve would make large-scale purchases of bills to meet midyear and July 4 reserve needs also strengthened market sentiment. By June 24 the 3-month bill rate had declined to 3.77 per cent, 14 basis points below the rate on a comparable maturity at the start of the period.

That the Federal Reserve found it unnecessary to buy bills around the end of June and over the July 4 holiday helped to bring to an end the more or less steady decline in Treasury bill rates. Dealers' portfolios of bills were soon augmented by bank selling for delivery after the June 30 statement date. Large sales of bills by a Government agency and higher dealer financing costs also contributed to a rise in Treasury bill rates. By July 28 the rate on 3-month bills was up to 3.81 per cent (bid), 4 basis points above the June low but still below the level at the start of the period.

In the capital markets, prices of Treasury notes and bonds fluctuated narrowly throughout the March 25–July 28 interval, while yields on corporate and tax-exempt bonds tended to rise somewhat. At the start of the period a hesitant atmosphere dominated all sectors of the capital markets as renewed pressures on the pound sterling generated concern lest the weakness in sterling necessitate firmer monetary policy measures to deal with the deficit in the U.S. balance of payments. In addition, uncertainties over future events in Viet Nam and news that the unemployment rate had fallen to 4.7 per cent in mid-March, the lowest level since 1957, led some observers to think that interest rates might rise. New issues of corporate and municipal securities in late March and early April were accorded luke-

warm receptions by investors. As reoffering yields rose in late April and early May, investor interest appeared to be moderately good, but it was not enough to reduce the very sizable inventories of dealers in municipal bonds.

On the other hand, sentiment in the market for Treasury notes and bonds tended to improve, helped by two items of foreign news that were regarded favorably: the announcement of a stiffer British budget, and a reduction from 4 to 3½ per cent in the discount rate of the Bank of France.

At the end of April the Treasury announced the terms of its quarterly refinancing, which gave holders of notes maturing on May 15 the right to exchange for either a 4 per cent, 15-month note at a yield of 4.12 per cent or a 4¼ per cent bond due May 1974 at a yield of 4.22 per cent. The terms came to be regarded as attractive, and attrition was small, with \$3.6 billion out of \$4.1 billion held by the public being exchanged—\$1.6 billion for the new notes and \$2.0 billion for the 9-year bonds.

Investment activity in the market for Treasury securities tapered off after the Treasury's refunding operation. As dealers became somewhat concerned over the sizable positions they had built up, they increased their efforts to make sales, and prices drifted irregularly lower. Buying interest in corporate and municipal bonds also lagged; this applied even to new Aaa-rated utility bonds reoffered to yield 4.50 per cent. The corporate bond market also began to suffer from the heavy schedule of new financing set for June. In the municipal market several sizable new offerings were quickly taken up by investors at higher yields, but smaller issues were not well received and older issues moved slowly despite price concessions.

In early June advertised dealer inventories of tax-exempt bonds rose to record levels, but these were worked down somewhat in July by some selective commercial bank buying. The corporate bond market, in contrast, readily absorbed at somewhat higher yields the large offerings that came in June—including over \$500 million of commercial bank debt issues.

Investor activity expanded following the very successful marketing of \$525 million of participation certificates by the Federal National Mortgage Association on June 15. The volume of scheduled new financing declined significantly, and underwriters made considerable headway in distributing the large supply of earlier offerings.

With the improvement in the market for corporate securities, there also came an improvement in the Treasury bond market in the latter half of June. A fairly steady tone prevailed during July, with some tendency for prices to drift lower—in part reflecting a switching from Treasury issues into corporate bonds, for which the yield advantage had widened. At the close of the period the average yield on long-term Treasury issues stood at 4.15 per cent, compared with 4.13 per cent in late March.

July 29–December 1: Maintaining firm money market conditions as the economy becomes more buoyant. Financial markets were subject to persistent upward pressures and interest rates rose during the July 29–December 1 interval. The steady stream of increasingly optimistic reports on business conditions gradually led to a re-assessment of earlier expectations of economic slowdown. Then, as the forces of domestic expansion began to accelerate in the wake of the stepped-up commitment in Viet Nam, market participants began to consider the likely effects of increases in Treasury financing requirements on a market already under pressure from other credit demands. Against this background financial markets were marked by considerable uncertainty during most of the period; Treasury financing operations encountered somewhat greater difficulties; and there was growing skepticism in the market about the viability of prevailing interest rate levels.

Federal Reserve open market operations over these months injected a total of \$1.6 billion (net) in reserves through purchases of Government securities. These purchases provided an offset to the continuing gold outflow and the rise in currency in circulation and also supported—to the extent of \$600 million—further expansion in member bank required reserves. As the

demands for credit continued to press on the commercial banks, bank credit grew over the period at an annual rate of more than 10.5 per cent. With interest rates on Government securities rising irregularly over the interval, the Federal Reserve was able to shift the emphasis of its operations toward outright transactions in Treasury securities and to reduce its reliance on repurchase agreements.

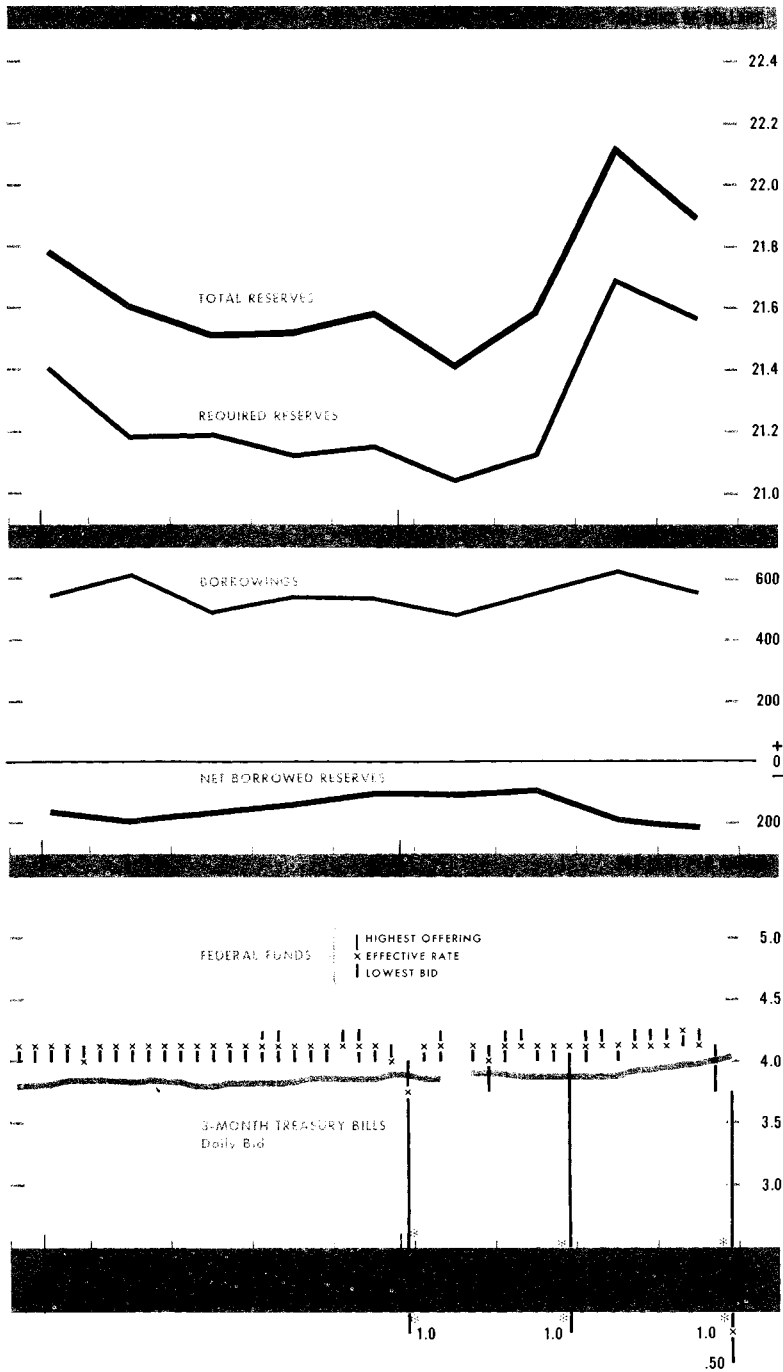
Firm conditions prevailed in the money market during the period. Federal funds regularly traded at a premium relative to the Federal Reserve Bank discount rate. On occasion the premium increased to one-quarter of a percentage point. Member bank borrowing from the Federal Reserve averaged about \$500 million a day over the period, about the same as in the preceding 4-month interval, and average net borrowed reserves fluctuated for the most part between \$100 million and \$200 million.

The one period when net borrowed reserves broke significantly out of this range was in the week that ended November 10. On Tuesday, November 9, a massive power failure in the northeastern part of the United States caused havoc in check clearing operations and made it difficult for banks in that area to calculate their reserve positions. The consequent bulge in float pushed net reserve availability at member banks for that week to a daily average of \$94 million of free reserves.

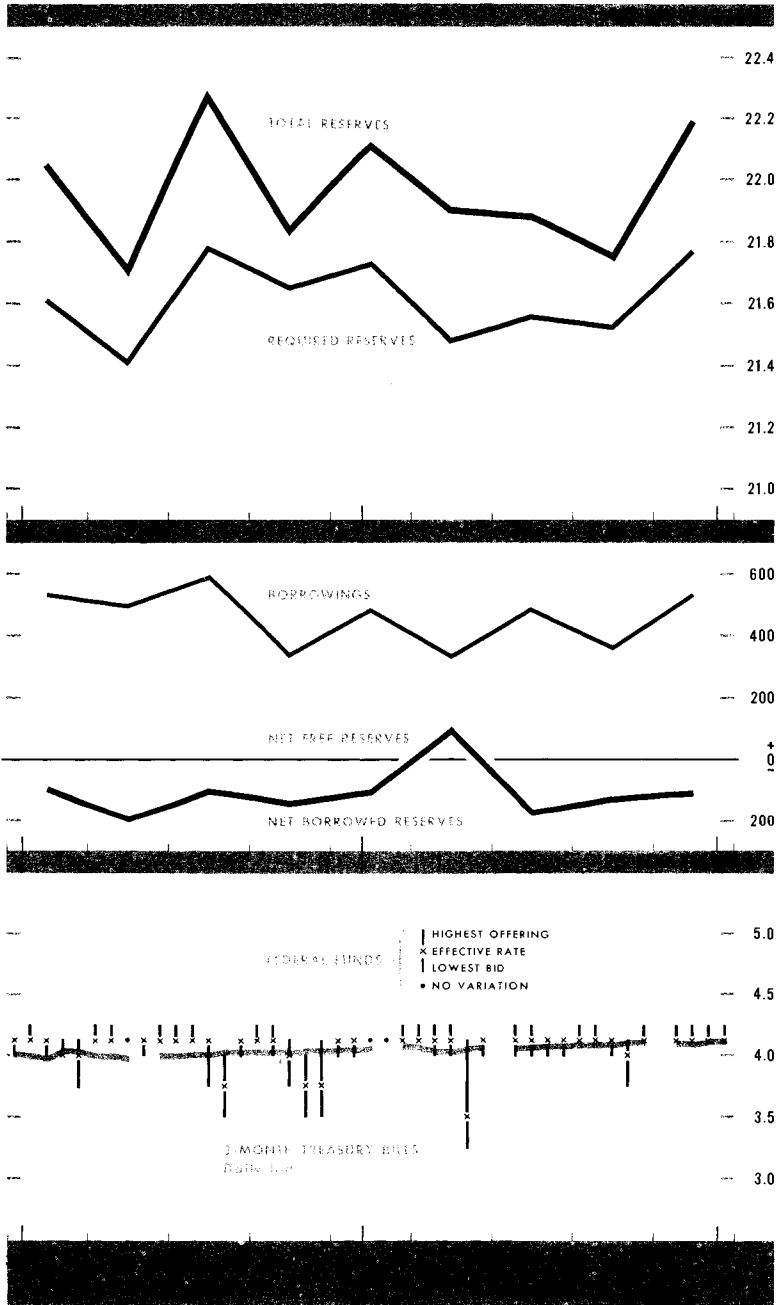
Some of this extra reserve availability remained for several days because the Federal Reserve permitted reserve city banks in New York and Boston to carry accumulated reserve excesses over into the following statement week. Subsequently, as operations by the Federal Reserve and movements in market factors absorbed reserves, net reserve availability returned to the pre-blackout levels.

On a number of occasions during the interval the direction of open market operations had to be reversed rather abruptly to counter sizable unexpected movements in market factors. One was during the Treasury's refinancing of securities maturing in

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August, announced at the end of July. The Federal Reserve, as is customary during financings, was seeking to maintain steady conditions in the money market, but net reserve availability tended alternately to fall short of expectations and then to be unexpectedly large. To offset a major part of the unexpected decline in reserves that developed over the last weekend in July, the Federal Reserve purchased a substantial amount of Treasury bills in the market during the first several days of August. At the time of these purchases, bill rates had already come under upward pressure because of the disappointing demand for bills from sellers of rights in the Treasury's refunding.

Subsequently, the Federal Reserve dealt with an emerging over-abundance of reserves by selling Treasury bills that it had tendered for redemption earlier. This served to advance the timing of the already scheduled reserve absorption by a few days. Later on, when pressures built up rapidly in the money market on Friday, August 13, the payment date for the financing, the Federal Reserve replaced maturing repurchase agreements with new contracts extending over the weekend. After the weekend, it absorbed reserves by selling Treasury bills.

In early August a cautious atmosphere developed in the capital markets. While a generally favorable response was accorded the terms of the Treasury's relatively short-term refinancing operation, which included an 18-month note and a reopening of the bonds of February 1969, Government securities dealers soon concluded that the market outlook was uncertain and that they should reduce sharply their sizable inventory positions in Treasury notes and bonds. As prices moved lower, the Federal Reserve sought to carry out open market operations in a way that would cushion the adjustments in the market for coupon issues.

Thus, as market offerings of notes and bonds increased after the Treasury refunding had been completed, the Federal Reserve was able to offset part of the pre-Labor Day currency drain on bank reserves by purchasing \$257 million of coupon issues over the August 20-September 3 period. It also purchased \$350

million of Treasury bills over this 2-week period, with most of its buying concentrated just before the Labor Day weekend.

A series of developments over the remainder of the year caused the Federal Reserve to remain out of the market for coupon securities after September 3. These included unexpected stresses in the short-term market in late September; first the approach and later the completion of the Treasury's November financing; and the market's upward groping for a viable rate level in November and December.

The mid-September dividend and tax dates passed with no unusual pressures developing in the central money market. Weekly reporting member banks lost \$816 million (net) of time certificates of deposit in the week ended September 15, as corporations used these funds to make dividend and tax payments. Corporate sales of Treasury bills were light, however, and there was also a relatively modest return of securities to dealers under maturing repurchase agreements. Dealers' demands for loans from New York City banks thus were lighter than they had been around other recent dividend and tax dates.

After the September tax date, however, the money market became firmer as the reserves shifted away from banks in the money centers. At the same time, Government securities dealers did not experience the normal recovery in the availability of corporate funds for temporary investment in repurchase agreements; this was in part because the relatively late introduction of the new-model automobiles delayed the usual seasonal rise in automobile company liquidity.

Confronted by the need to finance their inventories at the higher rates being charged by the New York City banks and by the prospective offering in late September by the Treasury of tax-anticipation bills due in March and June 1966, dealers became aggressive sellers of Treasury bills, and bill rates rose. Reserve drains during the period were such as to require large-scale purchases of securities by the Federal Reserve; between September 22 and October 1 the System bought \$1.4 billion of

bills. The growing scarcity of bills that gradually developed in the wake of these purchases helped to ease the upward pressure on bill rates, but not before the 3-month bill rate had reached 4.05 per cent on September 29, or 28 basis points above the June low.

A recurring pattern in the money market during the fall of 1965 was the tendency for member banks to overborrow from the Reserve Banks before a weekend. Such developments gave rise to redundant reserves and to an easing of money market conditions toward the end of the statement week. This pattern appeared to be triggered on occasion by some trading in Federal funds at $4\frac{1}{4}$ per cent, one-quarter percentage point over the discount rate. Some banks that had become regular users of Federal funds to finance growing credit demands were willing to pay a premium on funds in order to avoid borrowing at the Reserve Banks. With a large volume of Federal funds preempted by such heavy borrowing by banks with reserve deficits, other banks were unable to obtain in the Federal funds market the funds they needed to meet temporary reserve shortages and had to borrow at the Reserve Banks.

Federal Reserve operations often sought to head off a pyramiding of such pre-weekend borrowing by providing reserves before the weekend. While this procedure moderated the variations in money market conditions, it was sometimes necessary to reverse direction toward the end of the statement week if reserve availability turned out to be large. In the week ended October 20, for example, the Federal Reserve purchased \$145 million of Government securities under 3-day repurchase agreements on Friday, October 15, and then reversed direction through an outright sale of \$334 million of Treasury bills on the following Monday and Tuesday. Even so, member bank borrowing over that weekend amounted to \$880 million, lifting average borrowing for the week as a whole to nearly \$600 million, and Federal funds traded as low as $3\frac{1}{2}$ per cent for a time after the weekend.

In the Treasury bill market, apprehension over the outlook for interest rates prompted many investors over the period to favor bills with short maturities, while dealers at times were aggressive sellers of bills in an effort to lighten their inventories. Bill rates moved sharply higher in the early part of the period, and again after the September tax date when dealers were unable to locate lower-cost repurchase agreements to finance their positions. The Treasury bill market also reacted in late September to the Treasury's announcement of a \$4.0 billion auction of March and June tax-anticipation bills.

By early October some supply scarcities had developed in the bill market, and rates receded from their late September peak. Bidding in weekly auctions became more aggressive as dealers sought to replenish their depleted stocks. A fair investment demand for bills was also present, particularly from corporations seeking the recently issued tax-anticipation bills.

As financing costs remained high in the firm money market, however, dealers were willing sellers in the latter half of October, and this caused rates to creep higher again. The Federal Reserve purchased over \$1 billion of Treasury bills in the three business days October 28–November 1 to meet month-end reserve needs. Nevertheless, bill rates continued to inch upward.

The Federal Reserve was again a sizable buyer of Treasury bills around the Thanksgiving Day holiday when large reserve needs arose, and then again at the very end of the period when special strains developed in the money market on December 1 as settlement was made for several large offerings by Government agencies. These Federal Reserve purchases had a somewhat steadying influence on the hesitant bill market, but rates—particularly on longer maturities—still tended to creep higher throughout November. Thus, by the close of the period, rates on most bill issues were about 30 to 40 basis points higher than at the end of July, with the 3-month bill bid at 4.13 per cent compared with 3.81 per cent on July 28.

In the capital markets the cautious atmosphere that dominated

activity throughout the period first emerged after the Treasury had announced on July 28 the terms of its August refinancing. Heavy pressures on the pound sterling, as well as a growing awareness of the economic implications of stepped-up defense spending for Viet Nam, prompted participants to reappraise the outlook for interest rates. The refunding itself was concluded successfully; but as investment demand failed to respond to the volume of dealer offerings, prices of Treasury notes and bonds moved lower on almost every day from early August to the latter part of September. Yields on long-term Treasury issues moved to their highest levels in about 6 years during this period.

A similar adjustment occurred in the market for corporate bonds. A heavy volume of new corporate financing was scheduled for September, and as offerings attracted only limited interest on the part of investors, syndicate restrictions on prices were removed; significant upward adjustments in yields followed. In the tax-exempt sector a heavy atmosphere did not emerge until late August, but it persisted through September, with flotations of some previously announced new issues being postponed because of market conditions. The cancellation of one tax-exempt offering—the proceeds of which had been scheduled for reinvestment in Treasury securities—added to the pressures in the market for Government issues.

In early October the market atmosphere temporarily strengthened, partly reflecting official comments looking toward steadier interest rates. In this atmosphere two moderately sized Aaa-rated corporate offerings were well received, and they sold quickly at yields below the yield on a recent issue of similar rating. Business demands for credit were expanding rapidly, however, and with yields on new Aaa-rated corporate bonds generally above the 4½ per cent prime rate being charged by commercial banks, some financing that would normally have been carried out in the capital markets was being diverted to the banking system.

The tax-exempt market, in contrast, had some difficulty in

digesting a heavy volume of new offerings, and renewed caution appeared following the brief rally in early October. Over the period, yields on new tax-exempt bonds generally rose 25 to 30 basis points on issues of comparable quality, while yields on new corporate bond issues adjusted to an Aaa basis rose about 20 basis points. At the end of the period a municipal bond issue rated Aaa was reoffered to yield 3.50 per cent for the longest maturity; by that time yields on new corporate bond issues adjusted to an Aaa basis averaged 4.79 per cent.

In the market for Treasury securities, dealers' offerings abated in the improved atmosphere of early October. Some increases in demand appeared, stemming in part from a step-up in switching among different securities by commercial banks. The rally was short-lived, however, as expanding demands from business for capital and expectations of enlarged Treasury financing needs re-emerged as the focus of attention. Trading activity contracted in the latter part of October amid reports, subsequently confirmed, that the Federal National Mortgage Association was planning to sell several hundred million dollars of participation certificates.

In this cautious atmosphere the Treasury confined its November refinancing of \$9.7 billion of maturing issues—\$3.3 billion of which were in the hands of the public—to the offering of new 4¼ per cent 18-month notes for cash, priced to yield 4.37 per cent. Although the offering was in line with market expectations, the atmosphere in the securities market continued to deteriorate, and the new issue elicited little enthusiasm. Indeed, larger subscriptions received a 48 per cent allotment, the largest allotment percentage in almost 4 years. This response in turn added further to the already cautious atmosphere. Some switching from Treasury bonds to corporate bonds, on which yields had become relatively attractive, also contributed to the downward pressure on prices of Treasury issues.

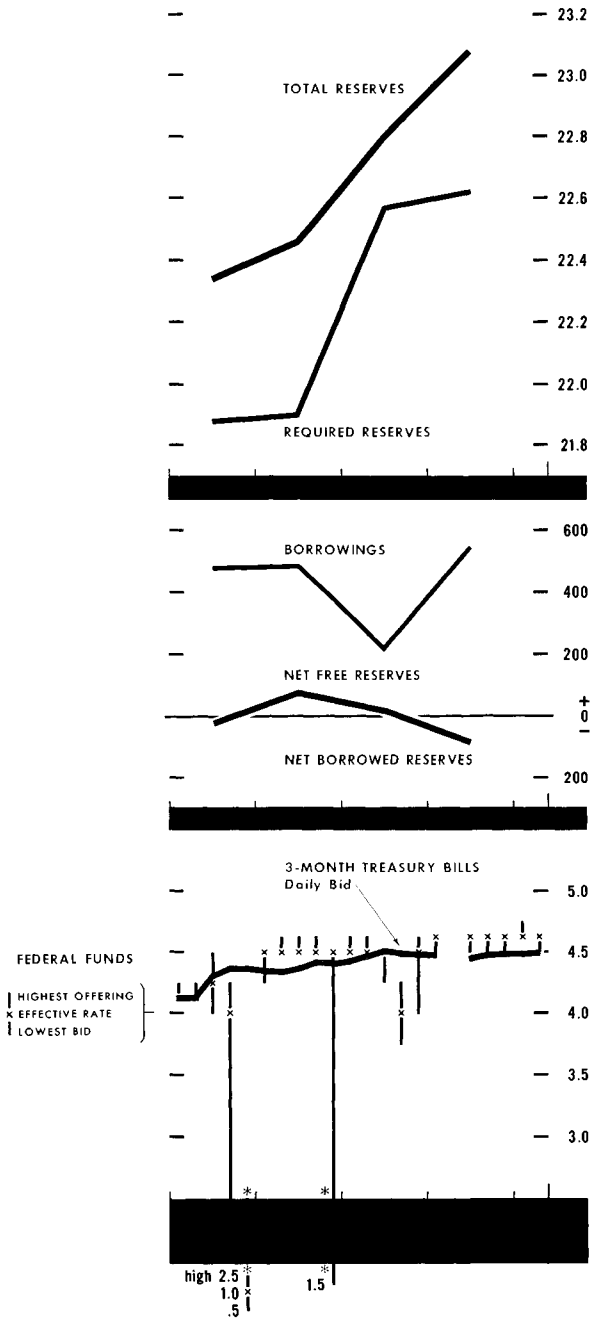
In mid-November the rescinding of the increase in aluminum prices and the favorable reception accorded the reduced volume

of new corporate offerings helped spur a technical rally in prices of Treasury notes and bonds. Subsequently—as attention again focused on the growing Federal budget deficit, the continued rise in prices, the persisting balance of payments problem, and the prospective surge of corporate borrowing—a heavy tone reappeared. Additional official statements urging stable interest rates had little effect on bond prices. Over the July 29–December 1 interval average yields on 3- to 5-year Treasury issues rose by 42 basis points to 4.53 per cent, while yields on long-term bonds increased by 22 basis points to 4.37 per cent. This rise in yields over the 4-month period was almost as great as the total increase in yields on Treasury issues over the preceding 4½ years of the current business expansion.

December 2–31: Moderating market adjustments in the wake of official rate actions. On Sunday, December 5, the Board of Governors of the Federal Reserve System announced that it had approved an increase in the discount rates of the Federal Reserve Banks of New York and Chicago from 4 to 4½ per cent and an increase in the maximum permissible interest rates payable on time deposits under Regulation Q to 5½ per cent. The Board's announcement stated that "the action contemplates the continued provision of additional reserves to the banking system, in amounts sufficient to meet seasonal pressures as well as the credit needs of an expanding economy without promoting inflationary excesses, primarily through the Federal Reserve's day-in and day-out purchases of Government securities in the open market." Shortly thereafter the other Federal Reserve Banks also raised their discount rates to 4½ per cent.

The immediate task confronting the Federal Reserve in its open market operations was to facilitate an orderly adjustment of money market rates to the official rate actions. The timing of these actions came as a surprise to market participants, even though skepticism about the viability of existing rate levels had become widespread after Federal officials tentatively had projected an increased budget deficit for the 1966 fiscal year. On

Member Bank Reserves and Borrowings, and Rates on Treasury Bills and Federal Funds



Monday morning, December 6, the System purchased \$272 million of Treasury bills at the market's opening in an endeavor to keep the adjustment process orderly.

The initial adjustments in the market were sharp. Treasury bill rates rose from 15 to 20 basis points, and prices of Treasury notes and bonds declined from one-half point to almost a full point. Declines in prices of corporate and municipal bonds also ranged to about one point, with yields rising by 5 to 10 basis points on actively traded issues. Rates on bankers' acceptances, commercial paper, and certificates of deposit were raised by about one-quarter percentage point, and major banks increased their prime lending rates by one-half percentage point to 5 per cent.

While the initial rate adjustments soon ran their course in the comfortable reserve climate fostered by open market operations, participants in money and credit markets still had to work out their appraisals of the longer-run outlook for interest rates. In this regard, attention was focused on the demands—as yet unclear—of the expanded military effort and of buoyant capital spending plans by business; and there was also increasing concern with the threat of inflationary pressures. At its December 14 meeting the Federal Open Market Committee, taking into account forthcoming Treasury financing activity and widely fluctuating seasonal pressures as well as the recent increase in Reserve Bank discount rates, directed that open market operations continue to be aimed at moderating further adjustments that might develop in money and credit markets.

In accordance with this objective, open market operations continued to provide a climate of ample reserve availability. With the mid-December bulge in float providing over \$1 billion of reserves, reserve injections by open market operations were needed on only a small scale. Except for two occasions when he made outright purchases of long-term Treasury bills that were in heavy supply in the market, the Account Manager relied primarily on purchases of Government securities and bankers' acceptances under repurchase agreements.

The use of repurchase agreements served not only to provide reserves temporarily at times of pressure but also to moderate the upward pull on Treasury bill rates that stemmed from the high dealer loan rates posted by the New York City banks. Over the December 2-31 interval, gross repurchase contracts entered into by the Federal Reserve totaled \$1.7 billion, and on a net basis holdings of Treasury securities under repurchase agreements rose by \$290 million. At the same time, despite the Federal Reserve purchases of longer-term bills, total outright holdings of Treasury bills fell by \$304 million over the period, as short-dated bills were sold or redeemed on those occasions when it was necessary to absorb reserves.

The December dividend and tax dates brought a rapid expansion in bank credit and deposits and an attendant massive redistribution of reserves, but the central money market handled these flows with facility. Federal funds traded in volume at 4½ per cent or below through December 22, and member bank borrowing from the Reserve Banks averaged \$394 million in the 3 weeks that ended on that day, well below the average of the preceding 4 months. Average free reserves of \$22 million in these 3 weeks compared with net borrowed reserves averaging \$138 million in the preceding 3 weeks.

The credit and monetary expansion during December was far greater than seasonal. The loans and investments of weekly reporting member banks rose by \$1.7 billion in the week ended December 15 alone, while negotiable CD's at these banks declined by \$730 million. The major money market banks in New York City and elsewhere accounted for a large part of the expansion in credit, and these banks came under increased reserve pressure as their assets rose more rapidly than their deposits. In the main, however, they were able to cover their reserve needs by borrowing in the Federal funds market.

A somewhat tauter tone developed in the money market after December 22. Federal Reserve open market operations injected reserves on a day-to-day basis, but these actions did not fully

offset an unexpectedly large absorption of reserves caused by a decline in Federal Reserve float. Banks in the money centers also experienced a further increase in reserve pressure as the distribution of reserves continued to favor other banks. Strong bidding for Federal funds kept the rate at $4\frac{5}{8}$ per cent throughout the week ended December 29, and member bank borrowing from the Reserve Banks rose to \$546 million. While the Federal Reserve stood ready to offset any unusual stresses that might develop around the year-end statement publishing date, only a moderate temporary injection of reserves through repurchase agreements proved necessary at that time.

Rates on Treasury bills moved irregularly upward until shortly after mid-December and then fluctuated narrowly over the remainder of the period. After the discount rate was raised, a growing concern over a further military build-up in Viet Nam, high costs of dealer financing, and prospects of large Treasury financing operations in the short-term area added to the upward pressure on bill rates just at a time when large amounts of Treasury bills were being returned to dealers under repurchase contracts with corporations that matured on December 10, the popular dividend rate. Dealers were also apprehensive about the rates that banks might pay on CD's, especially in view of the very heavy demand for bank loans. On December 17 the 3- and 6-month bills were auctioned at average rates of 4.505 and 4.692 per cent, respectively, the highest since early 1960. Subsequently, investor demand for bills expanded, and the bill market steadied.

The Treasury announced on December 22 that it would soon raise in the short-term market \$3.8 billion of its estimated \$5 billion remaining cash need for the 1966 fiscal year. The package included the addition of \$1 billion of tax-anticipation bills (due in June) to be sold December 29; the addition of \$100 million to the weekly auction of 3-month bills, probably for 13 weeks; and about \$1.5 billion of short-term securities to be sold for cash in January.

Heavy demand by corporations and banks developed for

Treasury bills, partly for year-end statement purposes. Bidding in the 1-year Treasury bill auction on December 23 was strong at the higher rate levels, and commercial banks bid aggressively on December 29 for the reopened June tax anticipation bill for which payment could be made by crediting Treasury tax and loan accounts. Even so, as the year closed, Treasury bill rates were generally 40 to 50 basis points higher than they had been on December 1, before the discount rate was raised. Rates on 3- and 6-month bills stood at 4.49 and 4.67 per cent (bid), respectively.

The market for Treasury notes and bonds continued to grope for a new trading level following its sharp initial adjustment. With no new consensus about interest rate levels quickly established in the wake of the discount rate change, prices of Treasury coupon issues tended to react in exaggerated fashion to conflicting reports regarding prospects for ending hostilities in Viet Nam, to speculation over the size of the Federal budgetary deficit and the possibility of Federal tax increases, and to further signs of inflationary pressures. The sharpest price declines were registered in the short- and intermediate-term areas, where heavy credit demands of Government and business were expected to be centered in 1966.

Treasury issues due within 5 years closed the year with yields as high as 5.01 per cent, the highest since early 1960. Yields on bonds due in more than 5 years reached their high points for recent years at mid-December, then inched irregularly lower. At the close of the year yields on long-term Treasury bonds averaged about 4.50 per cent. The volume of trading expanded during December despite the sharp price gyrations as commercial banks and others engaged in heavy year-end switching programs for tax purposes.

The markets for corporate and tax-exempt bonds performed quite smoothly following their adjustments to the change in the discount rate. In the week after the Federal Reserve's rate action three major tax-exempt issues, offered at yields 10 to 12

basis points above those on comparable issues a week earlier, were accorded favorable receptions. One utility company postponed indefinitely a major bond offering in the wake of the rate change, but a corporate issue rated Aa—offered at a yield of 4.95 per cent—was well received by investors.

During the latter part of December, trading in seasoned issues and the pace of new offerings were seasonally slow in both corporate and municipal markets. Offerings of new municipal bonds met with a mixed reception. However, dealers were successful in reducing inventories of older issues during this period, although price concessions were often necessary. At the end of the year the total of dealers' advertised inventories of municipal securities stood at \$453 million, the lowest level since January 1964. Yields on seasoned corporate and tax-exempt bonds at the close of the year, as measured respectively by Moody's Aaa series and the *Bond Buyer's* index of 20 bonds, were 4.73 and 3.54 per cent. At these levels they were 30 and 42 basis points, respectively, above such yields a year earlier.

**REVIEW OF OPEN MARKET OPERATIONS IN
FOREIGN CURRENCIES**

The position of the dollar improved in foreign exchange markets during 1965, and U.S. monetary authorities—the Federal Reserve and the Treasury—were able to reduce significantly foreign exchange commitments undertaken in 1964 and early in 1965. As the year opened, increased capital outflows from the United States were adding heavily to an already large U.S. payments deficit and to continental European countries' official holdings of dollars, which had been swollen by the flight from sterling in 1964. It was against this background that the United States in February 1965 adopted a new series of measures—including the Voluntary Foreign Credit Restraint program—to deal with its balance of payments deficit.

Although the effects of these measures soon began to show up in the exchange markets, U.S. authorities nevertheless faced the necessity of absorbing large amounts of dollars in foreign official accounts. The U.S. payments deficit persisted, although at a reduced rate; Italy and France continued to run very sizable balance of payments surpluses; and other countries received additional flows of funds out of sterling during the first 8 months of the year. Under the circumstances, U.S. authorities relied heavily on exchange operations and international credits, particularly during the early months of the year, to reduce the drain on U.S. gold reserves.

As in the past, official exchange transactions took a variety of forms to meet varying circumstances. The Federal Reserve made extensive use of its swap lines during the year, and these facilities were enlarged by \$450 million to a total of \$2.8 billion; the increases included \$200 million with the Bank of Italy, \$100 million with the Bank of Japan, and \$150 million with the Bank for International Settlements. In addition, both the Federal Reserve and the Treasury continued to undertake commitments in the forward exchange markets. The Treasury also issued \$198

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million equivalent in foreign currency debt obligations denominated in Swiss francs, Austrian schillings, and Italian lire, the proceeds of which were used to purchase excess dollars from the respective central banks.

TABLE 1
FEDERAL RESERVE RECIPROCAL CURRENCY ARRANGEMENTS

| Other party to arrangement | Amount (in millions of dollars) | | Term of arrangement (in months) |
|--------------------------------------|------------------------------------|------------------|---------------------------------|
| | Dec. 31, 1964 | Dec. 31, 1965 | |
| Austrian National Bank | 50 | 50 | 12 |
| Bank of Canada | 250 | 250 | 12 |
| Bank of England | 750 | 750 | 12 |
| Bank of France | 100 | 100 | 3 |
| German Federal Bank | 250 | 250 | 6 |
| Bank for International Settlements . | 150 | ¹ 300 | 6 |
| Bank of Italy | 250 | 450 | 12 |
| Bank of Japan | 150 | 250 | 12 |
| National Bank of Belgium | 100 | 100 | 12 |
| Netherlands Bank | 100 | 100 | 3 |
| Bank of Sweden | 50 | 50 | 12 |
| Swiss National Bank | 150 | 150 | 6 |
| Total | 2,350 | 2,800 | |

¹ Half is available in Swiss francs and half in other European currencies.

Total foreign exchange commitments of U.S. monetary authorities rose to a new high of \$2 billion in April 1965. This total included \$585 million equivalent in drawings under the Federal Reserve swap network, \$213 million in forward sales to the market, \$65 million under third-currency swaps, and \$1,137 million equivalent in foreign currency obligations of the Treasury. (Not included are the Treasury's technical commitments in forward lire, nor the U.S. net position in the International Monetary Fund, described below.)

The U.S. Treasury also made further drawings on the Inter-

national Monetary Fund. In order to avoid selling gold to countries making repayments to the Fund, the Treasury—as it had done in 1964—drew eligible currencies from the Fund for resale to such countries. In March it drew \$75 million equivalent in Canadian dollars, German marks, and Italian lire, and in September it drew \$60 million equivalent in Canadian dollars. In addition, in July the United States made its first ordinary drawing on the Fund to acquire foreign exchange on a medium-term basis. This drawing totaled \$300 million equivalent in five European currencies. Some of the proceeds were sold to the Federal Reserve to enable it to repay swap drawings, and the remainder was used by the Treasury. Although the United States drew a total of \$960 million in foreign currencies from the IMF during 1964 and 1965, other operations of the Fund resulted in disbursements of dollars and at the end of 1965 the U.S. repurchase obligation to the Fund was only \$427 million.

As 1965 progressed, the position of the dollar improved and the United States was able to reduce its use of international credit and to begin building up balances in foreign exchange. This turnabout reflected not only the successful efforts to reduce our payments deficit but also occasional payments pressures in some foreign countries and the emergence of a substantial payments deficit in Germany. Moreover, during the autumn there was a reversal of previous outflows from sterling, and at the year-end the pressures usually associated with window-dressing by European commercial banks were substantially lessened by various measures of central bank cooperation.

As a result, the Federal Reserve was able to reduce its swap commitments from the \$585 million peak in early April to \$135 million equivalent at the end of 1965. In addition, all System and Treasury forward commitments to the market (except for technical commitments in lire) were paid off, and \$20 million equivalent in third-currency swap commitments were reversed. The Treasury also repaid \$75 million equivalent of mark-

denominated bonds. Thus, from the \$2 billion peak in April, the foreign currency commitments of U.S. monetary authorities—exclusive of technical commitments in Italian lire—had been reduced to \$1,398 million equivalent by the year-end, while U.S. obligations to the IMF had increased by only \$97 million during the same period.

The Italian lira was the only currency in which the United States significantly increased its foreign exchange obligations during 1965. The huge surplus in the Italian balance of payments posed problems for international monetary cooperation, but these were worked out successfully, thanks in large part to the constructive policies of the Italian authorities, who entered into an unprecedented volume of dollar swaps with Italian commercial banks. These operations not only alleviated the need for inter-central-bank settlement of the Italian surplus but also helped to assure that international markets were not unduly squeezed for dollars as a result of the U.S. program to reduce capital outflows. As in 1962 under similar circumstances, U.S. authorities agreed to participate with the Bank of Italy in forward commitments to the Italian banks. First the Treasury, and later the System acting under a new authorization to assume commitments for forward sales of lire up to \$500 million equivalent, took part in the arrangements.

The United Kingdom continued to be plagued by a large payments deficit despite substantial progress in reducing it during the year. By late summer the exchange markets had seen a succession of speculative selling waves that had depleted Britain's credit lines—including its swap arrangement with the Federal Reserve. Nevertheless, there was increasing evidence that sterling had become heavily oversold (with a consequent improvement in the technical position of sterling) and that the corrective British measures were gradually taking hold. Therefore, the major central banks agreed in September that the time was right to initiate an operation to put pressure on the accumulated short positions in sterling, and they agreed

TABLE 2
FOREIGN CURRENCY TRANSACTIONS OF THE FEDERAL RESERVE, 1965
(In millions of dollars equivalent)

| Currency | Transactions under swap lines | | | | | Third-currency swaps | | Other transactions | | | |
|--------------------------|-------------------------------|----------------------|---|--|--------------------|---------------------------------|------------------------|--------------------|-------|--------------------------|-------|
| | Drawings | Repay-ments | Dis-burse-ments of swap-acquired balances | Acquisitions of funds for repaying swaps | | | | With U.S. Treasury | | With others ¹ | |
| | | | | From U.S. Treasury | From others | Pur-chases and re-acqui-sitions | Sales and re-pay-ments | Pur-chases | Sales | Pur-chases | Sales |
| Austrian schilling..... | | | | | | | | | | | |
| Belgian franc..... | 65.0 | 75.0 | ² 150.1 | ² 40.0 | ² 120.0 | | | | | | |
| Canadian dollar..... | | | | | | | | | | | |
| Pound sterling..... | ³ 1,765.0 | ³ 1,490.0 | | | | 25.0 | | | 7.5 | 70.1 | 73.2 |
| French franc..... | | | | | | | | | | | |
| German mark..... | 15.0 | 65.0 | 12.3 | | 62.3 | 12.5 | 52.5 | | | 72.9 | |
| Italian lira..... | 350.0 | 250.0 | 350.0 | 163.0 | 86.6 | | | | | | |
| Japanese yen..... | | | | | | | | | | | |
| Netherlands guilder..... | 25.0 | 125.0 | 25.0 | | 123.1 | | 25.0 | | | 126.8 | 31.7 |
| Swedish krona..... | | | | | | | | | | | |
| Swiss franc..... | 150.0 | 250.0 | 150.0 | | 209.2 | 40.0 | | | | 32.5 | 11.0 |
| All currencies..... | 2,370.0 | 2,255.0 | 687.4 | 203.0 | 601.2 | 77.5 | 77.5 | | 7.5 | 302.3 | 115.9 |

¹ Includes forward as well as spot transactions; excludes Italian lira forward operations and renewals of forward sales.

² Includes disbursements from and reconstitution of

\$50.0 equivalent portion of the swap line, which remains fully drawn by both parties at all times.

³ Initiated by the Bank of England.

⁴ Used to repay swap drawing.

to provide assistance to the United Kingdom for this purpose. The Federal Open Market Committee authorized the System to participate to the extent of \$200 million in these new arrangements. The U.S. Treasury also stood ready to provide substantial resources. On September 10 the Federal Reserve Bank of New York, acting for the System, initiated market operations. In succeeding months, with Britain's payments deficit narrowing, the position of sterling improved materially.

In the London gold market there was large private demand for gold through most of 1965. This continuing heavy private buying resulted mostly from speculation against sterling, large declines in the U.S. gold stock, publicity given to France's advocacy of a return to the gold standard, and a variety of international political tensions. In addition, Communist China bought a fairly sizable amount of gold. The price of gold in London therefore tended to be somewhat above the levels of the past 2 years, but with renewed Soviet sales of gold to finance purchases of wheat, the Gold Pool registered a small surplus for the year.

The remainder of this report will present a more detailed review of the Federal Reserve System's operations during 1965 in sterling, German marks, Swiss francs, Netherlands guilders, Italian lire, and Belgian francs. There were no Federal Reserve operations in Austrian schillings, Canadian dollars, French francs, Japanese yen, or Swedish kronor.

Sterling. The speculative attack against sterling that developed in the fall of 1964 continued on a diminished scale into early 1965. The Bank of England, which had already drawn a net amount of \$200 million under its swap arrangement with the System by the end of 1964, made further use of the \$750 million facility with the System in January and also drew on its credit lines with other central banks. By mid-January, however, the spot rate for sterling had firmed as selling abated, and the Bank of England began taking in dollars. During the remainder of the month, it repaid all of the amounts drawn in January,

and in February it was able to make fairly substantial further net repayments to the System.

In March the market became increasingly apprehensive that the official British pledge to defend the pound's parity might not be matched by effective restraint measures in the April budget. In addition, reduced availabilities of Euro-dollars after the United States had taken measures to curtail its balance of payments deficit helped put an end to inflows of short-term funds to London. Moreover, large forward dollar commitments to the market that the Bank of England had undertaken in late 1964 began to mature. As market pessimism increased, offerings of sterling became sizable, and the Bank of England again had to draw extensively on facilities with the Federal Reserve and with other creditors and also had to extend its forward commitments.

Following the announcement of a restrictive budget in April, and after the Prime Minister categorically denied that sterling would be devalued, the rate firmed again. The reintroduction shortly thereafter of special deposit requirements for London clearing banks and Scottish banks, followed in early May by an official request for a 5 per cent limitation on credit expansion to the private sector during the 12 months ending March 1966, also contributed to renewed buying of sterling. Consequently the Bank of England was able to purchase dollars in the market and to make substantial repayments to the System. Late in May, following a drawing of \$1.4 billion from the IMF, the Bank of England made a final payment of \$230 million to the System, and the swap line reverted to a standby basis.

Nevertheless the market remained cautious and sensitive to news of changes in Britain's economic performance. As summer approached, trade figures pointed to a widening of the trade deficit in the second quarter as a result of higher imports and sluggish exports. With attention focused on these trade results, unmistakable signs of faltering confidence emerged and the market did not respond to the June 3 reduction in the Bank

of England's discount rate to 6 per cent from the crisis level of 7 per cent and the simultaneous tightening of cash down payment requirements on hire purchase contracts. Speculative pressures mounted during June, and increasingly large operations were necessary to support sterling. Under the circumstances the Bank of England reactivated its swap facility with the Federal Reserve, drawing a total of \$360 million in June and additional amounts in July and August. By the end of August it had not only exhausted the \$750 million swap line, as the accompanying tabulation shows, but had also drawn additional amounts of \$40 million and \$100 million, respectively, from the System and the U.S. Treasury over the end of the month.

| | Drawings outstanding |
|---------------|--------------------------|
| End of month | (in millions of dollars) |
| 1964—December | 200 |
| 1965—January | 200 |
| February | 105 |
| March | 320 |
| April | 280 |
| May | 0 |
| June | 360 |
| July | 525 |
| August | 750 |
| September | 750 |
| October | 700 |
| November | 550 |
| December | 475 |

By mid-August, however, the oversold position of sterling was becoming apparent. In order to capitalize on this technical strength, the Federal Reserve along with the U.S. Treasury and nine other central banks plus the BIS joined forces with the Bank of England in new arrangements designed to force the market to cover its short positions. This agreement was announced on September 10, and the Federal Reserve immediately

entered the market to start bidding up the rate for sterling. Private covering soon took over, and as buying gained momentum, spot sterling rose above its parity of \$2.80 for the first time since the spring of 1964. At the same time the Bank of England began to take in large amounts of dollars from the market, and it continued to improve its over-all position through the year-end.

With dollars flowing back into its reserves during the autumn, the Bank of England made substantial progress in reducing its over-all commitments. In September it repaid the special System and Treasury credits totaling \$140 million, and before the end of the year it repaid a total of \$275 million under its regular swap commitment to the System. In addition, it made substantial payments on its forward commitments to the market while adding \$420 million to its reserves (although deferring some \$175 million in debt and interest payments due at the year-end to the United States and Canada). As the year closed the Bank of England's debt under the swap line was down to \$475 million.

German mark. In late December 1964 the Federal Reserve had drawn \$50 million equivalent under its \$250 million swap facility with the German Federal Bank to absorb dollars taken in by that Bank at the time of the sterling crisis. This drawing was reversed in January 1965, as short-term capital outflows from Germany—combined with German military purchases in the United States—enabled the Federal Reserve to acquire \$50 million equivalent of marks from the German Federal Bank. A \$15 million swap drawing—initiated in February when the System offered marks (and Italian lire) in New York to maintain orderly market conditions immediately following President de Gaulle's endorsement of the gold standard—was reversed in March and April.

In May the mark began to display an increasingly soft tone, as German imports continued to outpace exports. By June the mark was quoted below its par of \$0.2500 for the first time since

February 1963. The easing of the mark prompted the Federal Reserve and the U.S. Treasury to initiate substantial purchases of marks both in the market and from the German Federal Bank, in order to strengthen the official U.S. foreign currency position and begin repayment of U.S. Treasury bonds denominated in marks. Thus, the Federal Reserve purchased \$39 million equivalent of marks in June and early July, and on July 8 it swapped \$40 million equivalent of marks for Swiss francs with the BIS for use in liquidating the remaining Swiss franc drawing under the swap arrangement with that institution. In July and August additional purchases of marks enabled the System and the U.S. Treasury each to substitute \$12.5 million equivalent of marks for sterling under third-currency swaps that had been initiated in the fall of 1964 with the BIS for the purpose of acquiring guilders. Similarly, for Treasury account, \$15 million equivalent of marks were substituted for sterling in July under third-currency swap with the BIS against Swiss francs.

Additional purchases of marks enabled the Treasury to redeem a \$25 million equivalent mark-denominated bond in July and a \$50 million equivalent bond in October. These redemptions represented the first reductions in the Treasury's mark-denominated bonds. Such bonds were initially issued to the German Federal Bank in January 1963, and the total outstanding reached a high of \$679 million equivalent in 1964.

Swiss franc. In late 1964 the Swiss National Bank took in a sizable amount of dollars as funds moved into Switzerland during the sterling crisis. These dollars were partially absorbed by a Federal Reserve drawing of \$100 million equivalent in Swiss francs in December of that year under the System's swap line with the BIS. Further drawings of Swiss francs, amounting to \$60 million equivalent in January and \$90 million equivalent on March 1, were made for the same purpose—this time under the swap line with the Swiss National Bank. Thus by March 1 the Federal Reserve had used \$250 million of its \$300 million credit facilities in Swiss francs. In addition, the Swiss National

Bank purchased \$50 million of gold from the U.S. Treasury during the first 4 months of the year.

These operations were made necessary by the overhang of dollars accumulated by the Swiss National Bank during the latter part of 1964. In fact, the Swiss franc began to ease early in 1965 as Swiss banks once again started to place funds abroad. By March the rate had moved below \$0.2300, and the Swiss National Bank sold dollars to the market in support of the rate for the first time since 1962. With the softness in the franc rate persisting through the early summer, and with the Swiss National Bank needing dollars to cover its requirements for European currencies, especially for lira remittances by Italian workers in Switzerland, the U.S. monetary authorities were able to acquire a total of \$175 million equivalent in Swiss francs during the period April–July, mainly through direct transactions with the Swiss National Bank.

At the end of March the Federal Reserve began to reduce its liabilities under its swap line with the Swiss National Bank; for this purpose it used \$20 million equivalent of francs that it had acquired from the Bank of England in connection with a credit to the latter by the Swiss National Bank. During subsequent months it purchased \$82 million equivalent of francs, which it used to reduce its liability to the Swiss National Bank to \$48 million equivalent by July 16. Other spot purchases during May and June enabled the System to repay a considerable amount of its \$100 million equivalent drawing from the BIS, and on July 8 it made a final repayment with francs acquired through a \$40 million equivalent swap of German marks for Swiss francs with the BIS.

U.S. Treasury commitments resulting from forward sales of Swiss francs in the Swiss market were paid down further to \$22.5 million equivalent by late June, and forward sales of Swiss francs by the Federal Reserve were completely liquidated. The latter sales, which had been initiated in December 1964 to encourage Swiss banks to invest abroad dollars they might other-

wise have sold to the Swiss National Bank, reached a peak of \$32.5 million equivalent by January 8. The bulk of these contracts were paid off by mid-February—through spot purchases of Swiss francs—and the remainder were liquidated in July. As a result of these various operations, commitments of the Federal Reserve and the Treasury in Swiss francs were reduced by a total of \$233 million during the January–July period.

In June the Swiss franc began to firm in conjunction with the approach of midyear balance-sheet positioning by Swiss commercial banks. However, the Swiss authorities acted in both the money and foreign exchange markets to mitigate the seasonal liquidity squeeze. Consequently, the Swiss franc remained below its effective ceiling during June, and U.S. authorities continued to acquire Swiss francs from the Swiss National Bank. Opportunities for further acquisitions diminished considerably after midyear, however, as the unwinding of swaps undertaken by the Swiss National Bank at midyear brought about a tightening in the Swiss money market.

Under the circumstances the Swiss National Bank repurchased from the Swiss commercial banks part of the foreign exchange that it had sold them on a covered basis in January when the market was extremely liquid. Nevertheless, owing to renewed nervousness about sterling, the Swiss franc advanced to its effective ceiling. This made it necessary for the Swiss National Bank to buy additional dollars in its market, part of which the U.S. Treasury absorbed by purchasing dollars from that Bank against Swiss francs obtained by sale to the BIS of a \$23 million equivalent U.S. Treasury bond denominated in Swiss francs. This sale raised the Treasury's bond indebtedness in Swiss francs to \$350 million equivalent.

In mid-August the Swiss franc began to decline from its ceiling as tensions associated with sterling subsided and as the Swiss money market became easier. Late in October the Swiss National Bank again began to meet some of its dollar requirements by selling Swiss francs to the U.S. authorities. These pur-

chases enabled the Federal Reserve by early December to liquidate its remaining \$48 million equivalent drawing under its swap arrangement with the Swiss National Bank. In addition, the U.S. Treasury paid off \$22.5 million equivalent of maturing forward sales of Swiss francs to the market. Thus, at the year-end the only Federal Reserve indebtedness in Swiss francs was a \$40 million equivalent swap of German marks for Swiss francs with the BIS. The Treasury had a similar swap of \$15 million equivalent outstanding and also \$350 million equivalent of medium-term securities denominated in Swiss francs.

Netherlands guilder. Official U.S. commitments in Netherlands guilders reached a peak of \$348 million equivalent on January 8 as a result of operations during the period August 1964–January 1965, when the Dutch payments position was strong and when, in addition, funds were moving into the Netherlands as a result of speculation against sterling. As of January 8 the \$100 million Federal Reserve swap facility with the Netherlands Bank had been fully utilized, a temporary \$35 million swap between the U.S. Treasury and the Netherlands Bank had been arranged, another \$50 million of guilders had been acquired through sterling–guilder swaps with the BIS for sale to the Netherlands Bank to absorb dollars, and \$163 million equivalent of guilders had been sold forward in the Netherlands market.

Early in January the temporary swap of \$35 million between the U.S. Treasury and the Netherlands Bank was liquidated as Federal Reserve and Treasury sales of forward guilders, initiated in mid-December, induced covered investments abroad by Dutch commercial banks and facilitated the acquisition of spot guilders by the U.S. authorities. Commitments on these forward contracts through the market reached a peak of \$197 million equivalent on January 19, but by early February \$10 million of short-dated contracts had been paid off at maturity with guilders purchased from the Netherlands Bank. Moreover, in the early part of February the Federal Reserve started to repay its drawings under the swap arrangement, and by the end of the month it had

reduced the amount outstanding to \$70 million equivalent. (Half of a \$20 million equivalent swap repayment in early February was financed by the sale of \$10 million of gold by the U.S. Treasury to the Netherlands Bank.)

A payments deficit began to emerge in the Netherlands in March, and during the spring and early summer U.S. monetary authorities acquired sufficient guilders, mainly through purchases from the Netherlands Bank as it sold dollars in its market, to reduce outstanding commitments by a total of \$225 million equivalent by late July. During March and April the Federal Reserve used guilders acquired from the Netherlands Bank to repay \$25 million equivalent of its swap drawings. In late May it paid off the remaining \$45 million equivalent of drawings with guilders acquired in conjunction with the drawing by the United Kingdom from the IMF. The Federal Reserve and the Treasury also paid off a total of \$25 million equivalent of sterling-guilder swaps with the BIS in June as well as a considerable amount of forward market contracts. The remaining System forward contracts were paid off in July.

Toward midsummer, renewed nervousness regarding sterling contributed to flows of funds into the Netherlands. These inflows more or less coincided with the return of seasonal strength in the Netherlands' payments position, and with the guilder in good demand the Netherlands Bank began to buy dollars to prevent too rapid a rise in the guilder rate. Its acquisitions soon raised its total holdings above desired levels. Consequently, the U.S. Treasury purchased \$25 million at the end of July with guilders drawn from the IMF under the \$300 million equivalent multicurrency drawing referred to elsewhere, and in August the Federal Reserve reactivated its swap arrangement with the Netherlands Bank by drawing \$25 million equivalent.

In the autumn the demand in the Netherlands for dollars picked up as Dutch imports accelerated in anticipation of the imposition of new Dutch excise taxes on January 1, 1966. With the Netherlands Bank selling dollars in support of the guilder

rate, the U.S. Treasury purchased from that Bank guilders totaling \$56.9 million equivalent between late September and mid-December and repaid at maturity all of its remaining forward guilder commitments to the market. In late December the U.S. authorities acquired sufficient guilders from the Netherlands Bank to repay all the remaining official U.S. guilder commitments: \$25 million equivalent under the System's swap arrangement with the Netherlands Bank and the two \$12.5 million German mark-Dutch guilder swaps with the BIS for Federal Reserve and Treasury account.

Italian lira. In 1965 Italy registered a balance of payments surplus of nearly \$1.6 billion dollars, attributable to a much reduced trade deficit and record earnings on service transactions. Large U.S. sales of gold to Italy were avoided, however, as U.S. and Italian monetary authorities undertook a variety of measures to offset the flow of dollars to Italy. The most important element in this cooperative effort to insulate official reserves from the potentially disruptive effects of Italy's large payments surplus was the policy adopted by the Italian authorities to encourage investment abroad of dollar inflows by providing forward-lira cover to Italian commercial banks. As indicated below, U.S. authorities participated with the Italian authorities in this program. But in spite of the rechanneling of funds, Italian reserves increased, particularly during the summer months when seasonal factors are favorable to Italy. The United States therefore employed a variety of techniques to reduce official Italian outright holdings of dollars.

The Federal Reserve reactivated its \$250 million swap arrangement with the Bank of Italy on January 22 by drawing \$50 million equivalent in lire to absorb dollars. In March it made another drawing for the same amount. With \$100 million of the \$250 million swap line utilized, and with the prospect of further increases in official Italian holdings of dollars during the seasonally strong summer months, it seemed desirable to increase the size of the System's swap facility with the Bank of

Italy. Effective April 1, the arrangement was expanded to \$450 million, and a further \$100 million was immediately drawn. (Of the \$200 million increase in the swap line, \$100 million replaced a standby swap facility for a like amount made available to Italy by the U.S. Treasury in March 1964 as part of a \$1 billion credit package.) Additional dollars were absorbed from the Bank of Italy in April by an \$80 million sale of gold by the U.S. Treasury—this represented a partial repurchase by Italy of the \$200 million of gold sold to the United States in 1964—and in May by a further System swap drawing of \$50 million equivalent of lire.

In late May the United Kingdom drew from the IMF \$82 million equivalent of lire, which it sold to the Federal Reserve, thus enabling the System to reduce its swap drawings by that amount. A similar operation in connection with a subsequent drawing of lire from the Fund by Ceylon enabled the System to repay an additional \$5 million on July 2. However, as the sizable surplus in the Italian balance of payments continued, it seemed appropriate to fund the swap drawings still outstanding. Accordingly, in July the United States drew \$180 million equivalent of lire as part of its \$300 million multicurrency drawing from the IMF. Of this amount, \$163 million equivalent was used to liquidate the remaining Federal Reserve swap drawings, and the balance was used to purchase dollars from the Bank of Italy. Another \$125 million was purchased from that Bank with the proceeds from an 18-month lira-denominated bond, which the Treasury issued to the Bank of Italy. In August, inflows of dollars to Italy associated in part with continuing pressures on sterling caused the Federal Reserve to reactivate its swap facility with the Bank of Italy by drawing \$100 million of lire in order to absorb an equivalent amount of dollars.

In 1964, as the Italian payments position swung from heavy deficit to substantial surplus, the Italian authorities had begun to sell dollars to Italian commercial banks on a swap basis,

mainly for investment abroad. By March 1965 these swaps had reached substantial proportions and at that time it was agreed that the U.S. Treasury would begin to participate with the Italian authorities in forward commitments to the Italian banks. (The Treasury had undertaken similar technical commitments beginning in January 1962 and continuing until March 1964; by the latter date, the contracts between the Italian authorities and Italian banks had been fully liquidated as Italy's balance of payments swung into deficit.)

These arrangements not only reduced Italy's potential demand for gold but also helped materially to avoid a potentially disturbing squeeze for dollars that might have arisen in international markets as a result of the U.S. balance of payments program. As Italian banks received dollars from the Bank of Italy under these swaps, they repaid previous borrowings and placed additional funds in the Euro-dollar market, thereby replacing dollars being repatriated through Canada to the United States. Since the Federal Reserve had an interest in assuring orderly flows of short-term funds in this fashion, it was agreed that the Federal Reserve should join with the Treasury in the operation. Thus, in late November the Federal Open Market Committee authorized the Special Manager of the Open Market Account to assume commitments for forward sales of lire up to \$500 million equivalent as a means of facilitating the retention of dollar holdings by private foreign holders.

Belgian franc. Belgium continued to run a balance of payments surplus during the greater part of 1965, and with the Belgian franc generally at its ceiling, the Federal Reserve used its swap line to absorb excess dollars from the National Bank of Belgium. Nevertheless, the National Bank of Belgium purchased a total of \$83 million of gold from the U.S. Treasury during the first 8 months of 1965.

At the beginning of 1965 Federal Reserve drawings under the \$100 million swap arrangement with the National Bank

of Belgium amounted to \$45 million equivalent. Increases in Belgian official holdings of dollars during January and February were absorbed in part through additional drawings of \$40 million equivalent, and in early March the Federal Reserve used the remaining \$15 million of its Belgian franc facility.

In the latter part of March demand for dollars in Belgium enabled the System to acquire \$10 million equivalent of Belgian francs and reduce its drawings by that amount. However, with the Belgian franc again at its ceiling in April, the Federal Reserve drew another \$10 million from the National Bank of Belgium. The Federal Reserve was able to make the first major reduction in its Belgian franc commitments in late May, when it purchased \$40 million equivalent of Belgian francs from the National Bank of Belgium, after the United Kingdom had converted into dollars Belgian francs that it acquired under its \$1.4 billion multicurrency drawing from the IMF.

During July and August there was a succession of disbursements and purchases of Belgian francs under the swap facility; these reflected in part temporary swings in Belgium's balance of payments position and in part special transactions. In early July the Federal Reserve again increased its drawings in Belgian francs—from \$60 million to \$80 million equivalent—before a temporary demand for dollars in Belgium enabled the Federal Reserve to buy the equivalent of \$40 million of Belgian francs from the National Bank of Belgium. In late July the Federal Reserve liquidated its remaining uncovered Belgian franc position by purchasing from the U.S. Treasury \$40 million equivalent of Belgian francs, which the Treasury had acquired under its \$300 million equivalent multicurrency drawing from the IMF. In August dollars again began to move into the reserves of the National Bank of Belgium on a substantial scale, mainly as a consequence of the U.K. balance of payments difficulties, and the Federal Reserve used Belgian francs available under its swap facility with that Bank to absorb a total of \$55 million.

In mid-September, as sterling began to recover, the Belgian

franc declined from its ceiling, and in early October the Federal Reserve reduced its Belgian franc commitments by \$15 million equivalent with francs purchased from the Belgian National Bank following dollar sales by that Bank to meet the requirements of the market. The franc temporarily returned to its ceiling in November, and the System absorbed \$10 million from the Belgian National Bank with funds available under the swap facility. But in December the franc eased again, and the National Bank of Belgium sold \$15 million equivalent of francs to the System. Thus by the year-end, uncovered System commitments in Belgian francs amounted to \$35 million equivalent.

SPECIAL STUDIES BY THE FEDERAL RESERVE SYSTEM

From time to time the Federal Reserve System has undertaken extensive economic studies to reappraise the workings of its various instruments of monetary and regulatory policy. The broad aim of these studies has been to keep Federal Reserve policy and action adapted to the changing economic and financial scene. Several such studies currently under way are described below.

Member bank borrowing. The study on member bank borrowing involves a comprehensive reevaluation of the lending function of the Federal Reserve Banks. In the decade since the regulations in this field were last revised by the Board of Governors, marked changes have taken place within the financial system. Private debt has been growing much faster than Federal debt, and much of the new private debt has reflected longer-term borrowing needs. In meeting such shifting credit demands, banks have sharply reduced their cushion of liquid assets, and they have come to rely increasingly upon interest-bearing deposits and other liabilities as a means of raising additional loanable funds.

To determine to what extent the Federal Reserve discount mechanism may need to be altered in view of this changing environment, the Federal Reserve has undertaken a wide range of individual studies of relevant theory and experience. Attention is being paid to the past performance of Federal Reserve Bank discount operations as well as to the activities of other Government financial institutions in this country, and of central banks in other major industrial nations.

Among the issues being explored are:

1. Obstacles to borrowing from the Reserve Banks.
2. The changing dimensions of seasonal swings in bank and community needs for funds.
3. The growing needs of agriculture and other industries for intermediate-term external credit.
4. The extent to which reliance ought to be placed upon the discount rate on the one hand, and administrative discipline and the tradition

against borrowing on the other, as means of regulating member bank borrowing from the Federal Reserve Banks.

5. The extent of member bank reliance upon sources of lending other than the Federal Reserve Banks for assistance in times of stress, and the relation such sources should bear to accommodation by the Reserve Banks.

6. The appropriate degree of emphasis that should be placed upon sales of bank assets instead of borrowing as a means of obtaining funds, and the extent to which such sales should be facilitated by efforts to improve secondary markets for a wider range of bank assets.

7. The relation of any contemplated changes in the functioning of the discount mechanism to the conduct of open market operations, and to considerations of bank liquidity and soundness.

This study is engaging a substantial number of research, examination, legal, and operating personnel in the System, under the direction of a steering committee composed of members of the Board of Governors and the presidents of the Federal Reserve Banks. At appropriate stages, counsel will be sought from academic scholars, bankers, and a number of foreign central banks. The development of this study and of any consequent proposals for regulatory or legislative changes is expected to extend through 1966 and beyond.

U.S. Government securities market. Planning for a joint study of the U.S. Government securities market by the Treasury and the Federal Reserve was undertaken during the year 1965. The broad purpose of the study is to ascertain how the dealer market for U.S. Government securities has performed during the 1960's in light of economic developments during the period, of innovations in the financial environment and their implications for the dealer market, and of operating techniques used by the Treasury and the Federal Reserve. (This study was initiated in the early part of 1966.)

The market environment of the 1960's has changed considerably from that within which the Treasury and the Federal Reserve operated, first during World War II and the early postwar

years and then in the 1950's following the Treasury-Federal Reserve accord. The functioning of the market was studied by official groups both in the early 1950's and at the end of that decade.

The current study will focus on elements that have tended to differentiate the 1960's from earlier years and may include analyses of the following topics as they bear on the functioning of the U.S. Government securities market:

1. Financial innovations such as the rapid growth of time certificates of deposit and the greatly enlarged Federal funds market.
2. The path of economic expansion, the balance of payments, and other factors influencing interest rate variations and the volume and nature of market transactions in U.S. Government securities.
3. Performance of the U.S. Government securities market in the 1960's, with particular attention to the needs of investors, the Federal Reserve, and the Treasury.
4. Treasury and Federal Reserve operating techniques in the market, including transactions in U.S. Government securities by the Federal Reserve and the development of advance refunding techniques by the Treasury.
5. Structural elements of the market as they affect dealer functioning, including the cost and availability of financing, profitability of operations, and the changing structure of the dealer industry.

It is planned to carry out the study through staff analyses, questionnaires to U.S. Government security dealers and investors in the market, and conferences with active market participants.

Foreign operations of member banks. Among the significant developments in U.S. banking in recent years has been the rapid growth of international lending and of international operations in general. Expansion of these activities has taken place through international and foreign departments of head offices of commercial banks located in this country, through a growing network of branches abroad, and through subsidiary corporations organized under Sections 25 and 25(a) of the Federal Reserve Act (so-called Edge Act and Agreement corporations). New and closer relations between domestic and foreign credit markets

and new connections between the domestic and foreign banking systems have developed as a result of the enlargement of these operations.

A research study now under way at the Board of Governors is intended to enlarge and extend existing knowledge of the organization and conduct of these operations, the influences bearing on them, and the adaptation of banking facilities and practices that have occurred in response to changes in the international financial environment. The study is also intended to develop new and up-to-date information on the sources and character of foreign demands for bank credit from this country, and the terms and conditions on which it is extended. This information, in turn, will assist appraisal of the current role of U.S. banks in financing foreign trade and in facilitating international flows of capital.

Improved knowledge of these operations will contribute to a fuller understanding of domestic and foreign financial developments and of the broader implications that expansion of these activities holds for the international financial position of the United States. Perspective gained on the growing interconnections between foreign and domestic banks will also assist the Board in the exercise of its special responsibilities in supervising the foreign operations of member banks and their subsidiaries.

Effects of monetary policy on economic activity. The influence of financial factors on demands for goods and services is doubted by few economists. But there is far less agreement as to which financial variables are the most influential, through what channels they exert their influence on spending and saving decisions, the magnitude of their influence, how long it takes for this influence to be effective, and how the magnitude and timing of their influence varies at different stages of the business cycle. Nor is there substantial agreement as to the process by which monetary policy actions of the Federal Reserve affect these financial variables and, indirectly, the real economy.

To illuminate these problem areas in monetary economics, the Federal Reserve has undertaken a coordinated research effort that is building on the extensive research work already under way in the System and on work previously accomplished by economists within or outside the System. The program has been designed to explore these problems systematically and to use the most advanced analytic techniques available.

There are six major elements in the program. These include studies of:

1. The links between Federal Reserve open market operations in Government securities, short-term interest rates and other indexes of money market conditions, and reserve utilization by the banking system.
2. The links between changes in bank reserves and such other financial variables as the money supply, bank credit, and interest rates and other terms on longer-term securities.
3. The influence of financial variables on decisions to spend or save, that is, the impact of changes in monetary policy on major categories of expenditures.
4. The relationships among the ultimate goals of monetary policy—high employment and production, sustainable economic growth, and reasonable price stability.
5. The relationships between domestic financial conditions and international capital movements.
6. The development of over-all models of economic behavior, with special emphasis on those aspects of behavior and the time pattern of economic processes particularly relevant to the formulation of monetary policy. The models will provide a framework for integrating the relationships developed in the other elements of the study.

Staffs of the Board of Governors and the Reserve Banks are participating in the effort. Collaborating with the System staff are a number of monetary scholars whose contributions are being organized through the Social Science Research Council. Certain papers reporting on the progress in different phases of the program have already been summarized in the *Federal Reserve Bulletin*, and other summaries, and possibly complete papers, will follow from time to time as they become available.

INTERNATIONAL LIQUIDITY DISCUSSIONS

The Federal Reserve has been participating, with the Treasury Department, in the study and negotiations being carried out within the Group of Ten major trading countries regarding "arrangements for the future creation of reserve assets, as and when needed, so as to permit adequate provision for the reserve needs of the world economy." In launching this effort in September 1965, the finance ministers and the governors of the central banks of the Group of Ten envisaged two stages. In the first, they requested their deputies to determine what basis of agreement can be reached; the second stage would provide an opportunity for broader consideration in a forum that would permit the participation of other members of the International Monetary Fund.

The need to provide machinery for creating reserve assets is closely related to the prospects for restoring the U.S. balance of payments to equilibrium—an objective to which the U.S. Government is firmly committed and toward which significant progress was made in 1965. In recent years the increase in foreign holdings of dollars associated with the U.S. deficit has accounted for a substantial proportion of the growth of reserves in the rest of the world. As the deficit diminishes, there will be a slower growth of foreign reserves, unless other means of reserve creation are put into effect.

At the present time international reserves consist mainly of gold and dollars, with smaller amounts provided by other reserve currencies and by reserve positions of member countries in the IMF. The amount of new gold becoming available is not large enough to be relied upon for adequate growth in reserves and is subject to uncertainty and considerable fluctuation. Reserves created by the IMF, under its existing functions, are in relatively small quantity, comprising about 8 per cent of world monetary reserves at the present time. What will be needed, there-

fore, is a means of reserve creation that will supplement existing reserves in the form of gold, reserve currencies, and present-type claims on the IMF.

The two major forms of reserve asset under discussion are drawing rights on the IMF that are virtually automatic and a reserve unit that would be directly transferable among participating countries. The United States has put forward for consideration a dual approach involving a combination of these types of reserve asset. Under this approach, all members of the IMF would be eligible for drawing rights, while a more limited group of advanced industrial countries would create reserve units. The approach recognizes that most countries have a need for growth in their reserves over time, while also recognizing the special reserve needs of the more highly developed countries.

The Group of Ten countries are exploring for areas of agreement on questions involving the extent and nature of participation in reserve creation, the role of the IMF, and the means of assuring the acceptability and effective use of new reserve assets. In these discussions, there are several considerations that appear to be especially important from the point of view of the United States.

It is clear that the creation, distribution, and use of a supplementary reserve asset should not have the effect of reducing other forms of reserves. In particular, the world would not gain if procedures governing the use and acceptance of a new reserve asset influenced the attitudes of countries in or out of the Group of Ten toward the composition of their reserves in a way that led to a shrinkage of total reserves. Another consideration is that a new reserve asset, if it is to serve its purpose, must be based on a recognition of the limitations noted above on present and prospective supplies of gold.

More generally, changes in the international monetary system that may be sought need to recognize that the world—and even the Group of Ten—is composed of countries with diverse

characteristics. Countries differ greatly with respect to their real incomes, industrial development, maturity of financial structure, dependence on foreign trade, and flexibility of fiscal and monetary policies. The international monetary system and the means for adjusting imbalances in international payments must be supple enough to permit countries with these diverse characteristics to grow and prosper together.

**BANK SUPERVISION
BY THE FEDERAL RESERVE SYSTEM**

Examination of Federal Reserve Banks. The Board's Division of Examinations examined the 12 Federal Reserve Banks and their 24 branches during the year, as required by Section 21 of the Federal Reserve Act. In conjunction with the examination of the Federal Reserve Bank of New York, the Board's examiners also made a comprehensive audit of the accounts and holdings of the System Open Market Account operated at that Bank in accordance with policies formulated by the Federal Open Market Committee, and rendered a report thereon to the Committee. The procedures followed by the Board's examiners were surveyed and appraised by a private firm of certified public accountants, pursuant to the policy of having such reviews made on an annual basis.

Examination of member banks. National banks, all of which are members of the Federal Reserve System, are subject to examination by direction of the Board of Governors or the Federal Reserve Banks. However, as a matter of practice they are not examined by either, because the law charges the Comptroller of the Currency directly with that responsibility. The Comptroller provides reports of examinations of national banks to the Board of Governors upon request, and each Federal Reserve Bank purchases from the Comptroller copies of reports of examination of national banks in its district.

State member banks are subject to examinations made by direction of the Federal Reserve Bank of the district in which they are located by examiners selected or approved by the Board. The established policy is to conduct at least one regular examination of each State member bank, including its trust department, during each calendar year, with additional examinations if considered desirable. Wherever practicable, joint examinations are made in cooperation with the State banking authorities, or alternate independent examinations are made by

agreement with State authorities. All but 11 of the 1,406 State member banks were examined under the Federal Reserve System's 1965 program.

The Board of Governors makes its reports of examination of State member banks available to the Federal Deposit Insurance Corporation, and the Corporation in turn makes its reports of insured nonmember State banks available to the Board upon request. Also, upon request, reports of examination of State member banks are made available to the Comptroller of the Currency.

In its supervision of State member banks, the Board receives, reviews, and analyzes reports of examination of State member banks and coordinates and evaluates the examination and supervisory functions of the System. In addition, under provisions of the Federal Reserve Act and other statutes, the Board passes on applications for admission of State banks to membership in the System and for permission, among other things, to (1) merge banks, (2) form or expand bank holding companies, (3) establish domestic and foreign branches, (4) exercise expanded powers to create bank acceptances, (5) establish foreign banking and financing corporations, or (6) invest in bank premises in excess of 100 per cent of a bank's capital stock.

By Act of Congress approved August 20, 1964 (Public Law 88-467), the disclosure requirements of the Securities Exchange Act of 1934 (15 U.S.C. 78) were made applicable to equity securities (including bank stocks), and the three Federal bank supervisory agencies were vested with the authority to administer these provisions of the 1934 Act with respect to securities of banks within their respective jurisdictions. Pursuant to the provisions of the Act, the Board issued its Regulation F, effective January 1, 1965. During the year 97 State member banks registered their securities in accordance with Regulation F. Analytical review of registration statements and other material filed by banks is directed toward achieving uniform compliance by the banks, so as to assure comparability of the information

made public to serve the needs of the banks' security holders and potential investors.

In connection with disclosure regulations relating to new securities, and in its continuing efforts to reduce the incidence of crimes against banking institutions, the Board, in conjunction with the Federal Deposit Insurance Corporation and a special committee of bankers preeminent in the field of bank audit and control, developed during 1965 a list of guidelines or criteria for use by examiners in evaluating a bank's internal audit procedures and other internal safeguards. While many of the principles set forth in the guidelines have been applied by examiners for many years, renewed emphasis should serve to alert banks to any weaknesses in their internal controls and should help to check the increase in internal crimes against banking institutions.

Federal Reserve membership. As of the December call date in 1965, member banks accounted for 45 per cent of the number of all commercial banks in the United States and for 63 per cent of all commercial banking offices, and they held approximately 83 per cent of the total deposits in such banks. State member banks accounted for 16 per cent of the number of all State commercial banks and 30 per cent of the State banking offices, and they held 60 per cent of total deposits in State commercial banks.

Of the 6,221 banks that were members of the Federal Reserve System at the end of 1965, 4,815 were national banks and 1,406 were State banks. There was a net decrease of 4 member banks during the year. This reflected an increase of 42 national banks and a decrease of 46 State members. The increase in national banks reflected the organization of 88 new national banks and the conversion of 13 nonmember banks to national banks, offset by 53 conversions to branches incident to mergers and absorptions and 7 conversions to nonmember banks; and the State member decrease reflected 17 conversions to branches incident to mergers and absorptions, and 23 withdrawals from membership.

At the end of 1965, member banks were operating 12,063 branches, 848 more than at the close of 1964; this included 788 de novo establishments.

Detailed figures on changes in the banking structure during 1965 are shown in Table 19, page 276.

Bank mergers. Under Section 18(c) of the Federal Deposit Insurance Act, as amended May 13, 1960, the prior written consent of the Board of Governors of the Federal Reserve System must be obtained before a bank may merge, consolidate, acquire the assets or assume the liabilities of another bank if the acquiring, assuming, or resulting bank is to be a State member bank. Before acting on each application the Board must request reports from the Attorney General, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation on the competitive factors involved in each transaction, unless it finds that it must act immediately to prevent the probable failure of one of the participating banks. The Board in turn responds to requests by the Comptroller or the Corporation for reports on competitive factors involved when the acquiring, assuming, or resulting bank is to be a national bank or an insured nonmember State bank.

During 1965 the Board approved all 23 applications on which it acted, and it submitted 73 reports on competitive factors to the Comptroller of the Currency and 50 to the Federal Deposit Insurance Corporation. As required by Section 18(c) of the Federal Deposit Insurance Act, a description of each of the 23 applications acted on and approved by the Board, together with other pertinent information, is shown in Table 21 on pages 281-310.

Statements and orders of the Board with respect to all bank merger applications, whether approved or disapproved, are released immediately to the press and the public and are published in the *Federal Reserve Bulletin*. These set forth the factors considered, the conclusions reached, and the vote of each Board member present.

Bank holding companies. During 1965, pursuant to Section 3(a)(1) of the Bank Holding Company Act of 1956, the Board approved 2 applications for prior approval to become a bank holding company and denied 1 application. Pursuant to Section 3(a)(2) of the Act, the Board approved the acquisition by 9 bank holding companies of voting shares in 12 banks and denied 2 applications. To provide necessary current information, annual reports for 1964 were obtained from all registered bank holding companies under Section 5(c) of the Act.

Statements and orders of the Board with respect to applications to form or to expand bank holding companies, whether approved or disapproved, are released immediately to the press and the public and are published in the *Federal Reserve Bulletin*. These set forth the factors considered, the conclusions reached, and the vote of each Board member present.

During 1965, pursuant to the Banking Act of 1933, the Board authorized the issuance of 5 voting permits for general purposes and 8 for limited purposes to holding company affiliates of member banks. In accordance with established practice, several holding company affiliates were examined by examiners for the Federal Reserve Banks in whose districts the principal offices of the holding companies are located.

Section 301 of the Banking Act of 1935 provides that the term "holding company affiliate" shall not include—except for the purposes of Section 23A of the Federal Reserve Act, which restricts loans to affiliates and loans on, or investments in, the stock or obligations of affiliates—any organization that is determined by the Board not to be engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies. The Board made such determinations with respect to 32 organizations during 1965 and denied 1 application for such determination.

Foreign branches of member banks. At the end of 1965, 13 member banks had in active operation a total of 211 branches

FEDERAL RESERVE SYSTEM

in 50 foreign countries and overseas areas of the United States; 7 national banks were operating 197 of these branches, and 6 State member banks were operating 14. The number and location of these foreign branches were as shown in the accompanying tabulation.

| | | | |
|-------------------------------------|----|------------------------------------|------------|
| <i>Latin America</i> | 88 | <i>England</i> | 21 |
| Argentina | 17 | <i>Ireland</i> | 1 |
| Bahamas | 3 | <i>Africa</i> | 2 |
| Brazil | 15 | Liberia | 1 |
| British Guiana | 1 | Nigeria | 1 |
| Chile | 3 | <i>Near East</i> | 5 |
| Colombia | 6 | Dubai | 1 |
| Dominican Republic | 4 | Lebanon | 3 |
| Ecuador | 2 | Saudi Arabia | 1 |
| El Salvador | 1 | <i>Far East</i> | 50 |
| Guatemala | 2 | Hong Kong | 6 |
| Jamaica | 1 | India | 6 |
| Mexico | 5 | Japan | 12 |
| Nicaragua | 1 | Malaysia | 5 |
| Panama | 12 | Okinawa | 2 |
| Paraguay | 2 | Pakistan | 2 |
| Peru | 2 | Philippines | 5 |
| Trinidad | 3 | Singapore | 8 |
| Uruguay | 2 | Taiwan | 2 |
| Venezuela | 4 | Thailand | 2 |
| Virgin Islands (British) | 2 | <i>U.S. Overseas Areas and</i> | |
| <i>Continental Europe</i> | 21 | <i>Trust Territories</i> | 23 |
| Austria | 1 | Canal Zone | 2 |
| Belgium | 4 | Guam | 1 |
| France | 4 | Puerto Rico | 15 |
| Germany | 6 | Truk Islands | 1 |
| Greece | 1 | Virgin Islands | 4 |
| Italy | 1 | | — |
| Netherlands | 3 | Total | 211 |
| Switzerland | 1 | | |

Under the provisions of the Federal Reserve Act (Section 25 as to national member banks and Sections 9 and 25 as to State member banks), the Board during 1965 approved 38 applications made by member banks for permission to establish branches in foreign countries and overseas areas of the United States.

During the year member banks opened branches in foreign countries as follows: 1 branch in Buenos Aires, Argentina; Nassau, Bahamas; Georgetown, British Guiana; Concepcion, Chile; Cartagena, Colombia; and Santo Domingo, Dominican Republic; Vienna, Austria; Dublin, Ireland; West Berlin, Frankfurt-am-Main, and Hamburg, Germany; Calcutta, India; Kuala Lumpur and Georgetown, Malaysia; Koza, Okinawa; 2 branches in Panama City, Panama; Port of Spain, Trinidad; Antwerp, Belgium; Taipei, Taiwan; 4 branches in London, England, and in Singapore. One member bank sold its branch in Lagos, Nigeria.

Acceptance powers of member banks. During the year the Board approved the application of 1 member bank, pursuant to the provisions of Section 13 of the Federal Reserve Act, for increased acceptance powers. The bank was granted permission to accept drafts or bills of exchange drawn for the purpose of furnishing dollar exchange as required by the usages of trade in such countries, dependencies, or insular possessions of the United States as may have been designated by the Board of Governors.

Foreign banking and financing corporations. At the end of 1965 there were 4 corporations operating under agreements with the Board pursuant to Section 25 of the Federal Reserve Act relating to investment by member banks in the stock of corporations engaged principally in international or foreign banking. Three of these "agreement" corporations with head offices in New York were examined during the year by examiners for the Board of Governors. The fourth "agreement" corporation is a national

member bank in the Virgin Islands and is owned by a State member bank in Philadelphia.

During 1965, under the provisions of Section 25(a) of the Federal Reserve Act, the Board issued final permits to 4 corporations to engage in international or foreign banking or other international or foreign financial operations. Each of these corporations commenced operations in 1965. At the end of the year there were 37 corporations in active operation under Section 25(a): 20 have home offices in New York City, 1 in Boston, 4 in Philadelphia, 2 in Pittsburgh, 1 in Winston-Salem, 1 in Atlanta, 2 in Chicago, 2 in Detroit, 3 in San Francisco, and 1 in Seattle. The corporation in Seattle has an active branch in Hong Kong. Examiners for the Board of Governors examined 35 of these corporations during 1965.

Bank Examination Schools and other training activities. In 1965 the Bank Examination School conducted two sessions of the School for Examiners, four sessions of the School for Assistant Examiners, and one session of the School for Trust Examiners. The Bank Examination School, established in 1952 by the three Federal bank supervisory agencies, has been conducted jointly by the Federal Reserve System and the Federal Deposit Insurance Corporation since withdrawal of the Office of the Comptroller of the Currency in 1962.

Since the establishment of this program, 2,733 persons have attended the various sessions. This number includes representatives of the Federal bank supervisory agencies; the State Banking Departments of California, Connecticut, Idaho, Indiana, Louisiana, Maine, Michigan, Mississippi, Montana, Nebraska, New Hampshire, New Jersey, New Mexico, New York, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, Tennessee, Vermont, Virginia, and Washington; the Treasury Department of the Commonwealth of Puerto Rico; and 10 foreign countries.

ANNUAL REPORT OF BOARD OF GOVERNORS

During 1965, in cooperation with the Federal Deposit Insurance Corporation, regional training programs in automation for bank examiners were conducted in San Francisco and Minneapolis. Since their inception in 1962, these programs to train examiners in appropriate techniques and procedures for the examination of banks utilizing electronic data-processing systems have been attended by examiners from the Federal bank supervisory agencies and the State Banking Departments of Alabama, Arizona, California, Connecticut, Georgia, Idaho, Maine, Massachusetts, Michigan, Minnesota, Montana, Nevada, New Hampshire, New Jersey, New Mexico, New York, North Dakota, Pennsylvania, Rhode Island, South Carolina, South Dakota, Tennessee, Texas, Vermont, and Wisconsin.

LEGISLATION ENACTED

Elimination of gold reserve required against Federal Reserve Bank deposits. An Act of Congress, approved March 3, 1965 (Public Law 89-3), eliminated the requirement contained in Section 16 of the Federal Reserve Act (12 U.S.C. 413) for the maintenance of reserves in gold certificates of not less than 25 per centum against Federal Reserve bank deposit liabilities.

Exemption of interest on foreign time deposits. An Act of Congress, approved July 21, 1965 (Public Law 89-79), amended Section 19 of the Federal Reserve Act (12 U.S.C. 371b) so as to continue until October 15, 1968, the exemption of deposits of foreign governments and certain foreign institutions from regulation by the Board of Governors as to the rates of interest member banks may pay on time deposits.

Legal tender status of coins and currencies. An Act of Congress, approved July 23, 1965 (Public Law 89-81), known as the Coinage Act of 1965, repealed the provisions of law formerly contained in Section 43(b)(1) of the Act of May 12, 1933, as amended (31 U.S.C. 462), with respect to the legal tender status of coins and currencies of the United States, including Federal Reserve notes, but added a new provision of law to the same effect codified in 31 U.S.C. 392.

Real estate and building construction loans by national banks. An Act of Congress, approved August 10, 1965 (Public Law 89-117), amended the first paragraph of Section 24 of the Federal Reserve Act (12 U.S.C. 371) so as to make certain limitations and restrictions on the making of real estate loans by national banks inapplicable to loans for land development that are secured by mortgages under Title X of the National Housing Act. This Act also amended the third paragraph of Section 24 by substituting "twenty-four months" for "eighteen months," as the maximum maturity for loans to finance the construction of industrial or commercial buildings and residential or farm buildings.

Antitrust exemptions for voluntary agreements or programs. An Act of Congress, approved September 9, 1965 (Public Law 89-175), enacted pursuant to the President's balance of payments message of February 10, 1965, provided procedures for obtaining exemptions from the antitrust laws to assist in safeguarding the balance of payments position of the United States. As stated in the report of January 1, 1966, to the Congress, required of the Attorney General by Section 3 of the Act, the exemptions provided by this standby legislation have not been put into effect.

LEGISLATIVE RECOMMENDATIONS

Lending authority of Federal Reserve Banks. Under present law, when member banks of the Federal Reserve System borrow on any collateral other than U.S. Government obligations or limited types of paper that meet certain outmoded "eligibility" requirements, they must pay interest at a rate not less than one-half of 1 per cent higher than their Federal Reserve Bank's normal discount rate. In its ANNUAL REPORTS for 1963 and 1964 the Board of Governors recommended legislation that would permit a member bank to borrow from its Federal Reserve Bank on the security of any sound assets without paying a "penalty" rate of interest.

The Board's recommendation is embodied in S. 1559, 89th Congress, which passed the Senate August 6, 1965. The Board urges enactment of S. 1559 in order to repeal the restrictive provisions of present law and thus to facilitate rather than to penalize efforts by banks to meet the changing credit needs of the economy.

Reserve requirements. Under present law the Board is permitted to establish a system of graduated reserve requirements against demand deposits subject to the maximum and minimum percentages now specified in the law and to certain other statutory restrictions. For the reasons indicated in its ANNUAL REPORT for 1964, the Board continues to believe that serious consideration should be given to changes in present law regarding reserve requirements against deposits and, in particular, to changes that would authorize a graduated reserve system under which the required reserves of a bank would depend upon the amount of its demand deposits rather than its location. Under such a system all member banks of the same size, in terms of deposits, would carry equal reserves against such deposits.

In addition, the present law applies only to banks that are members of the Federal Reserve System. In the Board's opinion, deposits in nonmember banks are no less a part of the country's

money supply than those in member banks; yet a State bank is presently free, by not becoming a member of the Federal Reserve System, to avoid compliance with reserve requirements established to effectuate national monetary policy. The increase in demand for credit and the corresponding increase in competitive pressures to avoid the burdens of reserve requirements in attempting to meet this demand have resulted in accelerated withdrawals by member banks from the System in recent years. While the problem heretofore has been primarily one of inequity between member and nonmember banks, it is fast reaching the point where System effectiveness in the implementation of monetary and credit policy may be impaired. During the decade 1946-55, an average of 9 banks per year terminated their membership in the System, whereas in the decade 1956-65 average withdrawals jumped to 24 per year. It is even more significant, in this connection, that such withdrawals during the last decade included a number of relatively large banks, with the result that deposits substantially in excess of \$2 billion ceased to be subject to reserve requirements imposed in accordance with the Federal Reserve Act.

The Board recommends legislation that would authorize the Board to fix reserve requirements on a graduated basis according to the amount of deposits and that would make such requirements applicable to all insured banks. At the same time, it is recommended that all banks subject to such requirements should be afforded access to Federal Reserve discount facilities.

Bank Holding Company Act of 1956. In a special report submitted to Congress in 1958 and in each of its ANNUAL REPORTS since that time, the Board of Governors has recommended a number of amendments to this statute that would improve the Act's effectiveness and facilitate its administration.

Bills that were introduced during the first session of the 89th Congress would amend the Act by eliminating a number of exemptive provisions that the Board regards as unwarranted. They would also make the statute applicable to holding com-

panies with one subsidiary bank; at present it applies only to companies with two or more banking subsidiaries. In addition, the pending bills would extend the Act to cover holding company systems that are controlled by trusts of certain types.

One of the pending bills (S. 2353) would also eliminate provisions of the Holding Company Act and of the Banking Act of 1933 that the Board considers to be unnecessarily restrictive or to impose redundant regulatory burdens. The bill that passed the House of Representatives during the first session (H.R. 7371) would not repeal those provisions, and it would expand the bank holding company category to include partnerships, a step that the Board believes would excessively broaden the coverage of the statute.

Enactment of either S. 2353 or H.R. 7371 would result in more effective and more equitable regulation of bank holding companies by extending the coverage of the 1956 Act to "one-bank" situations and eliminating unjustified exemptions. However, the Board recommends enactment of S. 2353, for the reasons indicated in the preceding paragraph.

Loans to executive officers. Under the provisions of Section 22(g) of the Federal Reserve Act, a member bank may not lend more than \$2,500 to any of its executive officers. In its ANNUAL REPORT for 1964 the Board recommended that an executive officer of a member bank be permitted to borrow from his own bank up to \$5,000, or in the case of home mortgage loans up to \$30,000. The Board also suggested (1) amendments in the statute's requirements as to reports by executive officers to their banks with respect to borrowings, as well as (2) a statutory requirement that loans by a bank to its executive officers be made on terms not more favorable than those extended to other borrowers.

These recommendations are embodied in the bill S. 1558, which passed the Senate August 3, 1965, and is now pending in the House of Representatives. The Board urges enactment of S. 1558.

Purchase of obligations of foreign governments by Federal Reserve Banks. In connection with the System's foreign currency operations, the Reserve Banks acquire balances with foreign central banks. Under present law such balances may be invested in prescribed kinds of bills of exchange and acceptances, but on occasion these investment media have not been available.

To facilitate economic use of Reserve Bank balances with foreign central banks, the bill S. 1557 would amend Section 14(e) of the Federal Reserve Act to permit the investment of such balances in obligations of foreign governments or monetary authorities that will mature within 12 months and are payable in a convertible currency. S. 1557 passed the Senate August 3, 1965, and the Board recommends its enactment.

Underwriting of "revenue bonds." In recent years the Office of the Comptroller of the Currency has informed national banks that (by reason of changes in interpretations of law by that agency) they may underwrite and deal in certain types of "revenue bonds"—that is, obligations issued by a governmental entity that are not supported by general powers of taxation. The Board of Governors, however, believes that the applicable provisions of the Federal banking laws cannot properly be so interpreted. As a consequence, the rules that now govern national banks in this respect differ from those that govern State member banks, despite the intent of Congress that banks of both categories should have equal powers and be subject to the same limitations with respect to underwriting and dealing in securities.

Bills have been introduced in recent years that were designed to eliminate this disparity by permitting member banks (both national and State) to underwrite and deal in revenue bonds to a limited extent. The Board has not favored enactment of these bills. Rather, it has recommended that Congress reaffirm and clarify existing law on the subject, which forbids member banks to underwrite or deal in revenue bonds. This could be effected by adding the following sentence at the end of paragraph Seventh of Section 5136 of the Revised Statutes:

As used in this paragraph, the term "general obligations of any State or of any political subdivision thereof" means only obligations that are supported by an unconditional promise to pay, directly or indirectly, an aggregate amount which (together with any other funds available for the purpose) will suffice to discharge, when due, all interest on and principal of such obligations, which promise (1) is made by a governmental entity that possesses general powers of taxation, including property taxation, and (2) pledges or otherwise commits the full faith and credit of said promisor; said term does not include obligations not so supported that are to be repaid only from specified sources such as the income from designated facilities or the proceeds of designated taxes.

Because the inequality between national and State member banks becomes increasingly detrimental to the banking system with the passage of time, the Board considers that corrective legislation is imperative to terminate, by one means or the other, a situation in which divergent interpretations of a law result in inequitable differences in the authority of competing banks. Congress should decide whether member banks, national and State, should be permitted to underwrite and deal in revenue bonds and, if so, to what extent.

Delegation of authority. In recent years the responsibilities and tasks of the Board of Governors have substantially increased, both in the determination of monetary and credit policies and in the field of bank supervision. The efficient and expeditious performance of these duties might, at times, be impaired in the absence of authority on the part of the Board to delegate to others the performance of certain of its functions.

The bill S. 1556, which passed the Senate on August 3, 1965, would obviate this possibility by inserting a new subsection (k) in Section 11 of the Federal Reserve Act. The new subsection would authorize, but not require, the Board to delegate its functions (except those relating to rule-making and to monetary and credit policies) to members or employees of the Board or to the Federal Reserve Banks. Assignment of responsibility for the performance of particular delegated functions would be a prerogative of the Chairman of the Board of Governors, as is the case with other Federal agencies that are authorized to delegate functions. A provision requiring, at the instance of any

one member, Board review of action taken at a delegated level (1) would assure any party adversely affected by such action of a means of administrative appeal and (2) would provide the Board with an effective means for review and control of actions at the delegated level.

The Board recommends enactment of S. 1556.

“Par clearance”; absorption of exchange charges. In some areas of the United States a substantial number of banks impose so-called “exchange charges” for paying checks that are presented for payment through the mails. Such “nonpar banks” exact the exchange charges by deducting, typically, one-tenth of 1 per cent from the face amount of the check.

Deposits in checking accounts constitute the bulk of our country’s money supply. Checks and currency are the essential lubricant of our economic machine, and efficient operation requires that checks and currency be interchangeable at their face value. In the Board’s opinion, under today’s highly developed system of check collections there is no sound reason for any bank to pay less than the face amount of checks drawn upon it, even though that practice provides a source of revenue to the drawee bank. The expense incurred by that bank in performing this service should be borne by the bank’s customer—the depositor who drew the check—rather than by the payee or endorsee. This is the practice followed by most banks.

The Board recommends enactment of legislation that would require all insured banks to pay at “par” all checks drawn upon them—that is, without deduction of an exchange charge.

If such legislation is not enacted, the Board of Governors recommends that, at the very least, provisions of the Federal Reserve Act and the Federal Deposit Insurance Act with respect to the payment of interest on deposits by member and nonmember insured banks be amended to state expressly that *absorption* of exchange charges by such banks constitutes a payment of interest for the purposes of such provisions. Such an amendment would resolve a long-standing difference of opinion between the

Board of Governors and the Federal Deposit Insurance Corporation and would enable competing member and nonmember banks to operate on the same basis in this respect.

Loans to affiliated foreign bank. Under Section 23A of the Federal Reserve Act (12 U.S.C. 371(c)), member banks may not make loans or extend credit to their affiliates except against collateral of 100 to 120 per cent of the amount of the loan or extension of credit, depending on the kind of collateral. These restrictions needlessly interfere with normal commercial banking relations between a member bank and a bank abroad that is a subsidiary of a member bank's Edge corporation or Agreement corporation operating under Section 25 or Section 25(a) of the Federal Reserve Act (12 U.S.C. 601-603, 611 et seq.), unless the foreign subsidiary is wholly owned by such a corporation. The regulatory authority in the Board with respect to Edge and Agreement corporations is sufficient to insure against any practices that would be inconsistent with the purposes of the restrictions contained in Section 23A. Accordingly, there is no reason to continue the applicability of such restrictions in these situations.

This situation could be remedied by adding at the end of the second paragraph of Section 23A a provision that would make the limitations contained in the first sentence of that paragraph inapplicable to any affiliate that is organized under the laws of a foreign country or a dependency or insular possession of the United States and is engaged principally in banking.

Loans to bank examiners; margin requirements for securities transactions. The Board reiterates the recommendations included in its ANNUAL REPORT for 1964 that legislation be enacted that would (1) permit a Federally-insured bank to make a home mortgage loan to a bank examiner in an amount not exceeding \$30,000 and (2) modify Section 7 of the Securities Exchange Act of 1934 (15 U.S.C. 78g) to eliminate the difference in the status, for credit purposes, of securities traded on exchanges and securities traded over the counter.

LITIGATION

Whitney Holding Corporation, New Orleans, Louisiana. The Fifth Circuit Court of Appeals, where the Board's Order of May 3, 1962, approving the Whitney application was pending for review, remanded the matter to the Board for further "consideration in the light of the opinion of the Supreme Court" in the related case of *Whitney v. Saxon*, 379 U.S. 411. The Supreme Court, in ruling that the District Court for the District of Columbia lacked jurisdiction to enjoin the Comptroller of the Currency from authorizing the opening for business of a new bank in Jefferson Parish, to be operated as a subsidiary of Whitney's holding company, indicated that questions as to the organization or operation of a new bank by a holding company are to be decided only by the Board, with judicial review exclusively in the Court of Appeals as prescribed by the Bank Holding Company Act. The Supreme Court recommended that the Board should reconsider the Whitney application in the light of the Louisiana anti-bank-holding-company statute enacted after the Board's original Order of May 3, 1962 (See ANNUAL REPORT for 1964, pp. 208-09).

In May of 1965, the Whitney interests filed suit in a Louisiana State court against the Louisiana State Bank Commissioner, seeking to establish that the Louisiana statute was not applicable to the Whitney Holding Corporation and the newly established Whitney National Bank in Jefferson Parish and, if applicable, that it was in violation of the Constitutions of the United States and the State of Louisiana. The State court held the Louisiana statute applicable to the Whitney proposal and constitutional as so applied. That ruling has been appealed to a Louisiana Circuit Court of Appeals.

Whitney, the opposing banks, and the State Bank Commissioner all requested an opportunity to present written briefs and oral argument to the Board in connection with its reconsideration of the matter remanded to it by the Fifth Circuit Court of

Appeals. The Board granted the requests for submission of briefs by Order dated July 23, 1965. At year-end briefs had been submitted, and the arguments presented therein were under consideration. Also pending was the request by Whitney for oral argument before the Board.

Virginia M. Kirsch, et al. v. Board of Governors. At the end of 1964 there was pending before the U.S. Court of Appeals for the Sixth Circuit (Cincinnati) an appeal by Virginia M. Kirsch, and others, from the Board's Order of July 27, 1964, approving action by Society Corporation, Cleveland, Ohio, to become a bank holding company. (For a statement of Society Corporation's proposal and of the Court of Appeals' preliminary orders pending decision on the appeal, see ANNUAL REPORT for 1964, pp. 209-10.)

On December 8, 1965, the Court of Appeals unanimously affirmed the Board's action approving Society Corporation's proposal to form a bank holding company. The Court held that, contrary to petitioners' position on appeal, the Board neither abused its discretion nor violated any constitutional rights of petitioners in granting Society Corporation's application without a public hearing. Further, the Court found that the Board's decision was supported by clear and convincing evidence.

RESERVE BANK OPERATIONS

Earnings and expenses. The accompanying table summarizes the earnings, expenses, and distribution of net earnings of the Federal Reserve Banks for 1965 and 1964.

EARNINGS, EXPENSES, AND DISTRIBUTION OF NET EARNINGS
OF FEDERAL RESERVE BANKS, 1965 AND 1964
(In thousands of dollars)

| Item | 1965 | 1964 |
|---|-----------|-----------|
| Current earnings..... | 1,559,484 | 1,343,747 |
| Current expenses..... | 204,290 | 197,396 |
| Current net earnings..... | 1,355,194 | 1,146,351 |
| Net addition to current net earnings ¹ | 1,022 | 726 |
| Net earnings before payments to U.S. Treasury . . . | 1,356,215 | 1,147,077 |
| Statutory dividends paid..... | 32,352 | 30,782 |
| Payments to U.S. Treasury (interest on F.R. notes) . . | 1,296,810 | 1,582,119 |
| Transferred to surplus..... | 27,054 | -465,823 |

¹ Includes net losses on sales of U. S. Govt. securities of \$9,000 in 1965 and net profits of \$616,000 in 1964.

Of the increase in current earnings of \$216 million, or 16 per cent, \$198 million represented larger earnings on U.S. Government securities, which in turn reflected larger holdings and a somewhat higher average yield, as shown in the table on the following page.

The increase of approximately \$7 million in current expenses amounted to about 3 per cent, and the increase of \$209 million in current net earnings amounted to about 18 per cent.

Net earnings before payments to the U.S. Treasury were \$1,356 million, an increase of 18 per cent from 1964.

Statutory dividends to member banks amounted to \$32 million, about \$2 million more than in 1964. This rise reflected an increase in the capital and surplus of member banks and a con-

sequent increase in the paid-in capital stock of the Federal Reserve Banks.

Payments to the Treasury as interest on Federal Reserve notes totaled \$1,297 million for the year. This amount consists of all net earnings after dividends and the amount necessary to bring surplus to the level of paid-in capital.

Expenses of the Federal Reserve Banks include costs of \$547 for 5 regional meetings incident to the Treasury Department Savings Bond program.

A detailed statement of earnings and expenses of each Federal Reserve Bank during 1965 is shown in Table 7 on pages 264 and 265, and a condensed historical statement in Table 8 on pages 266 and 267.

Holdings of loans and securities. Average daily holdings of loans and securities during 1965 amounted to \$39,230 million—an

RESERVE BANK EARNINGS ON LOANS AND SECURITIES, 1963-65

| Item and year | Total | Discounts and advances | Acceptances | U.S. Govt. securities |
|--------------------------------------|---------|------------------------|-------------|-----------------------|
| In millions of dollars | | | | |
| Average daily holdings: ¹ | | | | |
| 1963..... | 32,085 | 269 | 53 | 31,763 |
| 1964..... | 34,985 | 294 | 76 | 34,615 |
| 1965..... | 39,230 | 492 | 77 | 38,661 |
| Earnings: | | | | |
| 1963..... | 1,148.8 | 8.9 | 1.7 | 1,138.2 |
| 1964..... | 1,337.0 | 10.5 | 2.8 | 1,323.7 |
| 1965..... | 1,545.0 | 19.8 | 3.2 | 1,522.0 |
| In per cent | | | | |
| Average rate of interest: | | | | |
| 1963..... | 3.58 | 3.30 | 3.28 | 3.58 |
| 1964..... | 3.82 | 3.57 | 3.67 | 3.82 |
| 1965..... | 3.94 | 4.03 | 4.14 | 3.94 |

¹ Based on holdings at opening of business.

increase of \$4,245 million over 1964. U.S. Government securities accounted for \$4,046 million of the increase, and discounts and advances for \$198 million.

The average rate of interest on holdings of U.S. Government securities increased from 3.82 per cent for 1964 to 3.94 per cent for 1965. The average rate of interest on discounts and advances increased from 3.57 per cent to 4.03 per cent. The increased rate of earnings on discounts reflects primarily the full effect of the discount rate increase in November 1964 and, to a slight extent, the increase in December 1965. The preceding table shows holdings, earnings, and average interest rates on loans and securities of the Federal Reserve Banks during the past 3 years.

Volume of operations. Table 10 on page 268 shows the volume of operations in the principal departments of the Federal Reserve Banks for 1962-65. Discounts and advances increased over 1964 in number and particularly in dollar amount, but the number of member banks borrowing declined to 1,157 as compared with 1,244 in 1964. The largest volume of credit outstanding to these banks was \$1.67 billion compared with \$1.17 billion in 1964, and the average outstanding was \$470 million, compared with \$289 million in 1964. Most of the credit extended was for such usual purposes as helping banks to meet seasonal needs or to offset temporary fluctuations in loan demand or deposit withdrawals.

In a majority of cases the credit was of an essentially different type; that is, it represented funds supplied by Reserve Banks in an effort to assist member banks that were in difficulty and were endeavoring to work out their problems. In several such cases credit from the Reserve Bank—or some instances the mere availability of the credit—enabled member banks to meet or to forestall immediate needs for cash that they could not have otherwise satisfied. The credit thus provided time in which to bring about necessary adjustments in the banks' affairs, making it possible for them to merge with another institution or to continue

banking operations on their own—thus avoiding losses to depositors and stockholders, disruption of the money supply, and individual and community hardship. However, such solutions were not always achieved; during the year two national member banks failed despite the substantial amounts of credit that the Reserve Banks supplied to them over extended periods to assist them in solving their problems.

The steady rise in volume of checks handled continued in 1965. At the year-end about three-fourths of these items were being processed on electronic check-handling equipment, which is now in operation at 31 of the 36 Federal Reserve Banks and branches.

The number of pieces of coin received and counted was above the extreme low of 1964, but the dollar volume dropped still further because member banks continued to deposit fewer coins of higher denominations. Currency received and counted rose moderately again in 1965, and transfers of funds continued their upward trend. Fiscal agency transactions in U.S. Government securities reached a new high again in 1965, reflecting a large advance refunding by the Treasury and increased sales and redemptions of savings bonds.

In 1961, as noted in the ANNUAL REPORT for that year, the Reserve Banks began redeeming food stamps issued by the Department of Agriculture. The number of stamps redeemed in 1965 was approximately 82 million, and they amounted to \$116 million. Figures for these operations are being shown in the table this year for the first time.

Loan guarantees for defense production. Under the Defense Production Act of 1950, the Departments of the Army, Navy, and Air Force, the Defense Supply Agency of the Department of Defense, the Departments of Commerce, Interior, and Agriculture, the General Services Administration, the National Aeronautics and Space Administration, and the Atomic Energy Commission are authorized to guarantee loans for defense production made by commercial banks and other private financing

institutions. The Federal Reserve Banks act as fiscal agents of the guaranteeing agencies under the Board's Regulation V.

During 1965 the guaranteeing agencies authorized the issuance of 5 guarantee agreements covering loans totaling \$16 million. Loan authorizations outstanding on December 31, 1965, totaled \$64 million, of which \$55 million represented outstanding loans and \$9 million additional credit available to borrowers. Of total loans outstanding, 77 per cent on the average was guaranteed. During the year approximately \$108 million was disbursed on guaranteed loans, most of which are revolving credits.

Authority for the V-loan program, unless extended, will terminate on June 30, 1966.

Table 14 (page 270) shows guarantee fees and maximum interest rates applicable to Regulation V loans.

Foreign and international accounts. Assets held for foreign account at the Federal Reserve Banks declined \$65 million. At the end of the year they amounted to \$20,241 million: \$10,906 million of earmarked gold; \$8,272 million of U.S. Government securities (including securities payable in foreign currencies); \$150 million in dollar deposits; \$144 million of bankers' acceptances purchased through Federal Reserve Banks; and \$769 million of miscellaneous assets. The latter item includes mainly dollar bonds issued by foreign countries and international organizations. Assets held for international organizations, including an IMF gold deposit, increased by \$690 million to \$8,753 million.

In 1965 new accounts were opened in the names of the central banks of Jordan, Malawi, Rhodesia, Sierra Leone, and Zambia.

Gold collateral loans totaling \$30 million which were outstanding at the beginning of 1965 were repaid. New arrangements—including a standby commitment—amounted to \$93 million, of which \$41 million was outstanding at the end of the

year. Loans on gold are made to foreign monetary authorities to help them meet dollar requirements of a temporary nature.

The Federal Reserve Bank of New York continued to act as depositary and fiscal agent for international organizations. As fiscal agent of the United States, the Bank continued to operate the Exchange Stabilization Fund pursuant to authorization and instructions of the Secretary of the Treasury. Also on behalf of the Treasury Department, it administered foreign assets control regulations pertaining to assets in the United States of North Viet Nam, Cuba, Communist China, and North Korea, and their nationals, and to transactions with those countries and their nationals.

Bank premises. During 1965 the Board authorized construction of a new building for the Little Rock Branch.

With the approval of the Board, properties adjacent to the Federal Reserve Bank of Richmond and the new building for the New Orleans Branch were acquired for future expansion, and a site was obtained for a new building for the Cincinnati Branch.

Table 6 on page 263 shows the cost and book value of bank premises owned and occupied by the Federal Reserve Banks and of real estate acquired for banking-house purposes.

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BOARD OF GOVERNORS—INCOME AND EXPENSES

The accounts of the Board for the year 1965 were audited by the public accounting firm of Haskins & Sells.

ACCOUNTANTS' OPINION

Board of Governors of the
Federal Reserve System:

We have examined the balance sheet of the Board of Governors of the Federal Reserve System as of December 31, 1965 and the related statement of assessments and expenditures for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the financial position of the Board of Governors of the Federal Reserve System at December 31, 1965 and its assessments and expenditures for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Haskins & Sells

Washington, D. C.
January 28, 1966

FEDERAL RESERVE SYSTEM

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

BALANCE SHEET, DECEMBER 31, 1965

ASSETS

| | | |
|---|----|-------------|
| OPERATING FUND: | | |
| Cash | \$ | 610,862 |
| Miscellaneous receivables and travel advances | | 21,014 |
| Stockroom and cafeteria inventories—at cost | | 17,470 |
| | | <hr/> |
| Total operating fund | | 649,346 |
| | | <hr/> |
| PROPERTY FUND—At cost: | | |
| Land and improvements | | 792,852 |
| Building | | 4,113,043 |
| Furniture and equipment | | 1,247,203 |
| | | <hr/> |
| Total property fund | | 6,153,098 |
| | | <hr/> |
| TOTAL | \$ | 6,802,444 |
| | | <hr/> <hr/> |

LIABILITIES AND FUND BALANCES

| | | | |
|--|----|-----------|-------------|
| OPERATING FUND: | | | |
| Current liabilities: | | | |
| Accounts payable and accrued expenses | \$ | 327,390 | |
| Income taxes withheld | | 230,539 | |
| Accrued payroll | | 249,237 | \$ 807,166 |
| | | <hr/> | |
| Fund balance: | | | |
| Balance, January 1, 1965 | | 264,133 | |
| Excess of expenditures over assessments for the year | | (421,953) | (157,820) |
| | | <hr/> | <hr/> |
| Total operating fund | | | 649,346 |
| PROPERTY FUND: | | | |
| Fund balance, January 1, 1965 | | 6,121,390 | |
| Expenditures for additions | | 49,301 | |
| Property adjustments and disposals | | (17,593) | |
| | | <hr/> | |
| Total property fund | | | 6,153,098 |
| | | | <hr/> |
| TOTAL | \$ | | 6,802,444 |
| | | | <hr/> <hr/> |

ANNUAL REPORT OF BOARD OF GOVERNORS

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

STATEMENT OF ASSESSMENTS AND EXPENDITURES FOR THE YEAR ENDED DECEMBER 31, 1965

| | | |
|--|--------------|----------------|
| ASSESSMENTS LEVIED ON FEDERAL RESERVE BANKS: | | |
| For Board expenses and additions to property | \$ 8,576,400 | |
| For expenditures made on behalf of the Federal Reserve Banks | 21,930,445 | |
| Total assessments | | 30,506,845 |
| EXPENDITURES: | | |
| For printing, issue and redemption of Federal Reserve notes, paid on behalf of the Federal Reserve Banks | | 21,930,445 |
| For expenses of the Board: | | |
| Salaries | \$5,716,937 | |
| Retirement and insurance contributions | 1,327,927 | |
| Traveling expenses | 317,377 | |
| Consumer finances surveys | 293,844 | |
| Legal, consultant and audit fees | 86,921 | |
| Other contractual services | 199,508 | |
| Printing and binding—net | 307,722 | |
| Equipment and other rentals | 139,060 | |
| Telephone and telegraph | 121,718 | |
| Postage and expressage | 101,275 | |
| Stationery, office and other supplies | 77,107 | |
| Heat, light and power | 51,509 | |
| Operation of cafeteria—net | 51,441 | |
| Repairs, maintenance and alterations | 70,431 | |
| Books and subscriptions | 24,596 | |
| Insurance | 1,775 | |
| System membership, Center for Latin American Monetary Studies | 18,000 | |
| Miscellaneous—net | 41,904 | |
| Total expenditures | | 8,949,052 |
| For property additions | | 49,301 |
| Total expenditures | | 30,928,798 |
| EXCESS OF EXPENDITURES OVER ASSESSMENTS FOR THE YEAR.. | \$ | 421,953 |

Tables



**1. DETAILED STATEMENT OF CONDITION OF ALL FEDERAL RESERVE BANKS
COMBINED, DECEMBER 31, 1965**

(In thousands of dollars)

| ASSETS | | |
|---|------------|-------------------|
| Gold certificates on hand: | | |
| Held by F.R. Banks..... | 1,278 | |
| Held by F.R. Agents..... | | |
| Gold certificates due from U.S. Treasury: | | |
| Interdistrict Settlement Fund..... | 5,075,844 | |
| F.R. Agents' Fund..... | 6,625,000 | 11,702,122 |
| Redemption fund for F.R. notes..... | | <u>1,733,998</u> |
| Total gold certificate reserves..... | | 13,436,120 |
| F.R. notes of other F.R. Banks..... | | 875,366 |
| Other cash: | | |
| United States notes..... | 22,818 | |
| Silver certificates..... | 31,898 | |
| Standard silver dollars..... | 51 | |
| National bank notes and F.R. Bank notes..... | 255 | |
| Subsidiary silver, nickels, and cents..... | 75,231 | |
| Total other cash..... | | 130,253 |
| Discounts and advances secured by U.S. Govt. securities: | | |
| Discounted for member banks..... | 82,853 | |
| Discounted for others..... | | 82,853 |
| Other discounts and advances: | | |
| Discounted for member banks..... | 13,994 | |
| Foreign loans on gold..... | 41,000 | 54,994 |
| Total discounts and advances..... | | 137,847 |
| Acceptances: | | |
| Bought outright..... | | 74,509 |
| Held under repurchase agreement..... | | 111,925 |
| U.S. Govt. securities: | | |
| Bought outright: | | |
| Bills..... | 9,100,669 | |
| Certificates..... | | |
| Notes..... | 24,827,722 | |
| Bonds..... | 6,549,797 | |
| Total bought outright..... | 40,478,188 | |
| Held under repurchase agreement..... | 289,900 | |
| Total U.S. Govt. securities..... | | 40,768,088 |
| Total loans and securities..... | | 41,092,369 |
| Cash items in process of collection: | | |
| Transit items..... | 8,061,847 | |
| Exchanges for clearing house..... | 251,007 | |
| Other cash items..... | 443,352 | |
| Total cash items in process of collection..... | | 8,756,206 |
| Bank premises: | | |
| Land..... | | 28,187 |
| Buildings (including vaults)..... | 109,019 | |
| Fixed machinery and equipment..... | 61,450 | |
| Total buildings..... | 170,469 | |
| Less depreciation allowances..... | 96,066 | 74,403 |
| Total bank premises..... | | 102,590 |
| Other assets: | | |
| Claims account closed banks..... | 2,434 | |
| Denominated in foreign currencies..... | 629,046 | |
| Gold due from U.S. Treasury for account International Monetary Fund.. | 34,271 | |
| Reimbursable expenses and other items receivable..... | 2,917 | |
| Interest accrued..... | 297,979 | |
| Premium on securities..... | 1,527 | |
| Deferred charges..... | 2,012 | |
| Real estate acquired for banking-house purposes..... | 3,935 | |
| Suspense account..... | 3,721 | |
| All other..... | 1,083 | |
| Total other assets..... | | 978,925 |
| Total assets..... | | <u>65,371,829</u> |

**I. DETAILED STATEMENT OF CONDITION OF ALL FEDERAL RESERVE BANKS
COMBINED, DECEMBER 31, 1965—Continued**

(In thousands of dollars)

| LIABILITIES | | |
|--|-----------|-------------------|
| F.R. notes: | | |
| Outstanding (issued to F.R. Banks)..... | | 40,350,996 |
| Less: Held by issuing F.R. Banks..... | 2,120,433 | |
| Forwarded for redemption..... | 280,608 | 2,401,041 |
| | | <hr/> |
| F.R. notes, net (includes notes held by U.S. Treasury and by F.R. Banks other than issuing Bank)..... | | 37,949,955 |
| Deposits: | | |
| Member bank reserves..... | | 18,448,474 |
| U.S. Treasurer—General account..... | | 667,714 |
| Foreign..... | | 150,281 |
| Other deposits: | | |
| Nonmember bank—Clearing accounts..... | 65,247 | |
| Officers' and certified checks..... | 7,945 | |
| Reserves of corporations doing foreign banking or financing..... | 33,861 | |
| International organizations..... | 102,346 | |
| All other..... | 145,764 | |
| | | <hr/> |
| Total other deposits..... | | 355,163 |
| | | <hr/> |
| Total deposits..... | | 19,621,632 |
| Deferred availability cash items..... | | 6,510,194 |
| Other liabilities: | | |
| Accrued dividends unpaid..... | | |
| Unearned discount..... | | 536 |
| Discount on securities..... | 180,035 | |
| Sundry items payable..... | 6,803 | |
| Suspense account..... | 766 | |
| All other..... | 14 | |
| | | <hr/> |
| Total other liabilities..... | | 188,154 |
| | | <hr/> |
| Total liabilities..... | | 64,269,935 |

CAPITAL ACCOUNTS

| | | |
|---|--|-------------------|
| Capital paid in..... | | 550,947 |
| Surplus..... | | 550,947 |
| Other capital accounts ¹..... |  | ..... |
| | | <hr/> |
| Total liabilities and capital accounts..... | | 65,371,829 |
| | | <hr/> |
| Contingent liability on acceptances purchased for foreign correspondents..... | | 143,523 |

¹ During the year this item includes the net of earnings, expenses, profits, etc., which are closed out on Dec. 31; see Table 7, pp. 264-265.

NOTE.—Amounts in boldface type indicate items shown in the Board's weekly statement of condition of the F.R. Banks.

2. STATEMENT OF CONDITION OF EACH FEDERAL RESERVE BANK, DECEMBER 31, 1965 and 1964

(In millions of dollars unless otherwise indicated)

| Item | Total | | Boston | | New York | | Philadelphia | | Cleveland | | Richmond | |
|--|--------|--------|--------|-------|----------|--------|--------------|-------|-----------|-------|----------|-------|
| | 1965 | 1964 | 1965 | 1964 | 1965 | 1964 | 1965 | 1964 | 1965 | 1964 | 1965 | 1964 |
| ASSETS | | | | | | | | | | | | |
| Gold certificate account..... | 11,702 | 13,505 | 702 | 679 | 2,478 | 3,073 | 787 | 759 | 1,028 | 1,147 | 1,012 | 896 |
| Redemption fund for F.R. notes..... | 1,734 | 1,570 | 99 | 90 | 409 | 355 | 94 | 86 | 148 | 138 | 143 | 133 |
| Total gold certificate reserves..... | 13,436 | 15,075 | 801 | 769 | 2,887 | 3,428 | 881 | 845 | 1,176 | 1,285 | 1,155 | 1,029 |
| F.R. notes of other Banks..... | 876 | 684 | 74 | 49 | 151 | 183 | 66 | 51 | 70 | 47 | 102 | 56 |
| Other cash..... | 129 | 146 | 9 | 9 | 17 | 32 | 6 | 5 | 12 | 11 | 9 | 9 |
| Discounts and advances: | | | | | | | | | | | | |
| Secured by U.S. Govt. securities..... | 82 | 137 | | 18 | 19 | 33 | 2 | * | * | 20 | 1 | 12 |
| Other..... | 55 | 49 | 2 | 1 | 11 | 8 | 2 | 2 | 4 | 3 | 2 | 2 |
| Acceptances: | | | | | | | | | | | | |
| Bought outright..... | 75 | 59 | | | 75 | 59 | | | | | | |
| Held under repurchase agreements..... | 112 | 35 | | | 112 | 35 | | | | | | |
| U.S. Govt. securities: | | | | | | | | | | | | |
| Bought outright..... | 40,478 | 36,506 | 2,097 | 1,911 | 9,744 | 8,748 | 2,114 | 2,003 | 3,435 | 3,051 | 2,863 | 2,647 |
| Held under repurchase agreements..... | 290 | 538 | | | 290 | 538 | | | | | | |
| Total loans and securities..... | 41,092 | 37,324 | 2,099 | 1,930 | 10,251 | 9,421 | 2,118 | 2,005 | 3,439 | 3,074 | 2,866 | 2,661 |
| Cash items in process of collection..... | 8,758 | 8,984 | 519 | 643 | 1,677 | 1,833 | 484 | 492 | 586 | 616 | 700 | 666 |
| Bank premises..... | 103 | 102 | 3 | 3 | 9 | 8 | 3 | 3 | 5 | 6 | 5 | 5 |
| Other assets: | | | | | | | | | | | | |
| Denominated in foreign currencies..... | 629 | 295 | 30 | 14 | 166 | 78 | 35 | 16 | 57 | 27 | 31 | 15 |
| All other..... | 348 | 257 | 16 | 13 | 110 | 61 | 16 | 15 | 27 | 20 | 21 | 18 |
| Total assets..... | 65,371 | 62,867 | 3,551 | 3,430 | 15,268 | 15,044 | 3,609 | 3,432 | 5,372 | 5,086 | 4,889 | 4,459 |

| LIABILITIES | | | | | | | | | | | | |
|---|--------|--------|-------|-------|--------|--------|-------|-------|-------|-------|-------|-------|
| F.R. notes..... | 37,950 | 35,343 | 2,250 | 2,084 | 8,600 | 8,254 | 2,241 | 2,077 | 3,232 | 3,005 | 3,388 | 3,010 |
| Deposits: | | | | | | | | | | | | |
| Member bank reserves..... | 18,447 | 18,086 | 702 | 653 | 4,804 | 4,830 | 858 | 784 | 1,445 | 1,351 | 825 | 780 |
| U.S. Treasurer—General account..... | 668 | 820 | 48 | 55 | 160 | 152 | 39 | 75 | 68 | 70 | 69 | 57 |
| Foreign..... | 150 | 229 | 7 | 11 | 40 | 68 | 8 | 12 | 13 | 20 | 8 | 11 |
| Other..... | 355 | 321 | 6 | 5 | 184 | 181 | 6 | 7 | 12 | 8 | 12 | 10 |
| Total deposits..... | 19,620 | 19,456 | 763 | 724 | 5,188 | 5,231 | 911 | 878 | 1,538 | 1,449 | 914 | 858 |
| Deferred availability cash items..... | 6,510 | 6,378 | 474 | 542 | 1,142 | 1,113 | 387 | 384 | 487 | 482 | 518 | 504 |
| Other liabilities..... | 189 | 642 | 10 | 30 | 50 | 172 | 10 | 35 | 15 | 56 | 13 | 35 |
| Total liabilities..... | 64,269 | 61,819 | 3,497 | 3,380 | 14,980 | 14,770 | 3,549 | 3,374 | 5,272 | 4,992 | 4,833 | 4,407 |
| CAPITAL ACCOUNTS | | | | | | | | | | | | |
| Capital paid in..... | 551 | 524 | 27 | 25 | 144 | 137 | 30 | 29 | 50 | 47 | 28 | 26 |
| Surplus..... | 551 | 524 | 27 | 25 | 144 | 137 | 30 | 29 | 50 | 47 | 28 | 26 |
| Other capital accounts..... | | | | | | | | | | | | |
| Total liabilities and capital accounts..... | 65,371 | 62,867 | 3,551 | 3,430 | 15,268 | 15,044 | 3,609 | 3,432 | 5,372 | 5,086 | 4,889 | 4,459 |
| Ratio of gold certificate reserves to F.R. note liability ¹ | 35.4% | 42.7% | 35.6% | 36.9% | 33.6% | 41.5% | 39.3% | 40.7% | 36.4% | 42.8% | 34.1% | 34.2% |
| Contingent liability on acceptances purchased for foreign correspondents..... | 144 | 122 | 7 | 6 | 38 | 32 | 8 | 7 | 13 | 11 | 7 | 6 |
| F.R. NOTE STATEMENT | | | | | | | | | | | | |
| F.R. notes: | | | | | | | | | | | | |
| Issued to F.R. Bank by F.R. Agent and outstanding..... | 40,350 | 37,233 | 2,372 | 2,171 | 9,095 | 8,733 | 2,338 | 2,138 | 3,483 | 3,221 | 3,573 | 3,125 |
| Less held by issuing Bank, and forwarded for redemption..... | 2,400 | 1,890 | 122 | 87 | 495 | 479 | 97 | 61 | 251 | 216 | 185 | 115 |
| F.R. notes, net ² | 37,950 | 35,343 | 2,250 | 2,084 | 8,600 | 8,254 | 2,241 | 2,077 | 3,232 | 3,005 | 3,388 | 3,010 |
| Collateral held by F.R. Agent for notes issued to Bank: | | | | | | | | | | | | |
| Gold certificate account..... | 6,625 | 6,687 | 440 | 420 | 1,000 | 1,730 | 500 | 450 | 600 | 500 | 853 | 615 |
| Eligible paper..... | 1 | 12 | | | | | 1 | | | | | 12 |
| U.S. Govt. securities..... | 34,700 | 31,430 | 1,945 | 1,765 | 8,200 | 7,200 | 1,900 | 1,800 | 2,950 | 2,775 | 2,750 | 2,535 |
| Total collateral..... | 41,326 | 38,129 | 2,385 | 2,185 | 9,200 | 8,930 | 2,401 | 2,250 | 3,550 | 3,275 | 3,603 | 3,162 |

For notes see end of table.

2. STATEMENT OF CONDITION OF EACH FEDERAL RESERVE BANK, DECEMBER 31, 1965 and 1964—Continued

(In millions of dollars unless otherwise indicated)

| Item | Atlanta | | Chicago | | St. Louis | | Minneapolis | | Kansas City | | Dallas | | San Francisco | |
|--|---------|-------|---------|--------|-----------|-------|-------------|-------|-------------|-------|--------|-------|---------------|-------|
| | 1965 | 1964 | 1965 | 1964 | 1965 | 1964 | 1965 | 1964 | 1965 | 1964 | 1965 | 1964 | 1965 | 1964 |
| ASSETS | | | | | | | | | | | | | | |
| Gold certificate account..... | 662 | 733 | 2,210 | 2,207 | 463 | 573 | 258 | 282 | 479 | 563 | 368 | 647 | 1,255 | 1,946 |
| Redemption fund for F.R. notes..... | 98 | 95 | 318 | 287 | 65 | 63 | 32 | 28 | 67 | 62 | 57 | 51 | 204 | 182 |
| Total gold certificate reserves..... | 760 | 828 | 2,528 | 2,494 | 528 | 636 | 290 | 310 | 546 | 625 | 425 | 698 | 1,459 | 2,128 |
| F.R. notes of other Banks..... | 79 | 63 | 85 | 62 | 42 | 32 | 35 | 27 | 35 | 18 | 47 | 31 | 90 | 65 |
| Other cash..... | 13 | 13 | 22 | 25 | 7 | 6 | 4 | 5 | 7 | 6 | 6 | 4 | 17 | 21 |
| Discounts and advances: | | | | | | | | | | | | | | |
| Secured by U.S. Govt. securities..... | * | 10 | 15 | 2 | * | | 6 | * | 19 | 22 | 20 | 20 | | |
| Other..... | 15 | 11 | 6 | 4 | 1 | 1 | 1 | 1 | 3 | 2 | 2 | 2 | 6 | 12 |
| Acceptances: | | | | | | | | | | | | | | |
| Bought outright..... | | | | | | | | | | | | | | |
| Held under repurchase agreements..... | | | | | | | | | | | | | | |
| U.S. Govt. securities: | | | | | | | | | | | | | | |
| Bought outright..... | 2,314 | 2,082 | 6,742 | 6,302 | 1,547 | 1,436 | 839 | 776 | 1,584 | 1,404 | 1,666 | 1,363 | 5,533 | 4,783 |
| Held under repurchase agreements..... | | | | | | | | | | | | | | |
| Total loans and securities..... | 2,329 | 2,103 | 6,763 | 6,308 | 1,548 | 1,437 | 846 | 777 | 1,606 | 1,428 | 1,688 | 1,385 | 5,539 | 4,795 |
| Cash items in process of collection..... | 776 | 714 | 1,508 | 1,401 | 413 | 410 | 248 | 250 | 535 | 583 | 465 | 489 | 847 | 887 |
| Bank premises..... | 20 | 18 | 20 | 22 | 7 | 6 | 3 | 4 | 7 | 6 | 11 | 11 | 10 | 10 |
| Other assets: | | | | | | | | | | | | | | |
| Denominated in foreign currencies..... | 37 | 16 | 89 | 42 | 21 | 10 | 14 | 7 | 28 | 13 | 37 | 17 | 84 | 40 |
| All other..... | 18 | 16 | 50 | 43 | 12 | 11 | 7 | 4 | 15 | 13 | 12 | 10 | 44 | 33 |
| Total assets..... | 4,032 | 3,771 | 11,065 | 10,397 | 2,578 | 2,548 | 1,447 | 1,384 | 2,779 | 2,692 | 2,691 | 2,645 | 8,090 | 7,979 |

| LIABILITIES | | | | | | | | | | | | | | |
|--|-------|-------|--------|--------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| F.R. notes | 2,257 | 2,085 | 6,891 | 6,386 | 1,451 | 1,410 | 700 | 631 | 1,433 | 1,349 | 1,194 | 1,089 | 4,313 | 3,963 |
| Deposits: | | | | | | | | | | | | | | |
| Member bank reserves | 1,084 | 993 | 2,814 | 2,638 | 691 | 695 | 493 | 466 | 833 | 824 | 1,034 | 1,051 | 2,864 | 3,021 |
| U.S. Treasurer—General account | 14 | 48 | 49 | 81 | 55 | 56 | 37 | 54 | 52 | 64 | 21 | 48 | 56 | 60 |
| Foreign | 9 | 12 | 21 | 31 | 5 | 7 | 3 | 5 | 7 | 10 | 9 | 13 | 20 | 29 |
| Other | 13 | 6 | 22 | 18 | 10 | 4 | 6 | 3 | 6 | 6 | 6 | 4 | 72 | 69 |
| Total deposits | 1,120 | 1,059 | 2,906 | 2,768 | 761 | 762 | 539 | 528 | 898 | 904 | 1,070 | 1,116 | 3,012 | 3,179 |
| Deferred availability cash items | 579 | 528 | 1,080 | 999 | 321 | 318 | 177 | 186 | 393 | 365 | 356 | 345 | 596 | 612 |
| Other liabilities | 10 | 37 | 30 | 94 | 7 | 22 | 5 | 15 | 7 | 28 | 7 | 33 | 25 | 85 |
| Total liabilities | 3,966 | 3,709 | 10,907 | 10,247 | 2,540 | 2,512 | 1,421 | 1,360 | 2,731 | 2,646 | 2,627 | 2,583 | 7,946 | 7,839 |
| CAPITAL ACCOUNTS | | | | | | | | | | | | | | |
| Capital paid in | 33 | 31 | 79 | 75 | 19 | 18 | 13 | 12 | 24 | 23 | 32 | 31 | 72 | 70 |
| Surplus | 33 | 31 | 79 | 75 | 19 | 18 | 13 | 12 | 24 | 23 | 32 | 31 | 72 | 70 |
| Other capital accounts | | | | | | | | | | | | | | |
| Total liabilities and capital accounts | 4,032 | 3,771 | 11,065 | 10,397 | 2,578 | 2,548 | 1,447 | 1,384 | 2,779 | 2,692 | 2,691 | 2,645 | 8,090 | 7,979 |
| Ratio of gold certificate reserves to F.R. note liability | 33.7% | 39.7% | 36.7% | 39.1% | 36.4% | 45.1% | 41.4% | 49.1% | 38.1% | 46.3% | 35.6% | 64.1% | 33.8% | 53.7% |
| Contingent liability on acceptances purchased for foreign correspondents | 9 | 7 | 20 | 17 | 5 | 4 | 3 | 3 | 7 | 5 | 8 | 7 | 19 | 17 |
| F.R. NOTE STATEMENT | | | | | | | | | | | | | | |
| F.R. notes: | | | | | | | | | | | | | | |
| Issued to F.R. Bank by F.R. Agent and outstanding | 2,438 | 2,203 | 7,322 | 6,727 | 1,536 | 1,487 | 734 | 652 | 1,509 | 1,406 | 1,291 | 1,168 | 4,659 | 4,202 |
| Less held by issuing Bank, and forwarded for redemption | 181 | 118 | 431 | 341 | 85 | 77 | 34 | 21 | 76 | 57 | 97 | 79 | 346 | 239 |
| F.R. notes, net ² | 2,257 | 2,085 | 6,891 | 6,386 | 1,451 | 1,410 | 700 | 631 | 1,433 | 1,349 | 1,194 | 1,089 | 4,313 | 3,963 |
| Collateral held by F.R. Agent for notes issued to Bank: | | | | | | | | | | | | | | |
| Gold certificate account | 550 | 340 | 1,100 | 1,100 | 315 | 280 | 127 | 112 | 225 | 225 | 180 | 180 | 735 | 735 |
| Eligible paper | | | | | | * | | | | | | | | |
| U.S. Govt. securities | 1,900 | 1,900 | 6,400 | 5,700 | 1,310 | 1,260 | 615 | 545 | 1,300 | 1,200 | 1,130 | 1,050 | 4,300 | 3,700 |
| Total collateral | 2,450 | 2,240 | 7,500 | 6,800 | 1,625 | 1,540 | 742 | 657 | 1,525 | 1,425 | 1,310 | 1,230 | 5,035 | 4,435 |

* Less than \$500,000.

¹ By law approved March 3, 1965, the gold certificate reserve requirements of the F. R. Banks were amended to apply to F. R. note liability alone, rather than to both

F. R. note liability and deposit liabilities, as heretofore. All ratios for 1964 have been computed on this new basis.

² Includes F.R. notes held by U.S. Treasury and by F.R. Banks other than the issuing Bank.

3. FEDERAL RESERVE HOLDINGS OF U.S. GOVERNMENT SECURITIES
DECEMBER 31, 1963-65

(In thousands of dollars)

| Type of issue and date | Rate of interest (per cent) | December 31 | | | Increase or decrease (-) during— | |
|------------------------|-----------------------------|-------------------|-------------------|-------------------|----------------------------------|------------------|
| | | 1965 | 1964 | 1963 | 1965 | 1964 |
| Treasury bonds: | | | | | | |
| 1962-67 | 2½ | 107,560 | 107,560 | 107,560 | | |
| 1963-68 | 2½ | 169,085 | 169,085 | 164,085 | | 5,000 |
| 1964 Feb. | 3 | | | 90,750 | | -90,750 |
| 1964-69 June | 2½ | 306,740 | 306,740 | 306,740 | | |
| 1964-69 Dec. | 2½ | 335,199 | 335,199 | 334,199 | | 1,000 |
| 1965 Feb. | 2½ | | 480,600 | 480,600 | -480,600 | |
| 1965-70 | 2½ | 573,540 | 573,540 | 573,540 | | |
| 1966-71 | 2½ | 144,007 | 144,007 | 144,007 | | |
| 1966 May | ¾ | 252,200 | 252,200 | 247,200 | | 5,000 |
| 1966 Aug. | 3 | 36,550 | 36,550 | 36,550 | | |
| 1966 Nov. | ¾ | 232,100 | 209,100 | 209,100 | 23,000 | |
| 1967-72 June | 2½ | 54,566 | 54,566 | 54,566 | | |
| 1967-72 Sept. | 2½ | 44,052 | 44,052 | 44,052 | | |
| 1967 Nov. | ¾ | 594,550 | 590,550 | 579,550 | 4,000 | 11,000 |
| 1967-72 Dec. | 2½ | 95,858 | 95,858 | 95,858 | | |
| 1968 May | ¾ | 278,100 | 253,700 | 250,700 | 24,400 | 3,000 |
| 1968 Aug. | ¾ | 295,000 | 224,100 | 116,600 | 70,900 | 107,500 |
| 1968 Nov. | ¾ | 75,500 | 29,500 | 8,000 | 46,000 | 21,500 |
| 1969 Feb. | 4 | 1,111,300 | 84,000 | 69,500 | 1,027,300 | 14,500 |
| 1969 Oct. | 4 | 183,150 | 103,450 | 40,450 | 79,700 | 63,000 |
| 1970 Feb. | 4 | 49,850 | | | 49,850 | |
| 1970 Aug. | 4 | 115,800 | 86,800 | 45,200 | 29,000 | 41,600 |
| 1971 Aug. | 4 | 160,100 | 158,100 | 93,600 | 2,000 | 64,500 |
| 1971 Nov. | ¾ | 198,450 | 153,900 | 126,900 | 44,550 | 27,000 |
| 1972 Feb. | 4 | 133,000 | 132,000 | 98,000 | 1,000 | 34,000 |
| 1972 Aug. | 4 | 102,900 | 97,600 | 88,600 | 5,300 | 9,000 |
| 1973 Aug. | 4 | 113,450 | 83,200 | 21,000 | 30,250 | 62,200 |
| 1973 Nov. | ¾ | 166,000 | 91,400 | | 74,600 | 91,400 |
| 1974 Feb. | ¾ | 66,200 | | | 66,200 | |
| 1974 May | ¾ | 132,800 | 45,300 | | 87,500 | 45,300 |
| 1974 Nov. | ¾ | 37,150 | | 35,150 | | 2,000 |
| 1975-85 | ¾ | 68,090 | 47,090 | 5,750 | 21,000 | 41,340 |
| 1978-83 | ¾ | 1,250 | | 500 | 750 | |
| 1980 Feb. | 4 | 34,800 | 34,800 | 32,800 | | 2,000 |
| 1980 Nov. | ¾ | 22,400 | 22,400 | 19,400 | | 3,000 |
| 1985 May | ¾ | 20,800 | 20,800 | 20,800 | | |
| 1987-92 | ¾ | 127,100 | 58,500 | 5,000 | 68,600 | 53,500 |
| 1988-93 | 4 | 13,500 | 13,500 | 13,500 | | |
| 1989-94 | 4½ | 21,400 | 21,400 | 13,900 | | 7,500 |
| 1990 Feb. | ¾ | 61,450 | 61,450 | 57,450 | | 4,000 |
| 1998 Nov. | ¾ | 14,250 | 14,250 | 14,250 | | |
| Total | | 6,549,797 | 5,274,497 | 4,645,407 | 1,275,300 | 629,090 |
| Treasury notes: | | | | | | |
| May 15, 1964—A | 4¾ | | | 2,797,983 | | -2,797,983 |
| May 15, 1964—D | ¾ | | | 219,000 | | -219,000 |
| Aug. 15, 1964—B | 5 | | | 122,550 | | -122,550 |
| Aug. 15, 1964—E | ¾ | | | 1,739,400 | | -1,739,400 |
| Nov. 15, 1964—C | 4¾ | | | 2,306,300 | | -2,306,300 |
| Nov. 15, 1964—F | ¾ | | | 4,074,993 | | -4,074,993 |
| Apr. 1, 1965—EA | 1½ | | 15,000 | 15,000 | -15,000 | |
| May 15, 1965—A | 4¾ | | 206,700 | 206,700 | -206,700 | |
| May 15, 1965—C | ¾ | | 3,911,506 | 3,911,506 | -3,911,506 | |
| Aug. 13, 1965—D | ¾ | | 3,891,732 | 3,891,732 | -3,891,732 | 3,891,732 |
| Nov. 15, 1965—B | ¾ | | 76,500 | 63,000 | -76,500 | 13,500 |
| Nov. 15, 1965—E | ¾ | | 6,282,232 | 63,000 | -6,282,232 | 6,282,232 |
| Feb. 15, 1966—B | ¾ | 340,000 | 340,000 | 274,500 | | 65,500 |
| Feb. 15, 1966—C | ¾ | 1,892,950 | 1,892,950 | | | 1,892,950 |
| May 15, 1966—D | 4 | 6,387,293 | 6,387,293 | | | 6,387,293 |
| Aug. 15, 1966—A | 4 | 5,791,865 | 1,643,959 | 1,643,959 | 4,147,906 | |
| Nov. 15, 1966—E | 4 | 545,100 | | | 545,100 | |
| Feb. 15, 1967—B | ¾ | 251,000 | 244,000 | 119,000 | | 125,000 |
| Feb. 15, 1967—C | 4 | 2,939,132 | | | 2,939,132 | |
| May 15, 1967—D | 4½ | 6,358,732 | | | 6,358,732 | |
| Aug. 15, 1967—A | ¾ | 321,650 | 295,650 | 235,150 | 26,000 | 60,500 |
| Total | | 24,827,722 | 25,187,522 | 17,729,041 | -359,800 | 7,458,481 |

**3. FEDERAL RESERVE HOLDINGS OF U.S. GOVERNMENT SECURITIES
DECEMBER 31, 1963-65—Continued**

(In thousands of dollars)

| Type of issue and date | Rate of interest (per cent) | December 31 | | | Increase or decrease (-) during— | |
|-----------------------------|-----------------------------|-------------------|-------------------|-------------------|----------------------------------|-------------------|
| | | 1965 | 1964 | 1963 | 1965 | 1964 |
| Certificates: | | | | | | |
| Feb. 15, 1964..... | 3 1/4 | | | 3,800,982 | | -3,800,982 |
| May 15, 1964..... | 3 1/4 | | | 3,265,249 | | -3,265,249 |
| Total..... | | | | 7,066,231 | | -7,066,231 |
| Treasury bills: | | | | | | |
| Tax anticipation..... | | 484,600 | 130,500 | 19,000 | 354,100 | 111,500 |
| Other due— | | | | | | |
| Within 3 mos..... | | 4,723,263 | 3,818,045 | 2,893,512 | 905,218 | 924,533 |
| 3-6 mos..... | | 2,624,726 | 1,534,480 | 1,061,610 | 1,090,246 | 472,870 |
| After 6 mos..... | | 1,268,080 | 561,250 | 167,300 | 706,830 | 393,950 |
| Total..... | | 9,100,669 | 6,044,275 | 4,141,422 | 3,056,394 | 1,902,853 |
| Repurchase agreements..... | | 289,900 | 537,500 | 10,800 | -247,600 | 526,700 |
| Total holdings..... | | 40,768,088 | 37,043,794 | 33,592,901 | 3,724,294 | 3,450,893 |
| Maturing— | | | | | | |
| Within 90 days..... | | 7,338,213 | 4,647,157 | 6,815,044 | 2,691,056 | -2,167,887 |
| 91 days to 1 year..... | | 17,530,414 | 16,798,888 | 15,754,385 | 731,526 | 1,044,503 |
| Over 1 year to 5 years..... | | 14,065,888 | 13,505,586 | 8,668,760 | 560,302 | 4,836,826 |
| Over 5 yrs. to 10 yrs..... | | 1,448,533 | 1,797,473 | 2,136,212 | -348,940 | -338,739 |
| Over 10 years..... | | 385,040 | 294,690 | 218,500 | 90,350 | 76,190 |

4. FEDERAL RESERVE BANK HOLDINGS OF SPECIAL SHORT-TERM TREASURY CERTIFICATES PURCHASED DIRECTLY FROM THE UNITED STATES, 1953-65

(In millions of dollars)

| Date | Amount | Date | Amount | Date | Amount | Date | Amount |
|---------|--------|---------|--------|---------|--------|---------|--------|
| 1953 | | 1953 | | 1954 | | | |
| Mar. 18 | 110 | June 11 | 358 | Jan. 14 | 22 | 1955 | |
| 19 | 104 | 12 | 506 | 15 | 169 | 1956 | none |
| 20 | 189 | 13 | 506 | 16 | 169 | 1957 | |
| 21 | 189 | 14* | 506 | 17* | 169 | | |
| 22* | 189 | 15 | 999 | 18 | 323 | 1958 | |
| 23 | 333 | 16 | 1,172 | 19 | 424 | Mar. 17 | 143 |
| 24 | 186 | 17 | 823 | 20 | 323 | 18 | 207 |
| 25 | 63 | 18 | 364 | 21 | 306 | | |
| 26 | 49 | 19 | 992 | 22 | 283 | 1959 | |
| June 5 | 196 | 20 | 992 | 23 | 283 | 1960 | |
| 6 | 196 | 21* | 992 | 24* | 283 | 1961 | |
| 7* | 196 | 22 | 908 | 25 | 203 | 1962 | none |
| 8 | 374 | 23 | 608 | 26 | 3 | 1963 | |
| 9 | 491 | 24 | 296 | Mar. 15 | 134 | 1964 | |
| 10 | 451 | | | 16 | 190 | 1965 | |

* Sunday or holiday.

NOTE.—Under authority of Section 14(b) of the Federal Reserve Act. On Nov. 9, 1953, the F.R. Banks sold directly to the Treasury \$500 million of Treasury notes; this is the only use that has been made under the same authority to sell U.S. Govt. securities directly to the United States.

Interest rate 1/4 per cent through Dec. 3, 1957, and 1/4 per cent below prevailing discount rate of F.R. Bank of New York thereafter. Rate on purchases in 1958 was 2 per cent. For data for prior years beginning with 1942, see previous ANNUAL REPORTS. No holdings on dates not shown.

5. OPEN MARKET TRANSACTIONS OF THE FEDERAL RESERVE SYSTEM DURING 1965

(In millions of dollars)

| Month | Outright transactions in U.S. Govt. securities by maturity | | | | | | | | |
|----------------|--|-------------|-------------|-----------------|-------------|-------------|---------------------|-------------|----------------------------------|
| | Total | | | Treasury bills | | | Other within 1 year | | |
| | Gross purchases | Gross sales | Redemptions | Gross purchases | Gross sales | Redemptions | Gross purchases | Gross sales | Exch., maturity shift or redemp. |
| January..... | 388 | 261 | 12 | 388 | 261 | 12 | | | |
| February..... | 865 | 198 | 464 | 784 | 198 | 464 | | | 1,752 |
| March..... | 642 | | 7 | 551 | | 7 | | | |
| April..... | 466 | 290 | 126 | 466 | 290 | 111 | | | -15 |
| May..... | 984 | 26 | | 876 | 26 | | | | 2,521 |
| June..... | 755 | 115 | 224 | 361 | 115 | 224 | | | |
| July..... | 206 | 284 | | 206 | 284 | | | | |
| August..... | 758 | 398 | 114 | 652 | 398 | 114 | | | 1,937 |
| September..... | 1,692 | 770 | 198 | 1,541 | 770 | 198 | | | |
| October..... | 652 | 671 | 98 | 652 | 671 | 98 | | | |
| November..... | 1,666 | 598 | 150 | 1,666 | 598 | 150 | | | -5,582 |
| December..... | 816 | 615 | 297 | 816 | 615 | 297 | | | |
| Total..... | 9,888 | 4,227 | 1,690 | 8,958 | 4,227 | 1,675 | | | 614 |

| | 1-5 years | | | 5-10 years | | | Over 10 years | | |
|----------------|-----------------|-------------|--------------------------|-----------------|-------------|--------------------------|-----------------|-------------|--------------------------|
| | Gross purchases | Gross sales | Exch. or maturity shifts | Gross purchases | Gross sales | Exch. or maturity shifts | Gross purchases | Gross sales | Exch. or maturity shifts |
| January..... | | | | | | | | | |
| February..... | 46 | | -1,752 | 23 | | | 12 | | |
| March..... | 36 | | 574 | 45 | | -574 | 10 | | |
| April..... | | | | | | | | | |
| May..... | 65 | | -2,521 | 32 | | | 12 | | |
| June..... | 185 | | | 166 | | | 43 | | |
| July..... | | | | | | | | | |
| August..... | 61 | | -1,821 | 35 | | -116 | 10 | | |
| September..... | 107 | | | 40 | | | 4 | | |
| October..... | | | | | | | | | |
| November..... | | | 5,582 | | | | | | |
| December..... | | | | | | | | | |
| Total..... | 500 | | 61 | 340 | | -689 | 90 | | |

| | Repurchase agreements (U.S. Govt. securities) | | Net change in U.S. Govt. securities | Bankers' acceptances | | Net change in U.S. Govt. securities and acceptances |
|----------------|---|-------------|-------------------------------------|----------------------|-----------------|---|
| | Gross purchases | Gross sales | | Net outright | Net repurchases | |
| January..... | 1,753 | 2,171 | -303 | -1 | 22 | -281 |
| February..... | 983 | 1,019 | 166 | -4 | -40 | 122 |
| March..... | 482 | 434 | 684 | 1 | 71 | 756 |
| April..... | 1,831 | 1,717 | 163 | -1 | -38 | 124 |
| May..... | 1,207 | 1,233 | 932 | -3 | -20 | 909 |
| June..... | 1,894 | 1,895 | 415 | -10 | -19 | 386 |
| July..... | 2,734 | 2,549 | 106 | -6 | -12 | 88 |
| August..... | 1,552 | 1,955 | -157 | 1 | 19 | -137 |
| September..... | 450 | 450 | 725 | 3 | 4 | 732 |
| October..... | 352 | 352 | -117 | 2 | 21 | -94 |
| November..... | 24 | 24 | 918 | 8 | 16 | 941 |
| December..... | 1,661 | 1,372 | 193 | 25 | 52 | 270 |
| Total..... | 14,923 | 15,171 | 3,724 | 16 | 77 | 3,817 |

NOTE.—Sales, redemptions, and negative figures reduce System holdings; all other figures increase such holdings.

**6. BANK PREMISES OF FEDERAL RESERVE BANKS AND BRANCHES
DECEMBER 31, 1965**

(In dollars)

| F.R. Bank or branch | Cost | | | | Net book value |
|----------------------------|-------------------|---|---------------------------------------|--------------------|--------------------|
| | Land | Buildings (including vaults) ¹ | Fixed ma- chinery and equipment | Total | |
| Boston | 1,628,132 | 5,929,169 | 2,943,179 | 10,500,480 | 2,873,167 |
| New York | 5,215,656 | 13,738,519 | 4,886,521 | 23,840,696 | 5,169,095 |
| Annex..... | 592,679 | 1,451,569 | 673,458 | 2,717,706 | 561,879 |
| Buffalo..... | 406,069 | 2,555,197 | 1,565,400 | 4,526,666 | 2,936,524 |
| Philadelphia | 1,884,357 | 4,839,506 | 2,154,452 | 8,878,315 | 2,586,570 |
| Cleveland | 1,295,490 | 6,572,529 | 3,571,958 | 11,439,977 | 1,047,057 |
| Cincinnati..... | 400,891 | 1,163,098 | 1,587,495 | 3,151,484 | 588,987 |
| Pittsburgh..... | 1,667,994 | 2,975,830 | 2,525,243 | 7,169,067 | 3,635,008 |
| Richmond | 469,944 | 4,164,663 | 2,483,477 | 7,118,084 | 1,808,084 |
| Annex..... | 152,883 | 131,722 | ..... | 284,605 | 246,585 |
| Baltimore..... | 250,487 | 2,009,381 | 1,068,445 | 3,328,313 | 1,476,620 |
| Charlotte..... | 347,071 | 1,069,026 | 625,121 | 2,041,218 | 1,205,020 |
| Atlanta | 988,562 | 5,804,778 | 3,514,144 | 10,307,484 | 8,983,293 |
| Birmingham..... | 410,775 | 1,982,184 | 948,236 | 3,341,195 | 2,281,497 |
| Jacksonville..... | 164,004 | 1,706,794 | 771,947 | 2,642,745 | 1,490,563 |
| Annex..... | 107,925 | 76,236 | 15,842 | 200,003 | 195,081 |
| Nashville..... | 592,342 | 1,538,384 | 1,016,213 | 3,146,939 | 2,230,670 |
| New Orleans..... | 1,545,956 | 4,327,063 | 265,700 | 6,138,719 | 5,148,114 |
| Chicago | 6,275,490 | 17,423,184 | 9,704,797 | 33,403,471 | 17,784,303 |
| Detroit..... | 1,147,734 | 2,839,529 | 1,314,214 | 5,301,477 | 2,706,214 |
| St. Louis | 1,675,780 | 3,171,719 | 2,285,317 | 7,132,816 | 1,673,539 |
| Little Rock..... | 872,349 | 1,039,269 | 206,575 | 2,118,193 | 1,683,438 |
| Louisville..... | 700,075 | 2,859,819 | 1,041,202 | 4,601,096 | 3,415,426 |
| Memphis..... | 128,542 | 288,119 | 203,108 | 619,769 | 178,141 |
| Minneapolis | 600,521 | 4,689,718 | 2,688,921 | 7,979,160 | 3,193,722 |
| Helena..... | 15,709 | 126,401 | 62,977 | 205,087 | 59,871 |
| Kansas City | 1,251,213 | 3,887,850 | 1,325,518 | 6,464,581 | 2,087,255 |
| Denver..... | 592,271 | 539,578 | 91,693 | 1,223,542 | 729,624 |
| Oklahoma City..... | 592,435 | 1,511,600 | 834,845 | 2,938,880 | 2,475,012 |
| Omaha..... | 445,663 | 1,491,117 | 731,925 | 2,668,705 | 1,813,223 |
| Dallas | 713,302 | 4,809,716 | 3,570,804 | 9,093,822 | 5,795,795 |
| El Paso..... | 262,477 | 787,728 | 393,301 | 1,443,506 | 1,002,829 |
| Houston..... | 695,615 | 1,408,574 | 714,187 | 2,818,376 | 2,061,048 |
| San Antonio..... | 448,596 | 1,400,390 | 570,847 | 2,419,833 | 1,654,258 |
| San Francisco | 473,235 | 3,783,530 | 1,458,028 | 5,714,793 | 748,597 |
| Annex..... | 247,201 | 124,000 | 30,000 | 401,201 | 353,841 |
| Los Angeles..... | 777,614 | 4,103,844 | 1,592,708 | 6,474,166 | 3,020,459 |
| Portland..... | 207,380 | 1,678,512 | 649,432 | 2,535,324 | 1,393,529 |
| Salt Lake City..... | 480,222 | 1,878,238 | 707,575 | 3,066,035 | 2,307,779 |
| Seattle..... | 274,772 | 1,890,966 | 1,041,733 | 3,207,471 | 1,988,791 |
| Total | 36,999,413 | 123,769,049 | 61,836,538 | 222,605,000 | 102,590,508 |

OTHER REAL ESTATE ACQUIRED FOR BANKING-HOUSE PURPOSES

| | | | | | |
|--------------------|------------------|----------------|----------------|------------------|------------------|
| Cincinnati..... | 341,293 | 412,500 | 100,000 | 853,793 | 839,984 |
| Richmond..... | 324,614 | 346,953 | ..... | 671,567 | 648,100 |
| Atlanta..... | 93,931 | 137,100 | 103,867 | 334,898 | 220,087 |
| Denver..... | 2,226,683 | ..... | ..... | 2,226,683 | 2,226,683 |
| Total | 2,986,521 | 896,553 | 203,867 | 4,086,941 | 3,934,854 |

¹ May include expenditures in construction account pending allocation to appropriate accounts.

7. EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS DURING 1965

(In dollars)

| Item | Total | Boston | New York | Phila- delphia | Cleve- land | Rich- mond | Atlanta | Chicago | St. Louis | Minne- apolis | Kansas City | Dallas | San Francisco |
|---|----------------------|-------------------|--------------------|-------------------|--------------------|--------------------|-------------------|--------------------|-------------------|-------------------|-------------------|-------------------|--------------------|
| CURRENT EARNINGS | | | | | | | | | | | | | |
| Discounts and advances | 19,803,114 | 735,296 | 5,438,229 | 513,389 | 618,260 | 1,048,591 | 1,546,162 | 3,933,396 | 652,567 | 618,556 | 1,815,122 | 1,062,969 | 1,820,577 |
| Acceptances | 3,199,151 | | 3,199,151 | | | | | | | | | | |
| U.S. Govt. securities | 1,522,022,371 | 78,583,698 | 379,485,733 | 79,596,236 | 125,337,410 | 103,120,760 | 82,212,211 | 253,958,466 | 57,100,784 | 31,622,552 | 59,115,994 | 62,144,870 | 209,743,657 |
| Foreign currencies | 13,994,531 | 664,162 | 3,661,890 | 782,259 | 1,257,302 | 699,211 | 832,280 | 1,979,944 | 474,975 | 324,848 | 635,231 | 809,956 | 1,872,473 |
| All other | 464,860 | 13,189 | 70,801 | 22,057 | 28,684 | 20,538 | 73,960 | 68,997 | 17,246 | 27,640 | 47,152 | 31,407 | 43,189 |
| Total | 1,559,484,027 | 79,996,345 | 391,855,804 | 80,913,941 | 127,241,656 | 104,889,100 | 84,664,613 | 259,940,803 | 58,245,572 | 32,593,596 | 61,613,499 | 64,049,202 | 213,479,896 |
| CURRENT EXPENSES | | | | | | | | | | | | | |
| Salaries: | | | | | | | | | | | | | |
| Officers | 8,052,240 | 454,913 | 1,465,332 | 605,421 | 602,860 | 671,588 | 703,428 | 801,560 | 623,641 | 409,231 | 552,245 | 493,042 | 668,979 |
| Employees | 99,963,787 | 5,897,904 | 24,779,713 | 4,790,774 | 8,108,980 | 6,889,286 | 6,328,811 | 14,341,358 | 5,614,610 | 3,219,690 | 5,563,790 | 4,446,952 | 9,981,919 |
| Retirement and other benefits | 17,232,566 | 1,061,112 | 4,121,117 | 847,620 | 1,397,604 | 1,189,243 | 1,139,706 | 2,344,026 | 975,533 | 562,269 | 1,018,305 | 738,548 | 1,837,483 |
| Fees—Directors and others | 632,262 | 25,969 | 97,422 | 33,750 | 48,776 | 32,203 | 71,848 | 38,894 | 36,348 | 38,962 | 38,629 | 120,649 | 48,812 |
| Traveling expenses | 2,238,850 | 137,597 | 370,858 | 99,872 | 170,984 | 157,464 | 192,593 | 271,857 | 136,961 | 144,321 | 154,682 | 136,984 | 264,677 |
| Postage and expressage | 23,057,961 | 1,536,186 | 2,935,256 | 1,077,124 | 2,036,038 | 2,350,869 | 2,084,063 | 3,116,086 | 1,276,382 | 887,325 | 1,627,477 | 1,306,417 | 2,824,738 |
| Telephone and telegraph | 1,896,337 | 92,364 | 412,348 | 87,693 | 125,168 | 137,225 | 217,351 | 214,402 | 100,110 | 68,432 | 119,296 | 130,649 | 191,299 |
| Printing and supplies | 8,412,368 | 581,496 | 1,661,091 | 510,718 | 609,247 | 690,170 | 645,106 | 1,251,531 | 474,056 | 263,331 | 537,616 | 380,761 | 807,245 |
| Insurance | 378,450 | 26,292 | 77,638 | 14,639 | 35,001 | 33,455 | 23,597 | 33,093 | 32,737 | 12,839 | 25,103 | 20,863 | 43,193 |
| Taxes on real estate | 5,390,114 | 629,020 | 929,077 | 160,812 | 447,015 | 213,023 | 362,192 | 979,735 | 197,738 | 373,166 | 283,445 | 275,272 | 539,619 |
| Depreciation (building) | 5,533,206 | 117,205 | 420,704 | 154,895 | 680,018 | 171,877 | 792,989 | 1,276,822 | 234,688 | 344,038 | 272,856 | 689,714 | 377,400 |
| Light, heat, power, and water | 1,987,031 | 138,361 | 285,577 | 90,587 | 174,525 | 168,850 | 166,425 | 304,670 | 145,743 | 88,971 | 153,197 | 125,539 | 144,586 |
| Repairs and alterations | 1,220,111 | 57,293 | 181,675 | 195,510 | 69,316 | 115,810 | 84,900 | 162,931 | 87,498 | 39,951 | 45,377 | 82,546 | 97,304 |
| Rent | 117,198 | 13,758 | 6,291 | 5,763 | 26,683 | 10,870 | 3,066 | 40,403 | 1,701 | 1,301 | 4,414 | 1,337 | 1,611 |
| Furniture and equipment: | | | | | | | | | | | | | |
| Purchases | 3,411,884 | 105,508 | 732,874 | 232,656 | 220,459 | 163,383 | 926,946 | 273,398 | 160,606 | 94,695 | 78,807 | 118,380 | 304,172 |
| Rentals | 9,515,670 | 611,454 | 1,359,697 | 386,689 | 791,026 | 886,462 | 469,858 | 1,704,138 | 619,734 | 372,356 | 779,220 | 568,600 | 966,436 |
| All other | 3,241,635 | 113,091 | 786,085 | 131,095 | 496,444 | 117,651 | 134,914 | 583,101 | 132,726 | 138,932 | 197,255 | 283,016 | 127,325 |
| Inter-Bank expenses | | 56,654 | -836,394 | 67,033 | 108,620 | -5,564 | 75,341 | 171,456 | 43,438 | 28,519 | 56,754 | 71,570 | 162,573 |
| Subtotal | 192,281,670 | 11,656,177 | 39,786,361 | 9,492,651 | 16,148,764 | 13,993,865 | 14,423,134 | 27,909,461 | 10,894,250 | 7,088,329 | 11,508,468 | 9,990,839 | 19,389,371 |
| F.R. currency | 23,602,856 | 1,216,159 | 3,526,806 | 1,347,933 | 1,566,524 | 2,521,524 | 2,374,995 | 4,003,946 | 1,105,357 | 419,857 | 1,213,333 | 1,203,185 | 3,103,237 |
| Assessment for expenses of Board of Governors | 8,576,396 | 408,200 | 2,248,600 | 473,000 | 769,700 | 428,900 | 504,300 | 1,223,900 | 293,500 | 199,400 | 381,000 | 501,096 | 1,144,800 |
| Total | 224,460,922 | 13,280,536 | 45,561,767 | 11,313,584 | 18,484,988 | 16,944,289 | 17,302,429 | 33,137,307 | 12,293,107 | 7,707,586 | 13,102,801 | 11,695,120 | 23,637,408 |

| | | | | | | | | | | | | | |
|--|---------------|------------|-------------|------------|-------------|------------|------------|-------------|------------|------------|------------|------------|-------------|
| Less reimbursement for certain fiscal agency and other expenses..... | 20,170,736 | 1,145,093 | 3,845,533 | 921,281 | 1,851,070 | 1,149,055 | 1,412,488 | 3,724,823 | 1,240,672 | 593,493 | 1,429,306 | 840,388 | 2,017,534 |
| Net expenses..... | 204,290,186 | 12,135,443 | 41,716,234 | 10,392,303 | 16,633,918 | 15,795,234 | 15,889,941 | 29,412,484 | 11,052,435 | 7,114,093 | 11,673,495 | 10,854,732 | 21,619,874 |
| PROFIT AND LOSS | | | | | | | | | | | | | |
| Current net earnings..... | 1,355,193,838 | 67,860,901 | 350,139,570 | 70,521,638 | 110,607,738 | 89,093,866 | 68,774,672 | 230,528,318 | 47,193,138 | 25,479,503 | 49,940,004 | 53,194,469 | 191,860,021 |
| Additions to current net earnings: | | | | | | | | | | | | | |
| Profits on foreign exchange transactions..... | 926,098 | 43,527 | 242,638 | 51,861 | 83,349 | 46,305 | 54,640 | 131,506 | 31,487 | 21,300 | 41,674 | 53,714 | 124,097 |
| All other..... | 271,065 | 4,417 | 21,198 | 7,532 | 99,191 | 50,888 | 1,299 | 23,789 | 9,355 | 15,988 | 17,075 | 125 | 20,208 |
| Total additions..... | 1,197,162 | 47,943 | 263,835 | 59,393 | 182,540 | 97,193 | 55,939 | 155,295 | 40,843 | 37,288 | 58,750 | 53,838 | 144,305 |
| Deductions from current net earnings: | | | | | | | | | | | | | |
| Losses on sales of U.S. Govt. securities..... | 8,658 | 475 | 1,917 | 331 | 862 | 840 | 423 | 1,301 | 207 | — 29 | 156 | 329 | 1,846 |
| All other..... | 166,889 | 5,386 | 3,696 | 4,721 | 46 | 3,643 | 1,026 | 424 | 1,680 | 2,539 | 106,709 | 31,415 | 5,604 |
| Total deductions..... | 175,548 | 5,861 | 5,613 | 5,052 | 908 | 4,483 | 1,449 | 1,725 | 1,887 | 2,510 | 106,865 | 31,744 | 7,451 |
| Net addition to or deduction from (—) current net earnings.. | 1,021,614 | 42,082 | 258,222 | 54,341 | 181,632 | 92,710 | 54,490 | 153,570 | 38,956 | 34,778 | — 48,115 | 22,094 | 136,854 |
| Net earnings before payments to U.S. Treasury..... | 1,356,215,455 | 67,902,983 | 350,397,792 | 70,575,980 | 110,789,370 | 89,186,576 | 68,829,163 | 230,681,888 | 47,232,094 | 25,514,281 | 49,891,889 | 53,216,564 | 191,996,875 |
| Dividends paid..... | 32,351,602 | 1,546,585 | 8,500,590 | 1,752,341 | 2,899,235 | 1,629,632 | 1,917,336 | 4,626,284 | 1,109,770 | 759,194 | 1,433,152 | 1,891,621 | 4,285,862 |
| Payments to U.S. Treasury (interest on F.R. notes)..... | 1,296,810,053 | 64,608,898 | 334,647,652 | 68,392,239 | 105,243,485 | 85,603,894 | 64,743,077 | 221,995,054 | 44,935,574 | 23,734,187 | 47,411,487 | 49,942,542 | 185,551,964 |
| Transferred to surplus..... | 27,053,800 | 1,747,500 | 7,249,550 | 431,400 | 2,646,650 | 1,953,050 | 2,168,750 | 4,060,550 | 1,186,750 | 1,020,900 | 1,047,250 | 1,382,400 | 2,159,050 |
| Surplus, January 1..... | 523,892,900 | 24,851,400 | 137,213,850 | 29,114,150 | 47,090,900 | 26,139,400 | 30,745,900 | 74,602,850 | 17,943,000 | 12,159,500 | 23,300,550 | 30,585,650 | 70,145,750 |
| Surplus, December 31..... | 550,946,700 | 26,598,900 | 144,463,400 | 29,545,550 | 49,737,550 | 28,092,450 | 32,914,650 | 78,663,400 | 19,129,750 | 13,180,400 | 24,347,800 | 31,968,050 | 72,304,800 |

NOTE.—Details may not add to totals because of rounding.

8. EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS, 1914-65

(In dollars)

| Period or Bank | Current earnings | Current expenses | Net earnings before payments to U.S. Treasury 1 | Dividends paid | Payments to U.S. Treasury | | | Transferred to surplus (Sec. 13b) | Transferred to surplus (Sec. 7) |
|---------------------------|------------------|------------------|---|----------------|---------------------------|----------------|------------------------|-----------------------------------|---------------------------------|
| | | | | | Franchise tax | Under Sec. 13b | Interest on F.R. notes | | |
| All F.R. Banks, by years: | | | | | | | | | |
| 1914-15..... | 2,173,252 | 2,320,586 | -141,459 | 217,463 | | | | | |
| 1916..... | 5,217,998 | 2,273,999 | 2,750,998 | 1,742,774 | | | | | |
| 1917..... | 16,128,339 | 5,159,727 | 9,582,067 | 6,804,186 | 1,134,234 | | | | 1,134,234 |
| 1918..... | 67,584,417 | 10,959,533 | 52,716,310 | 5,540,684 | | | | | 48,334,341 |
| 1919..... | 102,380,583 | 19,339,633 | 78,367,504 | 5,011,832 | 2,703,894 | | | | 70,651,778 |
| 1920..... | 181,296,711 | 28,258,030 | 149,294,774 | 5,654,018 | 60,724,742 | | | | 82,916,014 |
| 1921..... | 122,865,866 | 34,463,845 | 82,087,225 | 6,119,673 | 59,974,466 | | | | 15,993,086 |
| 1922..... | 50,498,699 | 29,559,049 | 16,497,736 | 6,307,035 | 10,850,605 | | | | -659,904 |
| 1923..... | 50,708,566 | 29,764,173 | 12,711,286 | 6,552,717 | 3,613,056 | | | | 2,545,513 |
| 1924..... | 38,340,449 | 28,431,126 | 3,718,180 | 6,682,496 | 113,646 | | | | -3,077,962 |
| 1925..... | 41,800,706 | 27,528,163 | 9,449,066 | 6,915,958 | 59,300 | | | | 2,473,808 |
| 1926..... | 47,599,595 | 27,350,182 | 16,611,745 | 7,329,169 | 818,150 | | | | 8,464,426 |
| 1927..... | 43,024,484 | 27,518,443 | 13,048,249 | 7,754,539 | 249,591 | | | | 5,044,119 |
| 1928..... | 64,052,860 | 26,904,810 | 32,122,021 | 8,458,463 | 2,584,659 | | | | 21,078,899 |
| 1929..... | 70,955,496 | 29,691,113 | 36,402,741 | 9,583,913 | 4,283,231 | | | | 22,535,597 |
| 1930..... | 36,424,044 | 28,342,726 | 7,988,182 | 10,268,598 | 17,308 | | | | -2,297,724 |
| 1931..... | 29,701,279 | 27,040,664 | 2,972,066 | 10,029,760 | | | | | -7,057,694 |
| 1932..... | 50,018,817 | 26,291,381 | 22,314,244 | 9,282,244 | 2,011,418 | | | | 11,020,582 |
| 1933..... | 49,487,318 | 29,222,837 | 7,957,407 | 8,874,262 | | | | | -916,855 |
| 1934..... | 48,902,813 | 29,241,396 | 15,231,409 | 8,781,661 | | | | -60,323 | 6,510,071 |
| 1935..... | 42,751,959 | 31,577,443 | 9,437,758 | 8,504,974 | | 297,667 | | | 27,695 |
| 1936..... | 37,900,639 | 29,874,023 | 8,512,433 | 7,829,581 | | 227,448 | | | 102,880 |
| 1937..... | 41,233,135 | 28,800,614 | 10,801,247 | 7,940,966 | | 176,625 | | | 67,304 |
| 1938..... | 36,261,428 | 28,911,608 | 9,581,954 | 8,019,137 | | 119,524 | | | -419,140 |
| 1939..... | 38,500,665 | 28,646,855 | 12,243,365 | 8,110,462 | | 24,579 | | | -425,653 |
| 1940..... | 43,537,805 | 29,165,477 | 25,860,025 | 8,214,971 | | 82,152 | | | -54,456 |
| 1941..... | 41,380,095 | 32,963,150 | 9,137,581 | 8,429,936 | | 141,465 | | | -4,333 |
| 1942..... | 52,662,704 | 38,624,044 | 12,470,451 | 8,669,076 | | 197,672 | | | 49,602 |
| 1943..... | 69,305,715 | 43,545,564 | 49,528,433 | 8,911,342 | | 244,726 | | | 135,003 |
| 1944..... | 104,391,829 | 49,175,921 | 58,437,788 | 9,500,126 | | 326,717 | | | 201,150 |
| 1945..... | 142,209,546 | 48,717,271 | 92,662,268 | 10,182,851 | | 247,659 | | | 262,133 |
| 1946..... | 150,385,033 | 57,235,107 | 92,523,935 | 10,962,160 | | 67,054 | | | 27,708 |
| 1947..... | 158,655,566 | 65,392,975 | 95,235,592 | 11,523,047 | | 35,605 | | | 86,772 |
| 1948..... | 304,160,818 | 72,710,188 | 197,132,683 | 11,919,809 | | | 75,223,818 | | 18,522,518 |
| 1949..... | 316,536,930 | 77,477,676 | 226,936,980 | 12,329,373 | | | 166,690,356 | | 21,461,770 |
| | | | | | | | 193,145,837 | | |

| | | | | | | | | | |
|---|----------------|---------------|----------------|-------------|-------------|-----------|----------------|----------|--------------------------|
| 1950 | 275,838,994 | 80,571,771 | 231,561,340 | 13,082,992 | | | 196,628,858 | | 21,849,490 |
| 1951 | 394,656,072 | 95,469,086 | 297,059,097 | 13,864,750 | | | 254,873,588 | | 28,320,759 |
| 1952 | 456,060,260 | 104,694,091 | 352,950,157 | 14,681,788 | | | 291,934,634 | | 46,333,735 |
| 1953 | 513,037,237 | 113,515,020 | 398,463,224 | 15,558,377 | | | 342,567,985 | | 40,336,862 |
| 1954 | 438,486,040 | 109,732,931 | 328,619,468 | 16,442,236 | | | 276,289,457 | | 35,887,775 |
| 1955 | 412,487,931 | 110,060,023 | 302,162,452 | 17,711,937 | | | 251,740,721 | | 32,709,794 |
| 1956 | 595,649,092 | 121,182,496 | 474,443,160 | 18,904,897 | | | 401,555,581 | | 53,982,682 |
| 1957 | 763,347,530 | 131,814,003 | 624,392,613 | 20,080,527 | | | 542,708,405 | | 61,603,682 |
| 1958 | 742,068,150 | 137,721,655 | 604,470,670 | 21,197,452 | | | 524,058,650 | | 59,214,569 |
| 1959 | 886,226,116 | 144,702,706 | 839,770,663 | 22,721,687 | | | 910,649,768 | | -93,600,791 |
| 1960 | 1,103,385,257 | 153,882,275 | 963,377,684 | 23,948,225 | | | 896,816,359 | | 42,613,100 |
| 1961 | 941,648,170 | 161,274,575 | 783,855,223 | 25,569,541 | | | 687,393,382 | | 70,892,300 |
| 1962 | 1,048,508,335 | 176,136,134 | 872,316,422 | 27,412,241 | | | 799,365,981 | | 45,538,200 |
| 1963 | 1,151,120,060 | 187,273,357 | 964,461,538 | 28,912,019 | | | 879,685,219 | | 55,864,300 |
| 1964 | 1,343,747,303 | 197,395,889 | 1,147,077,362 | 30,781,548 | | | 1,582,118,614 | | -465,822,800 |
| 1965 | 1,559,484,027 | 204,290,186 | 1,356,215,455 | 32,351,602 | | | 1,296,810,053 | | 27,053,800 |
| Total 1914-65 | 15,324,786,733 | 3,362,195,530 | 12,023,380,775 | 622,181,073 | 149,138,300 | 2,188,893 | 10,570,257,265 | -3,657 | 679,618,899 |
| Aggregate for each F.R. Bank, 1914-65: | | | | | | | | | |
| Boston | 868,973,529 | 232,641,771 | 641,755,657 | 36,450,478 | 7,111,395 | 280,843 | 561,083,801 | 135,411 | 36,693,725 |
| New York | 3,882,395,816 | 728,882,114 | 3,173,846,758 | 194,130,898 | 68,006,262 | 369,116 | 2,730,053,924 | -433,413 | 181,719,971 |
| Philadelphia | 921,934,568 | 208,610,071 | 721,132,079 | 45,856,614 | 5,558,901 | 722,406 | 624,827,726 | 290,661 | 43,875,772 |
| Cleveland | 1,329,773,916 | 300,936,197 | 1,032,767,108 | 60,017,586 | 4,842,447 | 82,930 | 904,862,709 | -9,906 | 62,971,343 |
| Richmond | 964,243,052 | 229,500,240 | 739,059,561 | 27,641,993 | 6,200,189 | 172,493 | 671,144,142 | -71,517 | 33,972,258 |
| Atlanta | 815,249,797 | 205,271,908 | 610,070,370 | 27,418,627 | 8,950,561 | 79,264 | 535,435,236 | 5,491 | 38,181,190 |
| Chicago | 2,500,558,596 | 475,816,058 | 2,029,642,271 | 79,706,300 | 25,313,526 | 151,045 | 1,830,467,564 | 11,682 | 93,992,154 |
| St. Louis | 649,866,188 | 183,167,151 | 467,624,566 | 21,377,427 | 2,755,629 | 7,464 | 419,261,183 | -26,515 | 24,249,378 |
| Minneapolis | 374,298,934 | 116,328,023 | 260,485,888 | 14,517,627 | 5,202,900 | 55,615 | 223,587,263 | 64,874 | 17,057,613 |
| Kansas City | 671,506,052 | 181,250,510 | 492,271,043 | 23,498,538 | 6,939,100 | 64,213 | 433,290,115 | -8,674 | 28,487,750 |
| Dallas | 618,491,734 | 158,875,244 | 461,969,702 | 28,064,825 | 560,049 | 102,083 | 396,941,878 | 55,337 | 36,245,528 |
| San Francisco | 1,727,494,551 | 340,916,243 | 1,392,755,772 | 63,500,160 | 7,697,341 | 101,421 | 1,239,301,724 | -17,089 | 82,172,217 |
| Total | 15,324,786,733 | 3,362,195,530 | 12,023,380,775 | 622,181,073 | 149,138,300 | 2,188,893 | 10,570,257,265 | -3,657 | ² 679,618,899 |

¹ Current earnings less current expenses, plus or minus adjustment for profit and loss items.

² The \$679,618,899 transferred to surplus was reduced by direct charges of \$500,000 for charge-off on bank premises (1927), \$139,299,557 for contributions to capital of the Federal Deposit Insurance Corporation (1934), and \$3,657 net upon elimination of Sec.

13b surplus (1958), and was increased by \$11,131,013 transferred from reserves for contingencies (1945), leaving a balance of \$550,946,700 on Dec. 31, 1965.

NOTE.—Details may not add to totals because of rounding.

**9. NUMBER AND SALARIES OF OFFICERS AND EMPLOYEES OF
FEDERAL RESERVE BANKS, DECEMBER 31, 1965**

| Federal Reserve Bank (including branches) | President | Other officers | | Employees ¹ | | Total | |
|---|------------------|----------------|--------------------|------------------------|---------------------|---------------|----------------------|
| | Annual salary | Number | Annual salaries | Number | Annual salaries | Number | Annual salaries |
| Boston | \$35,000 | 25 | \$ 429,000 | 1,145 | \$ 5,793,815 | 1,171 | \$ 6,257,815 |
| New York | 75,000 | 68 | 1,391,750 | 3,904 | 23,852,982 | 3,973 | 25,319,732 |
| Philadelphia | 40,000 | 33 | 563,000 | 896 | 4,683,004 | 930 | 5,286,004 |
| Cleveland | 40,000 | 34 | 547,000 | 1,393 | 7,754,487 | 1,428 | 8,341,487 |
| Richmond | 40,000 | 39 | 639,500 | 1,361 | 6,777,452 | 1,401 | 7,456,952 |
| Atlanta | 35,000 | 42 | 638,500 | 1,264 | 6,081,155 | 1,307 | 6,754,655 |
| Chicago | 55,000 | 43 | 746,500 | 2,650 | 13,516,900 | 2,694 | 14,318,400 |
| St. Louis | 40,000 | 36 | 589,160 | 1,131 | 5,402,556 | 1,168 | 6,031,716 |
| Minneapolis | 37,500 | 26 | 398,000 | 614 | 3,055,525 | 641 | 3,491,025 |
| Kansas City | 37,500 | 34 | 516,600 | 1,104 | 5,203,018 | 1,139 | 5,757,118 |
| Dallas | 40,000 | 29 | 449,250 | 908 | 4,322,236 | 938 | 6,031,716 |
| San Francisco | 40,000 | 41 | 633,000 | 1,855 | 9,500,089 | 1,897 | 10,173,089 |
| Total | \$515,000 | 450 | \$7,541,260 | 18,225 | \$95,943,219 | 18,687 | \$103,999,479 |

¹ Includes 785 part-time employees.

**10. VOLUME OF OPERATIONS IN PRINCIPAL DEPARTMENTS OF FEDERAL
RESERVE BANKS, 1962-65**

(Number in thousands; amounts in thousands of dollars)

| Operation | 1965 | 1964 | 1963 | 1962 |
|---|---------------|---------------|---------------|---------------|
| NUMBER OF PIECES HANDLED ¹ | | | | |
| Discounts and advances | 11 | 10 | 9 | 7 |
| Currency received and counted | 5,144,345 | 5,026,311 | 4,831,516 | 4,734,419 |
| Coin received and counted | 5,855,884 | 4,561,704 | 8,704,412 | 10,213,309 |
| Checks handled: | | | | |
| U.S. Govt. checks | 491,848 | 467,288 | 454,576 | 443,271 |
| Postal money orders | 223,337 | 234,094 | 243,999 | 247,400 |
| All other ² | 4,601,128 | 4,318,708 | 4,069,111 | 3,873,341 |
| Collection items handled: | | | | |
| U.S. Govt. coupons paid | 14,087 | 15,042 | 15,430 | 15,879 |
| All other | 26,820 | 27,271 | 26,839 | 25,327 |
| Issues, redemptions, and exchanges of U.S. Govt. securities | 222,477 | 212,267 | 204,213 | 198,123 |
| Transfers of funds | 4,389 | 4,010 | 3,603 | 3,318 |
| Food stamps redeemed | 81,885 | 50,481 | 46,129 | 34,904 |
| AMOUNTS HANDLED | | | | |
| Discounts and advances | 75,684,394 | 46,551,402 | 44,894,170 | 19,685,050 |
| Currency received and counted | 36,075,114 | 34,548,507 | 32,350,089 | 31,621,061 |
| Coin received and counted | 496,582 | 559,588 | 1,007,532 | 1,140,009 |
| Checks handled: | | | | |
| U.S. Govt. checks | 134,806,438 | 134,585,725 | 131,795,729 | 125,431,359 |
| Postal money orders | 4,507,801 | 4,578,853 | 4,707,908 | 4,701,516 |
| All other ² | 1,630,931,492 | 1,475,038,258 | 1,363,949,957 | 1,283,430,670 |
| Collection items handled: | | | | |
| U.S. Govt. coupons paid | 5,380,748 | 5,371,153 | 5,213,610 | 4,755,819 |
| All other | 10,723,571 | 7,851,274 | 7,143,665 | 6,940,394 |
| Issues, redemptions, and exchanges of U.S. Govt. securities | 763,248,392 | 738,062,697 | 683,736,756 | 639,755,488 |
| Transfers of funds | 4,496,230,723 | 3,953,186,948 | 3,442,100,310 | 3,168,359,313 |
| Food stamps redeemed | 116,498 | 73,182 | 66,514 | 36,378 |

¹ Packaged items handled as a single item are counted as one piece.

² Exclusive of checks drawn on the F.R. Banks.

**11. FEDERAL RESERVE BANK DISCOUNT RATES
DECEMBER 31, 1965**

(Per cent per annum)

| Federal Reserve Bank | Discounts for and advances to member banks | | Advances to all others under last par. Sec. 13 ³ |
|----------------------|--|--|---|
| | Advances and discounts under Secs. 13 and 13a ¹ | Advances under Sec. 10(b) ² | |
| Boston..... | 4½ | 5 | 5½ |
| New York..... | 4½ | 5 | 5½ |
| Philadelphia..... | 4½ | 5 | 5½ |
| Cleveland..... | 4½ | 5 | 6 |
| Richmond..... | 4½ | 5 | 5½ |
| Atlanta..... | 4½ | 5 | 6½ |
| Chicago..... | 4½ | 5 | 5½ |
| St. Louis..... | 4½ | 5 | 5½ |
| Minneapolis..... | 4½ | 5 | 5½ |
| Kansas City..... | 4½ | 5 | 5½ |
| Dallas..... | 4½ | 5 | 5½ |
| San Francisco..... | 4½ | 5 | 5½ |

¹ Advances secured by U.S. Govt. securities and discounts of and advances secured by eligible paper. Rates shown also apply to advances secured by securities of Federal intermediate credit banks maturing within 6 months. Maximum maturity: 90 days except that discounts of certain bankers' acceptances and of agricultural paper may have maturities not over 6 months and 9 months, respectively, and advances secured by Federal intermediate credit bank securities are limited to 15 days.

² Advances secured to the satisfaction of the F.R. Bank. Maximum maturity: 4 months.

³ Advances to individuals, partnerships, or corporations other than member banks secured by U.S. Govt. direct securities. Maximum maturity: 90 days.

12. MAXIMUM INTEREST RATES PAYABLE ON TIME AND SAVINGS DEPOSITS

(Per cent per annum)

| Type of deposit | Effective date | | | | | | | |
|--|----------------|--------------|--------------|--------------|--------------|---------------|---------------|--------------|
| | Nov. 1, 1933 | Feb. 1, 1935 | Jan. 1, 1936 | Jan. 1, 1957 | Jan. 1, 1962 | July 17, 1963 | Nov. 24, 1964 | Dec. 6, 1965 |
| Savings deposits held for— | | | | | | | | |
| 1 year or more..... | 3 | 2½ | 2½ | 3 | { 4 3½ } | { 4 3½ } | 4 | 4 |
| Less than 1 year..... | | | | | | | | |
| Postal savings deposits held for— | | | | | | | | |
| 1 year or more..... | 3 | 2½ | 2½ | 3 | { 4 3½ } | { 4 3½ } | 4 | 4 |
| Less than 1 year..... | | | | | | | | |
| Other time deposits payable in— ¹ | | | | | | | | |
| 1 year or more..... | 3 | 2½ | 2½ | 3 | { 4 3½ } | 4 | 4½ | 5½ |
| 6 months—1 year..... | | | | | | | | |
| 90 days—6 months..... | 3 | 2½ | 2 | 2½ | 2½ | 1 | 4 | |
| Less than 90 days..... | 3 | 2½ | 1 | 1 | 1 | 1 | 4 | |

¹ For exceptions with respect to foreign time deposits, see ANNUAL REPORTS for 1962, p. 129, and 1965, p. 233.

NOTE.—Maximum rates that may be paid by member banks as established by the Board of Governors under provisions of Regulation Q. Under this Regulation the rate payable by a member bank may not in any event exceed the maximum rate payable by State banks or trust companies on like deposits under the laws of the State in which the member bank is located. Effective Feb. 1, 1936, maximum rates that may be paid by insured nonmember commercial banks, as established by the FDIC, have been the same as those in effect for member banks.

13. MARGIN REQUIREMENTS

(Per cent of market value)

| Regulation | Effective date | | | | | | |
|---|----------------|---------------|--------------|---------------|---------------|---------------|--------------|
| | July 5, 1945 | Jan. 21, 1946 | Feb. 1, 1947 | Mar. 30, 1949 | Jan. 17, 1951 | Feb. 20, 1953 | Jan. 4, 1955 |
| Regulation T: For extension of credit by brokers and dealers on listed securities..... | 75 | 100 | 75 | 50 | 75 | 50 | 60 |
| For short sales..... | 75 | 100 | 75 | 50 | 75 | 50 | 60 |
| Regulation U: For loans by banks on stocks. | 75 | 100 | 75 | 50 | 75 | 50 | 60 |
| Regulation | Effective date | | | | | | |
| | Apr. 23, 1955 | Jan. 16, 1958 | Aug. 5, 1958 | Oct. 16, 1958 | July 28, 1960 | July 10, 1962 | Nov. 6, 1963 |
| Regulation T: For extension of credit by brokers and dealers on listed securities..... | 70 | 50 | 70 | 90 | 70 | 50 | 70 |
| For short sales..... | 70 | 50 | 70 | 90 | 70 | 50 | 70 |
| Regulation U: For loans by banks on stocks. | 70 | 50 | 70 | 90 | 70 | 50 | 70 |

NOTE.—Regulations T and U, prescribed in accordance with Securities Exchange Act of 1934, limit the amount of credit that may be extended on a security by prescribing a maximum loan value, which is a specified percentage of its market value at the time of extension; margin requirements are the difference between the market value (100%) and the maximum loan value. Changes on Feb. 20, 1953, and Jan. 4, 1955, were effective after close of business on these dates.

For earlier data, see *Banking and Monetary Statistics*, 1943, Table 145, p. 504.

14. FEES AND RATES UNDER REGULATION V ON LOANS GUARANTEED PURSUANT TO DEFENSE PRODUCTION ACT OF 1950, DECEMBER 31, 1965

| Fees Payable to Guaranteeing Agency by Financing Institution on Guaranteed Portion of Loan | | |
|--|--|--|
| Percentage of loan guaranteed | Guaranteed fee (percentage of interest payable by borrower) | Percentage of any commitment fee charged borrower |
| 70 or less..... | 10 | 10 |
| 75..... | 15 | 15 |
| 80..... | 20 | 20 |
| 85..... | 25 | 25 |
| 90..... | 30 | 30 |
| 95..... | 35 | 35 |
| Over 95..... | 40-50 | 40-50 |
| Maximum Rates Financing Institution May Charge Borrower | | |
| Interest rate..... | 6 per cent per annum | |
| Commitment rate..... | ½ per cent per annum | |

15. MEMBER BANK RESERVE REQUIREMENTS

(Per cent of deposits)

| Effective date | Net demand deposits ¹ | | | Time deposits | |
|-----------------------------|---|--------------------|---------------|---|---------------|
| | Central reserve city banks ² | Reserve city banks | Country banks | Central reserve and reserve city banks ² | Country banks |
| 1917—June 21..... | 13 | 10 | 7 | 3 | 3 |
| 1936—Aug. 16..... | 19½ | 15 | 10½ | 4½ | 4½ |
| 1937—Mar. 1..... | 22¾ | 17½ | 12¼ | 5¼ | 5¼ |
| May 1..... | 26 | 20 | 14 | 6 | 6 |
| 1938—Apr. 16..... | 22¾ | 17½ | 12 | 5 | 5 |
| 1941—Nov. 1..... | 26 | 20 | 14 | 6 | 6 |
| 1942—Aug. 20..... | 24 | | | | |
| Sept. 14..... | 22 | | | | |
| Oct. 3..... | 20 | | | | |
| 1948—Feb. 27..... | 22 | | | | |
| June 11..... | 24 | | | | |
| Sept. 16..... | | | 16 | | 7½ |
| June 24..... | 26 | 22 | | 7½ | |
| 1949—May 1..... | | 21 | 15 | | 7 |
| May 5..... | 24 | 20 | | 6 | |
| June 30..... | | | 14 | | |
| July 1..... | | | 13 | | 6 |
| Aug. 1..... | | | | | |
| 11..... | 23½ | 19½ | | 5 | |
| 16..... | | | 12 | | 5 |
| 18..... | 23 | 19 | | | |
| 25..... | 22½ | 18½ | | | |
| Sept. 1..... | 22 | 18 | | | |
| 1951—Jan. 11..... | 23 | 19 | | 6 | |
| 16..... | | | 13 | | 6 |
| 25..... | 24 | 20 | | | |
| Feb. 1..... | | | 14 | | |
| 1953—July 1..... | | 19 | 13 | | |
| 9..... | 22 | | | | |
| 1954—June 16..... | | | | 5 | 5 |
| 24..... | 21 | | | | |
| July 29..... | 20 | 18 | | | |
| Aug. 1..... | | | 12 | | |
| 1958—Feb. 27..... | 19½ | 17½ | | | |
| Mar. 1..... | | | 11½ | | |
| 20..... | 19 | 17 | | | |
| Apr. 1..... | | | 11 | | |
| 17..... | 18½ | | | | |
| 24..... | 18 | 16½ | | | |
| 1960—Sept. 1..... | 17½ | | 12 | | |
| Nov. 24..... | | | | | |
| Dec. 1..... | 16½ | | | | |
| 1962—Oct. 25..... | | | | 4 | |
| Nov. 1..... | | | | | 4 |
| In effect Jan. 1, 1966..... | | 16½ | 12 | 4 | 4 |
| Present legal requirements: | | | | | |
| Minimum..... | | 10 | 7 | 3 | 3 |
| Maximum..... | | 22 | 14 | 6 | 6 |

¹ Demand deposits subject to reserve requirements which, beginning with Aug. 23, 1935, have been total demand deposits minus cash items in process of collection and demand balances due from domestic banks (also minus war loan and Series E bond accounts during the period Apr. 13, 1943—June 30, 1947).

² Authority of the Board of Governors to classify or reclassify cities as central reserve cities was terminated effective July 28, 1962.

NOTE.—All required reserves were held on deposit with F. R. Banks, June 21, 1917, until late 1959. Since then, member banks have also been allowed to count vault cash as reserves, as follows: country banks—in excess of 4 and 2½ per cent of net demand deposits effective Dec. 1, 1959, and Aug. 25, 1960, respectively; central reserve city and reserve city banks—in excess of 2 and 1 per cent effective Dec. 3, 1959, and Sept. 1, 1960, respectively; all member banks were allowed to count all vault cash as reserves effective Nov. 24, 1960.

16. MEMBER BANK RESERVES, FEDERAL RESERVE BANK CREDIT, AND RELATED ITEMS—END OF YEAR 1918-65 AND END OF MONTH 1965

(In millions of dollars)

| Period | Factors supplying reserve funds | | | | | | | | | Factors absorbing reserve funds | | | | | | | | | |
|--------|---------------------------------|------------------|-------------------------|-------------------------|-------|------------------------|--------|-------------------------|--|---------------------------------|-------------------------------------|---|---------|-------|----------------------------------|----------------------|---------------------------------|------------------------|----------------------|
| | F.R. Bank credit outstanding | | | | | | | Gold stock ² | Treasury currency outstanding ³ | Currency in circulation | Treasury cash holdings ⁴ | Deposits other than member bank reserves, with F.R. Banks | | | Other F.R. accounts ⁵ | Member bank reserves | | | |
| | U.S. Govt. securities | | | Dis-counts and advances | Float | All other ¹ | Total | | | | | Treasury | Foreign | Other | | With F.R. Banks | Cur-rency and coin ⁶ | Re-quired ⁷ | Ex-cess ⁷ |
| | Total | Bought out-right | Repur-chase agree-ments | | | | | | | | | | | | | | | | |
| 1918 | 239 | 239 | ..... | 1,766 | 199 | 294 | 2,498 | 2,873 | 1,795 | 4,951 | 288 | 51 | 96 | 25 | 118 | 1,636 | ..... | 1,585 | 51 |
| 1919 | 300 | 300 | ..... | 2,215 | 201 | 575 | 3,292 | 2,707 | 1,707 | 5,091 | 385 | 31 | 73 | 28 | 208 | 1,890 | ..... | 1,822 | 68 |
| 1920 | 287 | 287 | ..... | 2,687 | 119 | 262 | 3,355 | 2,639 | 1,709 | 5,325 | 218 | 57 | 5 | 18 | 298 | 1,781 | ..... | ..... | ..... |
| 1921 | 234 | 234 | ..... | 1,144 | 40 | 146 | 1,563 | 3,373 | 1,842 | 4,403 | 214 | 96 | 12 | 15 | 285 | 1,753 | ..... | 1,654 | 99 |
| 1922 | 436 | 436 | ..... | 618 | 78 | 273 | 1,405 | 3,642 | 1,958 | 4,530 | 225 | 11 | 3 | 26 | 276 | 1,934 | ..... | ..... | ..... |
| 1923 | 134 | 80 | 54 | 723 | 27 | 355 | 1,238 | 3,957 | 2,009 | 4,757 | 213 | 38 | 4 | 19 | 275 | 1,898 | ..... | 1,884 | 14 |
| 1924 | 540 | 536 | 4 | 320 | 52 | 390 | 1,302 | 4,212 | 2,025 | 4,760 | 211 | 51 | 19 | 20 | 258 | 2,220 | ..... | 2,161 | 59 |
| 1925 | 375 | 367 | 8 | 643 | 63 | 378 | 1,459 | 4,112 | 1,977 | 4,817 | 203 | 16 | 8 | 21 | 272 | 2,212 | ..... | 2,256 | -44 |
| 1926 | 315 | 312 | 3 | 637 | 45 | 384 | 1,381 | 4,205 | 1,991 | 4,808 | 201 | 17 | 46 | 19 | 293 | 2,194 | ..... | 2,250 | -56 |
| 1927 | 617 | 560 | 57 | 582 | 63 | 393 | 1,655 | 4,092 | 2,006 | 4,716 | 208 | 18 | 5 | 21 | 301 | 2,487 | ..... | 2,424 | 63 |
| 1928 | 228 | 197 | 31 | 1,056 | 24 | 500 | 1,809 | 3,854 | 2,012 | 4,686 | 202 | 23 | 6 | 21 | 348 | 2,389 | ..... | 2,430 | -41 |
| 1929 | 511 | 488 | 23 | 632 | 34 | 405 | 1,583 | 3,997 | 2,022 | 4,578 | 216 | 29 | 6 | 24 | 393 | 2,355 | ..... | 2,428 | -73 |
| 1930 | 729 | 686 | 43 | 251 | 21 | 372 | 1,373 | 4,306 | 2,027 | 4,603 | 211 | 19 | 6 | 22 | 375 | 2,471 | ..... | 2,375 | 96 |
| 1931 | 817 | 775 | 42 | 638 | 20 | 378 | 1,853 | 4,173 | 2,035 | 5,360 | 222 | 54 | 79 | 31 | 354 | 1,961 | ..... | 1,994 | -33 |
| 1932 | 1,855 | 1,851 | 4 | 235 | 14 | 41 | 2,145 | 4,226 | 2,204 | 5,388 | 272 | 8 | 19 | 24 | 355 | 2,509 | ..... | 1,933 | 576 |
| 1933 | 2,437 | 2,435 | 2 | 98 | 15 | 137 | 2,688 | 4,036 | 2,303 | 5,519 | 284 | 3 | 4 | 128 | 360 | 2,729 | ..... | 1,870 | 859 |
| 1934 | 2,430 | 2,430 | ..... | 7 | 5 | 21 | 2,463 | 8,238 | 2,511 | 5,536 | 3,029 | 121 | 20 | 169 | 241 | 4,096 | ..... | 2,282 | 1,814 |
| 1935 | 2,431 | 2,430 | 1 | 5 | 12 | 38 | 2,486 | 10,125 | 2,476 | 5,882 | 2,566 | 544 | 29 | 226 | 253 | 5,587 | ..... | 2,743 | 2,844 |
| 1936 | 2,430 | 2,430 | ..... | 3 | 39 | 28 | 2,500 | 11,258 | 2,532 | 6,543 | 2,376 | 244 | 99 | 160 | 261 | 6,606 | ..... | 4,622 | 1,984 |
| 1937 | 2,564 | 2,564 | ..... | 10 | 19 | 19 | 2,612 | 12,760 | 2,637 | 6,550 | 3,619 | 142 | 172 | 235 | 263 | 7,027 | ..... | 5,815 | 1,212 |
| 1938 | 2,564 | 2,564 | ..... | 4 | 17 | 16 | 2,601 | 14,512 | 2,798 | 6,856 | 2,706 | 923 | 199 | 242 | 260 | 8,724 | ..... | 5,519 | 3,205 |
| 1939 | 2,484 | 2,484 | ..... | 7 | 91 | 11 | 2,593 | 17,644 | 2,963 | 7,598 | 2,409 | 634 | 397 | 256 | 251 | 11,653 | ..... | 6,444 | 5,209 |
| 1940 | 2,184 | 2,184 | ..... | 3 | 80 | 8 | 2,274 | 21,995 | 3,087 | 8,732 | 2,213 | 368 | 1,133 | 599 | 284 | 14,026 | ..... | 7,411 | 6,615 |
| 1941 | 2,254 | 2,254 | ..... | 3 | 94 | 10 | 2,361 | 22,737 | 3,247 | 11,160 | 2,215 | 867 | 774 | 586 | 291 | 12,450 | ..... | 9,365 | 3,085 |
| 1942 | 6,189 | 6,189 | ..... | 6 | 471 | 14 | 6,679 | 22,726 | 3,648 | 15,410 | 2,193 | 799 | 793 | 485 | 256 | 13,117 | ..... | 11,129 | 1,988 |
| 1943 | 11,543 | 11,543 | ..... | 5 | 681 | 10 | 12,239 | 21,938 | 4,094 | 20,449 | 2,303 | 579 | 1,360 | 356 | 339 | 12,886 | ..... | 11,650 | 1,236 |
| 1944 | 18,846 | 18,846 | ..... | 80 | 815 | 4 | 19,745 | 20,619 | 4,131 | 25,307 | 2,375 | 440 | 1,204 | 394 | 402 | 14,373 | ..... | 12,748 | 1,625 |

| | | | | | | | | | | | | | | | | | | | | |
|-------|--------|--------|-------|-----|-------|-----|--------|--------|-------|--------|-------|-------|-----|-----|-------|--------|-------|--------|--------|------|
| 1945. | 24,262 | 24,262 | ..... | 249 | 578 | 2 | 25,091 | 20,065 | 4,339 | 28,515 | 2,287 | 977 | 862 | 446 | 495 | 15,915 | ..... | 14,457 | 1,458 | |
| 1946. | 23,350 | 23,350 | ..... | 163 | 580 | 1 | 24,093 | 20,529 | 4,562 | 28,952 | 2,272 | 393 | 508 | 314 | 607 | 16,139 | ..... | 15,577 | 562 | |
| 1947. | 22,559 | 22,559 | ..... | 85 | 535 | 1 | 23,181 | 22,754 | 4,562 | 28,868 | 1,336 | 870 | 392 | 569 | 563 | 17,899 | ..... | 16,400 | 1,499 | |
| 1948. | 23,333 | 23,333 | ..... | 223 | 541 | 1 | 24,097 | 24,244 | 4,589 | 28,224 | 1,325 | 1,123 | 642 | 547 | 590 | 20,479 | ..... | 19,277 | 1,202 | |
| 1949. | 18,885 | 18,885 | ..... | 78 | 534 | 2 | 19,499 | 24,427 | 4,598 | 27,600 | 1,312 | 821 | 767 | 750 | 706 | 16,568 | ..... | 15,550 | 1,018 | |
| 1950. | 20,778 | 20,725 | 53 | 67 | 1,368 | 3 | 22,216 | 22,706 | 4,636 | 27,741 | 1,293 | 668 | 895 | 565 | 714 | 17,681 | ..... | 16,509 | 1,172 | |
| 1951. | 23,801 | 23,605 | 196 | 19 | 1,184 | 5 | 25,009 | 22,695 | 4,709 | 29,206 | 1,270 | 247 | 526 | 363 | 746 | 20,956 | ..... | 19,667 | 389 | |
| 1952. | 24,697 | 24,034 | 663 | 156 | 967 | 4 | 25,825 | 23,187 | 4,812 | 30,433 | 1,270 | 389 | 550 | 455 | 777 | 19,950 | ..... | 20,520 | -570 | |
| 1953. | 25,916 | 25,318 | 598 | 28 | 935 | 2 | 26,880 | 22,030 | 4,894 | 30,781 | 761 | 346 | 423 | 493 | 839 | 20,160 | ..... | 19,397 | 763 | |
| 1954. | 24,932 | 24,888 | 44 | 143 | 808 | 1 | 25,885 | 21,713 | 4,985 | 30,509 | 796 | 563 | 490 | 441 | 907 | 18,876 | ..... | 18,618 | 258 | |
| 1955. | 24,785 | 24,391 | 394 | 108 | 1,585 | 29 | 26,507 | 21,690 | 5,008 | 31,158 | 767 | 394 | 402 | 554 | 925 | 19,005 | ..... | 18,903 | 102 | |
| 1956. | 24,915 | 24,610 | 305 | 50 | 1,665 | 70 | 26,699 | 21,949 | 5,066 | 31,790 | 775 | 441 | 322 | 426 | 901 | 19,059 | ..... | 19,089 | -30 | |
| 1957. | 24,238 | 23,719 | 519 | 55 | 1,424 | 66 | 25,784 | 22,781 | 5,146 | 31,834 | 761 | 481 | 356 | 246 | 998 | 19,034 | ..... | 19,091 | -57 | |
| 1958. | 26,347 | 26,252 | 95 | 64 | 1,296 | 49 | 27,755 | 20,534 | 5,234 | 32,193 | 683 | 358 | 272 | 391 | 1,122 | 18,504 | ..... | 18,574 | -70 | |
| 1959. | 26,648 | 26,607 | 41 | 458 | 1,590 | 75 | 28,771 | 19,456 | 5,311 | 32,591 | 391 | 504 | 345 | 694 | 841 | 18,174 | 310 | ..... | 18,619 | -135 |
| 1960. | 27,384 | 26,984 | 400 | 33 | 1,847 | 74 | 29,338 | 17,767 | 5,398 | 32,869 | 377 | 485 | 217 | 533 | 941 | 17,081 | 2,544 | ..... | 18,988 | 637 |
| 1961. | 28,881 | 28,722 | 159 | 130 | 2,300 | 51 | 31,362 | 16,889 | 5,585 | 33,918 | 422 | 465 | 279 | 320 | 1,044 | 17,387 | 2,823 | ..... | 20,114 | 96 |
| 1962. | 30,820 | 30,478 | 342 | 38 | 2,903 | 110 | 33,871 | 15,978 | 5,567 | 35,338 | 380 | 597 | 247 | 393 | 1,007 | 17,454 | 3,262 | ..... | 20,071 | 645 |
| 1963. | 33,393 | 33,582 | 11 | 63 | 2,600 | 162 | 36,418 | 15,513 | 5,578 | 37,692 | 361 | 880 | 171 | 291 | 1,065 | 17,049 | 4,099 | ..... | 20,677 | 471 |
| 1964. | 37,044 | 36,506 | 538 | 186 | 2,606 | 94 | 39,930 | 15,388 | 5,405 | 39,619 | 612 | 820 | 229 | 321 | 1,036 | 18,086 | 4,151 | ..... | 21,663 | 574 |
| 1965— | | | | | | | | | | | | | | | | | | | | |
| Jan. | 36,741 | 36,621 | 120 | 304 | 1,577 | 115 | 38,737 | 15,185 | 5,400 | 38,540 | 653 | 929 | 143 | 218 | 1,039 | 17,801 | 3,166 | ..... | 20,938 | 29 |
| Feb. | 36,907 | 36,824 | 83 | 300 | 2,144 | 71 | 39,422 | 14,937 | 5,402 | 38,593 | 692 | 988 | 154 | 210 | 1,222 | 17,903 | 3,138 | ..... | 20,893 | 148 |
| Mar. | 37,591 | 37,460 | 131 | 124 | 1,114 | 143 | 38,972 | 14,563 | 5,390 | 38,816 | 702 | 867 | 162 | 196 | 904 | 17,277 | 3,894 | ..... | 21,104 | 67 |
| Apr. | 37,754 | 37,509 | 245 | 568 | 1,645 | 104 | 40,071 | 14,410 | 5,406 | 38,760 | 736 | 944 | 146 | 208 | 835 | 18,259 | 3,807 | ..... | 21,315 | 751 |
| May. | 38,686 | 38,466 | 220 | 545 | 1,308 | 82 | 40,621 | 14,290 | 5,398 | 39,207 | 744 | 745 | 142 | 184 | 1,281 | 18,006 | 3,107 | ..... | 20,988 | 125 |
| June. | 39,100 | 38,882 | 218 | 657 | 1,349 | 53 | 41,159 | 13,934 | 5,412 | 39,720 | 747 | 672 | 179 | 198 | 762 | 18,229 | 4,046 | ..... | 21,705 | 570 |
| July. | 39,207 | 38,804 | 403 | 536 | 1,388 | 35 | 41,166 | 13,857 | 5,421 | 39,897 | 786 | 947 | 147 | 202 | 455 | 18,008 | 3,285 | ..... | 21,341 | -48 |
| Aug. | 39,049 | 39,049 | ..... | 237 | 1,278 | 55 | 40,619 | 13,857 | 5,456 | 40,165 | 782 | 916 | 356 | 182 | 339 | 17,191 | 3,921 | ..... | 21,182 | -70 |
| Sept. | 39,774 | 39,774 | ..... | 174 | 1,693 | 63 | 41,704 | 13,858 | 5,479 | 40,443 | 779 | 1,002 | 213 | 227 | 230 | 18,149 | 4,157 | ..... | 21,651 | 655 |
| Oct. | 39,657 | 39,657 | ..... | 510 | 1,652 | 86 | 41,905 | 13,857 | 5,509 | 40,754 | 773 | 1,053 | 144 | 211 | 133 | 18,204 | 3,357 | ..... | 21,631 | -70 |
| Nov. | 40,575 | 40,575 | ..... | 365 | 1,739 | 110 | 42,789 | 13,805 | 5,532 | 41,824 | 773 | 719 | 149 | 245 | 369 | 18,050 | 4,267 | ..... | 21,861 | 456 |
| Dec. | 40,768 | 40,478 | 290 | 137 | 2,248 | 187 | 43,340 | 13,733 | 5,575 | 42,056 | 760 | 668 | 150 | 355 | 211 | 18,447 | 4,163 | ..... | 22,848 | -238 |

¹ Principally acceptances and industrial loans; authority for industrial loans expired Aug. 21, 1959.

² Before Jan. 30, 1934, included gold held by F.R. Banks and in circulation.

³ The stock of currency, other than gold, for which the Treasury is primarily responsible—silver bullion at monetary value and standard silver dollars, subsidiary silver and minor coin, and United States notes; also, F.R. Bank notes and national bank notes for the retirement of which lawful money has been deposited with the Treasurer of the United States. Includes currency of these kinds held in the Treasury and the F.R. Banks as well as that in circulation.

⁴ Gold other than that held against gold certificates and gold certificate credits, including the reserve against United States notes and Treasury notes of 1890, monetary silver other than that held against silver certificates and Treasury notes of 1890, and

the following coin and paper currency held in the Treasury: subsidiary silver and minor coin, United States notes, F.R. notes, F.R. Bank notes, and national bank notes.

⁵ The total of F.R. Bank capital paid in, surplus, other capital accounts, and other liabilities and accrued dividends, less the sum of bank premises and other assets.

⁶ Part allowed as reserves Dec. 1, 1959–Nov. 23, 1960; all allowed thereafter.

⁷ These figures are estimated through 1958. Before 1929 available only on call dates (in 1920 and 1922, the call dates were Dec. 29).

NOTE.—For description of figures and discussion of their significance, see "Member Bank Reserves and Related Items," Section 10 of *Supplement to Banking and Monetary Statistics*, Jan. 1962.

**17. PRINCIPAL ASSETS AND LIABILITIES, AND NUMBER OF COMMERCIAL AND MUTUAL SAVINGS BANKS, BY CLASS OF BANK
DECEMBER 31, 1965 AND DECEMBER 31, 1964**

(In millions of dollars)

| Item | All banks | Commercial banks | | | | | | | Mutual savings banks | | |
|--------------------------------------|-----------|------------------|--------------|----------|--------|-----------------|---------|------------|----------------------|---------|------------|
| | | Total | Member banks | | | Nonmember banks | | | Total | Insured | Noninsured |
| | | | Total | National | State | Total | Insured | Noninsured | | | |
| December 31, 1965¹ | | | | | | | | | | | |
| Loans and investments, total | 361,460 | 305,150 | 251,670 | n.a. | n.a. | 53,480 | n.a. | n.a. | 56,310 | n.a. | n.a. |
| Loans | 246,310 | 201,030 | 169,420 | n.a. | n.a. | 31,610 | n.a. | n.a. | 45,280 | n.a. | n.a. |
| Investments | 115,150 | 104,120 | 82,250 | n.a. | n.a. | 21,870 | n.a. | n.a. | 11,030 | n.a. | n.a. |
| U.S. Govt. securities | 65,040 | 59,520 | 45,390 | n.a. | n.a. | 14,130 | n.a. | n.a. | 5,520 | n.a. | n.a. |
| Other securities | 50,110 | 44,600 | 36,860 | n.a. | n.a. | 7,740 | n.a. | n.a. | 5,510 | n.a. | n.a. |
| Cash assets | 62,410 | 61,430 | 53,200 | n.a. | n.a. | 8,230 | n.a. | n.a. | 980 | n.a. | n.a. |
| Deposits, total | 382,400 | 329,770 | 272,830 | n.a. | n.a. | 56,940 | n.a. | n.a. | 52,630 | n.a. | n.a. |
| Interbank | 17,440 | 17,440 | 16,340 | n.a. | n.a. | 1,100 | n.a. | n.a. | | n.a. | n.a. |
| Other demand | 166,870 | 166,520 | 136,980 | n.a. | n.a. | 29,540 | n.a. | n.a. | 350 | n.a. | n.a. |
| Other time | 198,090 | 145,810 | 119,510 | n.a. | n.a. | 26,300 | n.a. | n.a. | 52,280 | n.a. | n.a. |
| Total capital accounts | 34,880 | 30,230 | 24,920 | n.a. | n.a. | 5,310 | n.a. | n.a. | 4,650 | n.a. | n.a. |
| Number of banks | 14,309 | 13,804 | 6,221 | 4,815 | 1,406 | 7,583 | 7,320 | 263 | 505 | 328 | 177 |
| December 31, 1964 | | | | | | | | | | | |
| Loans and investments, total | 329,739 | 277,376 | 228,497 | 151,406 | 77,091 | 48,879 | 46,567 | 2,312 | 52,363 | 45,358 | 7,005 |
| Loans | 216,674 | 175,589 | 147,690 | 96,688 | 51,002 | 27,899 | 26,544 | 1,355 | 41,085 | 36,233 | 4,852 |
| Investments | 113,065 | 101,787 | 80,807 | 54,718 | 26,089 | 20,980 | 20,023 | 957 | 11,278 | 9,125 | 2,153 |
| U.S. Govt. securities | 68,779 | 62,991 | 48,717 | 33,405 | 15,312 | 14,273 | 13,790 | 483 | 5,788 | 4,110 | 1,678 |
| Other securities | 44,287 | 38,796 | 32,089 | 21,312 | 10,777 | 6,707 | 6,233 | 474 | 5,490 | 5,015 | 475 |
| Cash assets | 61,493 | 60,489 | 52,737 | 34,064 | 18,673 | 7,752 | 7,174 | 579 | 1,004 | 893 | 111 |
| Deposits, total | 356,308 | 307,170 | 255,724 | 169,615 | 86,108 | 51,447 | 49,389 | 2,057 | 49,138 | 42,751 | 6,387 |
| Interbank | 18,759 | 18,757 | 17,670 | 10,732 | 6,939 | 1,087 | 727 | 359 | 2 | 2 | |
| Other demand | 162,032 | 161,693 | 134,377 | 88,138 | 46,239 | 27,317 | 26,153 | 1,163 | 339 | 333 | 6 |
| Other time | 175,517 | 126,720 | 103,677 | 70,746 | 32,931 | 23,043 | 22,509 | 534 | 48,797 | 42,416 | 6,381 |
| Total capital accounts | 32,196 | 27,795 | 22,901 | 15,048 | 7,853 | 4,894 | 4,488 | 406 | 4,401 | 3,731 | 670 |
| Number of banks | 14,266 | 13,761 | 6,225 | 4,773 | 1,452 | 7,536 | 7,262 | 274 | 505 | 327 | 178 |

n.a. Not available.
¹ Estimated.

NOTE.—All banks in the United States.

**18. MEMBER BANK INCOME, EXPENSES, AND DIVIDENDS BY CLASS
OF BANK, 1965 AND 1964**

| Item | Total | | Reserve city banks | | | | | | Country banks | |
|---|--------|--------|--------------------|-------|-----------------|------|-------|-------|---------------|-------|
| | | | New York City | | City of Chicago | | Other | | | |
| | 1965 | 1964 | 1965 | 1964 | 1965 | 1964 | 1965 | 1964 | 1965 | 1964 |
| In millions of dollars | | | | | | | | | | |
| Revenue | 13,873 | 12,386 | 2,296 | 2,017 | 577 | 505 | 5,237 | 4,739 | 5,764 | 5,125 |
| On U.S. Govt. securities | 1,692 | 1,742 | 180 | 214 | 60 | 64 | 549 | 580 | 903 | 883 |
| On other securities | 1,081 | 911 | 204 | 171 | 52 | 48 | 374 | 313 | 451 | 379 |
| On loans | 9,317 | 8,111 | 1,563 | 1,300 | 382 | 324 | 3,614 | 3,205 | 3,757 | 3,282 |
| All other | 1,783 | 1,622 | 349 | 332 | 82 | 69 | 700 | 640 | 653 | 581 |
| Expenses | 10,223 | 8,895 | 1,607 | 1,345 | 401 | 340 | 3,868 | 3,391 | 4,346 | 3,818 |
| Salaries and wages | 3,030 | 2,840 | 441 | 420 | 100 | 93 | 1,138 | 1,081 | 1,352 | 1,246 |
| Interest on deposits | 4,220 | 3,384 | 713 | 515 | 192 | 156 | 1,632 | 1,319 | 1,684 | 1,394 |
| All other | 2,973 | 2,671 | 454 | 411 | 110 | 91 | 1,099 | 991 | 1,310 | 1,178 |
| Net current earnings before income taxes | 3,650 | 3,491 | 688 | 671 | 175 | 165 | 1,368 | 1,347 | 1,418 | 1,307 |
| Recoveries and profits ¹ | | 308 | | 41 | | 23 | | 125 | | 118 |
| Losses and charge-offs ² | | 590 | | 81 | | 30 | | 242 | | 237 |
| Net increase (or decrease, +) in valuation reserves | | 288 | | 51 | | 41 | | 93 | | 104 |
| Net income before related taxes | 2,992 | 2,921 | 510 | 581 | 165 | 118 | 1,139 | 1,137 | 1,178 | 1,085 |
| Taxes on net income | 884 | 998 | 131 | 199 | 51 | 37 | 358 | 413 | 344 | 349 |
| Net income | 2,108 | 1,923 | 379 | 382 | 114 | 81 | 782 | 724 | 833 | 736 |
| Cash dividends declared ³ | 1,061 | 961 | 240 | 213 | 45 | 41 | 425 | 394 | 351 | 313 |
| In per cent | | | | | | | | | | |
| Ratios: | | | | | | | | | | |
| Net current earnings before income taxes to— | | | | | | | | | | |
| Average total capital accounts | 15.2 | 15.9 | 14.0 | 15.7 | 16.0 | 16.2 | 15.6 | 16.7 | 15.3 | 15.2 |
| Average total assets | 1.22 | 1.29 | 1.22 | 1.36 | 1.28 | 1.35 | 1.23 | 1.31 | 1.22 | 1.22 |
| Net income to— | | | | | | | | | | |
| Average total capital accounts | 8.8 | 8.8 | 7.7 | 8.9 | 10.4 | 8.0 | 8.9 | 9.0 | 9.0 | 8.6 |
| Average total assets | .71 | .71 | .67 | .78 | .84 | .66 | .70 | .70 | .71 | .69 |
| Average return on— | | | | | | | | | | |
| U.S. Govt. securities | 3.72 | 3.63 | 3.33 | 3.62 | 3.48 | 3.66 | 3.71 | 3.59 | 3.83 | 3.66 |
| Loans | 5.87 | 5.88 | 5.14 | 5.20 | 5.07 | 5.03 | 5.89 | 5.91 | 6.33 | 6.28 |

¹ Includes recoveries credited to valuation reserves.

² Includes losses charged to valuation reserves.

³ Includes interest on capital notes and debentures.

NOTE.—Data for 1965 are preliminary; final figures will be published in the May 1966 F.R. *Bulletin*.

**19. CHANGES IN NUMBER OF BANKING OFFICES IN THE
UNITED STATES DURING 1965¹**

| Type of office and change | All banks | Commercial banks (incl. stock savings banks and nondeposit trust companies) | | | | | Mutual savings banks | |
|---|---------------|---|-----------------------|--------------------|--------------|------------------------------|----------------------|-----------------|
| | | Total | Member | | Nonmember | | In- sured | Non- insured |
| | | | National ¹ | State ² | In- sured | Non- insured ² | | |
| Banks, Dec. 31, 1964 | 14,266 | 13,761 | 4,773 | 1,452 | 7,262 | 274 | 327 | 178 |
| Changes during 1965 | | | | | | | | |
| New banks ³ | 201 | 198 | 88 | 4 | 90 | 16 | 2 | 1 |
| Suspensions..... | -7 | -7 | -2 | | -1 | -4 | | |
| Consolidations and absorptions: | | | | | | | | |
| Banks converted into branches..... | -131 | -130 | -53 | -17 | -57 | -3 | | -1 |
| Other..... | -20 | -19 | -7 | -1 | -8 | -3 | -1 | |
| Voluntary liquidations ⁴ | -1 | | | | | | | -1 |
| Other change ⁵ | 1 | 1 | | | | 1 | | |
| Interclass changes: | | | | | | | | |
| Nonmember to State member..... | | | | 1 | -1 | | | |
| State member to nonmember..... | | | | -23 | 23 | | | |
| National to State..... | | | -7 | | 7 | | | |
| State to national..... | | | 23 | -10 | -11 | -2 | | |
| Noninsured to insured..... | | | | | 16 | -16 | | |
| Net change..... | 43 | 43 | 42 | -46 | 58 | -11 | 1 | -1 |
| Number of banks Dec. 31, 1965 | 14,309 | 13,804 | 4,815 | 1,406 | 7,320 | 263 | 328 | 177 |
| Branches and additional offices, Dec. 31, 1964 | 14,995 | 14,321 | 7,940 | 3,275 | 3,056 | 50 | 549 | 125 |
| Changes during 1965 | | | | | | | | |
| De novo..... | 1,115 | 1,074 | 593 | 195 | 281 | 5 | 31 | 10 |
| Banks converted..... | 131 | 129 | 72 | 26 | 31 | | 2 | |
| Discontinued..... | -51 | -48 | -26 | -9 | -13 | | -2 | -1 |
| Other changes ⁶ | 11 | 11 | 6 | | 5 | | | |
| Interclass changes— Net ⁷ | | -1 | 169 | -178 | 9 | -1 | 3 | -2 |
| Net change..... | 1,206 | 1,165 | 814 | 34 | 313 | 4 | 34 | 7 |
| Number of branches and additional offices, Dec. 31, 1965 | 16,201 | 15,486 | 8,754 | 3,309 | 3,369 | 54 | 583 | 132 |
| Banking facilities, Dec. 31, 1964⁸ | 280 | 280 | 216 | 26 | 38 | | | |
| Changes during 1965 | | | | | | | | |
| Established..... | 5 | 5 | 3 | | 2 | | | |
| Discontinued..... | -4 | -4 | -4 | | | | | |
| Interclass change: | | | | | | | | |
| State member to national..... | | | 1 | -1 | | | | |
| Facilities reclassified as branches..... | -11 | -11 | -6 | | -5 | | | |
| Net change..... | -10 | -10 | -6 | -1 | -3 | | | |
| Number of banking facilities, Dec. 31, 1965 | 270 | 270 | 210 | 25 | 35 | | | |

¹ Includes a national bank (2 branches) in the Virgin Islands; other banks or branches located in the possessions are excluded.

² State member bank figures include and noninsured bank figures exclude 1 noninsured trust company without deposits.

³ Exclusive of new banks organized to succeed operating banks.

⁴ Exclusive of liquidations incident to the succession, conversion, or absorption of banks.

⁵ Reopening of a suspended bank.

⁶ Facilities reclassified as branches.

⁷ For details see Feb. 1966 F.R. Bulletin, p. 272.

⁸ Provided at military and other Govt. establishments through arrangements made by the Treasury.

20. NUMBER OF PAR AND NONPAR BANKING OFFICES
DECEMBER 31, 1965,

| F.R. district, State, or other area | Total | | Par | | | | | | Nonpar (nonmember) | |
|---|---------------|-----------------------|---------------|-----------------------|--------------|-----------------------|--------------|-----------------------|-----------------------|-----------------------|
| | | | Total | | Member | | Nonmember | | | |
| | Banks | Branches & offices | Banks | Branches & offices | Banks | Branches & offices | Banks | Branches & offices | Banks | Branches & offices |
| DISTRICT | | | | | | | | | | |
| Boston..... | 384 | 1,142 | 384 | 1,142 | 251 | 890 | 133 | 252 | | |
| New York..... | 516 | 2,693 | 516 | 2,693 | 409 | 2,368 | 107 | 325 | | |
| Philadelphia..... | 541 | 1,032 | 541 | 1,032 | 408 | 784 | 133 | 248 | | |
| Cleveland..... | 843 | 1,471 | 843 | 1,471 | 504 | 1,255 | 339 | 216 | | |
| Richmond..... | 832 | 2,047 | 748 | 1,961 | 409 | 1,300 | 339 | 661 | 84 | 86 |
| Atlanta..... | 1,555 | 896 | 1,063 | 811 | 520 | 641 | 543 | 170 | 492 | 85 |
| Chicago..... | 2,527 | 1,649 | 2,527 | 1,649 | 1,006 | 1,006 | 1,521 | 569 | | |
| St. Louis..... | 1,504 | 589 | 1,262 | 521 | 483 | 334 | 779 | 187 | 242 | 68 |
| Minneapolis..... | 1,357 | 192 | 754 | 140 | 495 | 81 | 259 | 59 | 603 | 52 |
| Kansas City..... | 1,908 | 194 | 1,908 | 194 | 835 | 134 | 1,073 | 60 | | |
| Dallas..... | 1,280 | 230 | 1,211 | 221 | 675 | 135 | 536 | 86 | 69 | 9 |
| San Francisco..... | 466 | 3,747 | 464 | 3,747 | 225 | 3,314 | 239 | 433 | 2 | |
| Total..... | 13,713 | 15,882 | 12,221 | 15,582 | 6,220 | 12,316 | 6,001 | 3,266 | 1,492 | 300 |
| STATE | | | | | | | | | | |
| Alabama..... | 263 | 163 | 193 | 157 | 110 | 137 | 83 | 20 | 70 | 6 |
| Alaska..... | 17 | 53 | 10 | 53 | 5 | 45 | 5 | 8 | 2 | |
| Arizona..... | 12 | 250 | 17 | 250 | 5 | 196 | 12 | 54 | | |
| Arkansas..... | 246 | 107 | 154 | 86 | 84 | 74 | 70 | 12 | 92 | 21 |
| California..... | 193 | 2,419 | 193 | 2,419 | 110 | 2,222 | 83 | 197 | | |
| Colorado..... | 212 | 8 | 212 | 8 | 134 | 6 | 78 | 2 | | |
| Connecticut..... | 65 | 313 | 65 | 313 | 36 | 252 | 29 | 61 | | |
| Delaware..... | 20 | 65 | 20 | 65 | 7 | 34 | 13 | 31 | | |
| District of Columbia..... | 15 | 88 | 15 | 88 | 12 | 80 | 3 | 8 | | |
| Florida..... | 437 | 18 | 403 | 18 | 203 | 12 | 200 | 6 | 34 | |
| Georgia..... | 429 | 197 | 175 | 183 | 71 | 155 | 104 | 28 | 254 | 14 |
| Hawaii..... | 7 | 115 | 7 | 115 | 2 | 42 | 5 | 73 | | |
| Idaho..... | 25 | 127 | 25 | 127 | 16 | 118 | 9 | 9 | | |
| Illinois..... | 1,047 | 5 | 1,047 | 5 | 529 | 5 | 518 | | | |
| Indiana..... | 421 | 472 | 421 | 472 | 210 | 315 | 211 | 157 | | |
| Iowa..... | 672 | 235 | 672 | 235 | 163 | 45 | 509 | 190 | | |
| Kansas..... | 599 | 49 | 599 | 49 | 211 | 32 | 388 | 17 | | |
| Kentucky..... | 346 | 232 | 346 | 232 | 95 | 155 | 251 | 77 | | |
| Louisiana..... | 214 | 248 | 113 | 215 | 57 | 157 | 56 | 58 | 101 | 33 |
| Maine..... | 41 | 172 | 41 | 172 | 27 | 124 | 14 | 48 | | |
| Maryland..... | 122 | 394 | 122 | 394 | 57 | 245 | 65 | 149 | | |
| Massachusetts..... | 160 | 567 | 160 | 567 | 110 | 458 | 50 | 109 | | |
| Michigan..... | 354 | 893 | 354 | 893 | 217 | 737 | 137 | 156 | | |
| Minnesota..... | 721 | 10 | 319 | 9 | 221 | 6 | 98 | 3 | 402 | 1 |
| Mississippi..... | 196 | 221 | 78 | 146 | 43 | 80 | 35 | 66 | 118 | 75 |
| Missouri..... | 652 | 63 | 609 | 63 | 177 | 35 | 432 | 28 | 43 | |
| Montana..... | 130 | 3 | 130 | 3 | 92 | 3 | 38 | | | |
| Nebraska..... | 431 | 28 | 431 | 28 | 139 | 19 | 292 | 9 | | |
| Nevada..... | 9 | 63 | 9 | 63 | 6 | 55 | 3 | 8 | | |
| New Hamp- shire..... | 73 | 27 | 73 | 27 | 52 | 23 | 21 | 4 | | |
| New Jersey..... | 230 | 673 | 230 | 673 | 194 | 600 | 36 | 73 | | |
| New Mexico..... | 64 | 95 | 64 | 95 | 42 | 59 | 22 | 36 | | |
| New York..... | 342 | 1,928 | 342 | 1,928 | 281 | 1,822 | 61 | 106 | | |
| North Carolina..... | 141 | 737 | 93 | 657 | 34 | 360 | 59 | 297 | 48 | 80 |
| North Dakota..... | 167 | 49 | 67 | 23 | 46 | 10 | 21 | 13 | 100 | 26 |
| Ohio..... | 542 | 948 | 542 | 948 | 352 | 816 | 190 | 132 | | |
| Oklahoma..... | 420 | 38 | 420 | 38 | 246 | 33 | 174 | 5 | | |
| Oregon..... | 50 | 265 | 50 | 265 | 15 | 222 | 35 | 43 | | |
| Pennsylvania..... | 566 | 1,236 | 566 | 1,236 | 417 | 984 | 149 | 252 | | |
| Rhode Island..... | 11 | 125 | 11 | 125 | 5 | 79 | 6 | 46 | | |

20. NUMBER OF PAR AND NONPAR BANKING OFFICES
DECEMBER 31, 1965—Continued

| F.R. district, State, or other area | Total | | Par | | | | | | Nonpar (nonmember) | |
|---|-------|-----------------------|-------|-----------------------|--------|-----------------------|-----------|-----------------------|-----------------------|-----------------------|
| | | | Total | | Member | | Nonmember | | | |
| | Banks | Branches & offices | Banks | Branches & offices | Banks | Branches & offices | Banks | Branches & offices | Banks | Branches & offices |
| STATE— Cont. | | | | | | | | | | |
| South | | | | | | | | | | |
| Carolina..... | 129 | 270 | 93 | 264 | 30 | 184 | 63 | 80 | 36 | 6 |
| South Dakota..... | 170 | 76 | 69 | 51 | 58 | 43 | 11 | 8 | 101 | 25 |
| Tennessee..... | 297 | 329 | 231 | 316 | 85 | 229 | 146 | 87 | 66 | 13 |
| Texas..... | 1,140 | 52 | 1,115 | 52 | 617 | 24 | 498 | 28 | 25 | ..... |
| Utah..... | 56 | 109 | 56 | 109 | 26 | 88 | 30 | 21 | ..... | ..... |
| Vermont..... | 47 | 57 | 47 | 57 | 27 | 31 | 20 | 26 | ..... | ..... |
| Virginia..... | 262 | 558 | 262 | 558 | 175 | 431 | 87 | 127 | ..... | ..... |
| Washington..... | 100 | 409 | 100 | 409 | 41 | 374 | 59 | 35 | ..... | ..... |
| West Virginia..... | 187 | ..... | 187 | ..... | 112 | ..... | 75 | ..... | ..... | ..... |
| Wisconsin..... | 580 | 171 | 580 | 171 | 162 | 38 | 418 | 133 | ..... | ..... |
| Wyoming..... | 69 | 1 | 69 | 1 | 53 | 1 | 16 | ..... | ..... | ..... |
| OTHER AREA | | | | | | | | | | |
| Puerto Rico ² | 11 | 144 | 11 | 144 | ..... | 15 | 11 | 129 | ..... | ..... |
| Virgin Islands ² | 3 | 7 | 3 | 7 | 1 | 6 | 2 | 1 | ..... | ..... |

¹ Includes 6 N.Y.C. branches of 2 insured nonmember Puerto Rican banks.

² Puerto Rico and the Virgin Islands assigned to the N.Y. District for check clearing and collection purposes. All member branches in Puerto Rico and all except 2 in the Virgin Islands are branches of N.Y.C. banks. Certain branches of Canadian banks (2 in Puerto Rico and 2 in Virgin Islands) are included above as nonmember banks; and nonmember branches in Puerto Rico include 6 other branches of Canadian banks.

NOTE.—Comprises all commercial banking offices on which checks are drawn, including 270 banking facilities. Number of banks and branches differs from that in Table 19 because this table includes banks in Puerto Rico and the Virgin Islands but excludes banks and trust companies on which no checks are drawn.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION,
ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES
APPROVED BY THE BOARD OF GOVERNORS DURING 1965

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| Bank of Virginia, Richmond, Va. | Farmers Bank of Boydton, Boydton, Va. | 297 |
| Bank of Wood County Company, Bowling Green, Ohio | The First National Bank of North Baltimore, North Baltimore, Ohio | 291 |
| Citizens Bank, Vermillion, S. Dak. | Security State Bank, Gayville, S. Dak. Farmers State Bank, Tabor, S. Dak. The Security State Bank, Wakonda, S. Dak. | 294 |
| Citizens Trust and Savings Bank, South Haven, Mich. | The Fruit Growers State Bank of Saugatauk, Mich., Saugatauk, Mich. The Old State Bank, Fennville, Mich. | 300 |
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| Farmers' Loan and Trust Company, Columbia City, Ind. | Mayer State Bank, South Whitley, Ind. | 281 |
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| First Trust Company of Albany, Albany, N.Y. | The National Bank of Windham, Windham, N.Y. | 288 |
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**21. DESCRIPTION OF EACH MERGER, CONSOLIDATION,
ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES
APPROVED BY THE BOARD OF GOVERNORS DURING 1965**

CONTENTS—Continued

| APPLICANT BANK | OTHER BANK OR BANKS | Page |
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21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1965¹

| Name of bank, and type of transaction ² (in chronological order of determination) | Resources (in millions of dollars) | Banking offices | |
|---|--|-----------------|-------------------|
| | | In operation | To be operated |
| No. 1— The Farmers' Loan and Trust Company, Columbia City, Ind. <i>to merge with</i> | 7.9 | 1 | } 2 |
| Mayer State Bank, South Whitley, Ind. | 3.0 | 1 | |

SUMMARY REPORT BY ATTORNEY GENERAL (11-16-64)

These 2 banks serve areas in which other small banks are located—none having IPC³ deposits exceeding \$10 million. Moreover, most of the 7 banks competing in the affected service areas are the only banks located in their respective towns.

The proposed merger would increase Farmers' share of time deposits, demand deposits, total deposits and loans. However, these increases are not large enough to make the resulting bank dominant or to give it such power that it could prevent other banks from offering meaningful competition in the combined service area.

As Mayer's office will be converted to a branch of the resulting bank if the merger is approved, there will be brought to Mayer's area a more aggressively competitive bank offering services not offered by Mayer. Mayer's loan portfolio shows that it has been very conservative in the types of loans it has offered to its area.

The proposed merger would not appear to have significantly adverse effects upon competition.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (1-13-65)

Farmers' Trust and Mayer Bank are 2 of 7 commercial banks serving Whitley County (population 20,954), which is situated in the northeastern portion of Indiana. The county is principally an agricultural and residential area, but industry is gradually increasing in importance in the local economy. The service area of Farmers' Trust, containing about 15,000 persons, consists of Columbia City (population 4,800) and the surrounding area within a radius of about 8 miles. The service area of Mayer Bank, containing about 2,800 persons, consists of South Whitley (population 1,800) and the surrounding area within a radius of from 5 to 8 miles. South Whitley is located approximately 10 miles southwest of Columbia City, and the service areas of the 2 banks overlap slightly in a sector where population density is relatively low.

Consummation of the merger would eliminate the very small amount of competition existing between Farmers' Trust and Mayer Bank and foreclose the possible development of further competition between them. However, banking customers in the service area of the resulting bank would continue to have access to a number of reasonably convenient alternative commercial banking offices. Moreover, the merger would result in a bank better able to serve the banking needs and convenience of Whitley County and one capable, as well, of contributing to the area's economic development.

For notes see p. 310.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1965¹—Continued

| Name of bank, and type of transaction ² (in chronological order of determination) | Resources (in millions of dollars) | Banking offices | |
|---|--|-----------------|-------------------|
| | | In operation | To be operated |
| No. 2— Security-Peoples Trust Company, Erie, Pa. <i>to merge with</i> The Girard Battles National Bank, Girard, Pa. | 87.3 | 2 | } 5 |
| | 7.6 | 3 | |

SUMMARY REPORT BY ATTORNEY GENERAL (10-13-64)

Security-Peoples Trust Company of Erie, Pennsylvania, with total assets of \$87.3 million, and 1 branch office, proposes to merge with The Girard Battles National Bank of Girard, Pennsylvania, which has total assets of \$7.6 million, and 2 branch offices. The merging banks are located 16 miles apart in a mixed industrial and agricultural area. Neither of the participating banks has been involved in a merger or acquisition during the past 10 years.

A degree of competition between the banks will be eliminated. Although the resulting bank will continue to rank second in the Erie area, concentration in that area will be increased.

We conclude that the proposed consolidation will have an adverse effect on competition.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (1-27-65)

Erie and Girard, 16 miles apart, are located on Lake Erie in Erie County (population about 250,000). Erie (population about 138,000) is a well-diversified industrial city with good harbor facilities; Girard (population 2,500) is a small manufacturing, residential, and trading center lying to the west of Erie. Much of the growth in Erie County in recent years has been in Erie and its western suburbs along the lake shore toward Girard. The 5 largest of the 11 banks in Erie County are located in Erie and all but 3 of their 26 offices are in or very close to the city of Erie. Security-Peoples, the second largest, has no offices outside Erie and only Girard Battles has offices in or immediately around Girard. There is a need for the services of a larger bank in the Girard area. The record indicates there are 30 businesses in the area served by Girard Battles that must borrow from Erie banks because of the small size of Girard Battles.

Consummation of the proposed merger would eliminate some competition between the merging banks, but in the long run would improve the competitive picture in Erie County. It would benefit the communities now served by Girard Battles by placing the offices of a full-service bank with an ample lending limit in a growing sector of the county.

For notes see p. 310.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1965¹—Continued

| Name of bank, and type of transaction ² (in chronological order of determination) | Resources (in millions of dollars) | Banking offices | |
|---|---------------------------------------|-----------------|----------------|
| | | In operation | To be operated |
| No. 3— The Commercial Bank and Savings Company, Fostoria, Ohio <i>to merge with</i> The New Riegel State Bank, New Riegel, Ohio | 12.4 | 3 | } 4 |
| | 2.1 | 1 | |

SUMMARY REPORT BY ATTORNEY GENERAL (11-16-64)

The proposed merger seeks to bring together The Commercial Bank and Savings Company of Fostoria, Ohio, with assets of \$12.4 million and The New Riegel State Bank, New Riegel, Ohio, with assets of \$2.1 million. Commercial is a medium-sized bank in its service area with approximately 15 per cent of the loans and deposits. Acquisition of State Bank will not greatly increase Commercial's loan and deposit percentages. However, the merger will result in some elimination of existing and potential competition between the 2 banks. It also follows a 1963 merger that eliminated another smaller unit bank, and may influence 2 other banks to follow the merger route. It will thus enhance an incipient merger trend in the area. We therefore conclude that the competitive effect of the merger will be adverse but not substantially adverse.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (1-28-65)

The main offices of the 2 banks are located 10 miles apart in Seneca County, in a rich, agricultural section of north-central Ohio about 40 miles south of Toledo. Fostoria is a fairly well diversified industrial city of some 16,000; New Riegel is a small farming community of about 400. Commercial Bank, the fourth largest of 6 commercial banks in the county, has maintained a long-standing working relationship with State Bank, providing it with personnel when needed and referring deposit accounts and selling real estate mortgages to it.

While consummation of the merger of Commercial Bank and State Bank would end some existing competition, such competition has not been active or aggressive. The smaller State Bank is unable, due to its low lending limit, to meet normal needs of its agricultural community. Because of the high proportion of time to demand deposits and its inability to build up its loan and investment portfolio satisfactorily, State Bank has experienced a severe drop in earnings. No change that can reasonably be expected to occur during the next few years, other than a merger along the lines proposed, would appear likely to reverse this situation. As a result of the merger, New Riegel would benefit by having conveniently available the local office of a bank able to meet community needs.

For notes see p. 310.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1965¹—Continued

| Name of bank, and type of transaction ² (in chronological order of determination) | Resources (in millions of dollars) | Banking offices | |
|---|--|-----------------|-------------------|
| | | In operation | To be operated |
| No. 4— United California Bank , Los Angeles, Calif. <i>to merge with</i> Bank of Mt. Shasta , Mt. Shasta, Calif. | 2,957.7 | 174 | } 175 |
| | 4.4 | 1 | |

SUMMARY REPORT BY ATTORNEY GENERAL (11-30-64)

United California Bank, the fifth largest bank in the State in terms of total resources, with assets exceeding \$2.9 billion, and operating 168 offices, proposes to acquire Bank of Mt. Shasta, with total assets of \$4.4 million, and operating 1 office in an area covering part of Siskiyou County with a total population of 4,000 people. The area has bright prospects for growth.

Bank of America operates 1 office in each of 2 communities located 9 to 12 miles south and southeast of Bank of Mt. Shasta, and United California Bank (the Applicant Bank here) operates an office 9.5 miles north of Bank of Mt. Shasta. Thus, the only competitors the small bank faces are the nation's largest bank and the State's fifth largest bank. The merger here contemplated will eliminate much of that competition as exists between the Mt. Shasta Bank and the Applicant Bank. It will also eliminate an independent source of loans for small customers.

The anticompetitive effect of any acquisition by 1 of the largest California banks is intensified by the fact that the 5 largest banks in the State hold 79 per cent, and the remaining 173 banks hold only 21 per cent of the banking resources in the State. It is certainly a cause of concern that in the nation's largest State, measured by many categories, the large number of remaining banks after the first 5 account for such relatively small proportions of total resources and banking business in the State. The concern of Congress in enacting the Bank Merger Act of 1960 was expressed in a statement which we believe is appropriate here:

The large number of mergers in recent years, the vast resources involved in these mergers and the increases in size of the largest banks, particularly those which have grown through mergers, all give rise to concern of the maintenance of vigorous competition in the banking system and in the industry and commerce served by the banking system. The reduction in the number of banks and the loss of competition between merged bank also gives rise to concern.*

* H. Rept. No. 1416, 86th Cong., 2d sess. (1960), p. 5; S. Rept. No. 196, 86th Cong., 1st sess. (1959), p. 8.

For notes see p. 310.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1965¹—Continued

| Name of bank, and type of transaction ² (in chronological order of determination) | Resources (in millions of dollars) | Banking offices | |
|---|---------------------------------------|-----------------|----------------|
| | | In operation | To be operated |

SUMMARY REPORT BY ATTORNEY GENERAL—Cont.

The elimination of an independent competing bank is always a matter of concern especially in a State in which large statewide or areawide banks are continually expanding their activities. The present proposal falls in this category. Inasmuch as the proposed acquisition would eliminate the only independent bank in the area and leave the world's largest bank and the State's fifth largest bank as the only competitors the statement of the Supreme Court in *Philadelphia National Bank* is particularly appropriate.

... if concentration is already great, the importance of preventing even slight increases in concentration and so preserving the possibility of eventual deconcentration is correspondingly great. 374 U.S. 321, 365 f.n. 42

Judged in this light, the effect of the proposed merger upon competition will, in our opinion, be adverse.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (2-12-65)

United California, fifth largest bank in California in terms of deposits, has offices in 34 counties. Mt. Shasta (population 2,500) is in Siskiyou County (population 34,000) approximately 300 miles north of San Francisco and about 10 miles south of Weed, the location of United California's sole branch in the area. The only other bank serving the area is Bank of America, National Trust and Savings Association, which has offices at Dunsmuir and McCloud, 9 miles south and 12 miles southeast of Mt. Shasta, respectively.

Mt. Shasta Bank has had serious difficulty in retaining persons qualified to supervise its operations and such difficulty is not likely to diminish. Moreover, under the domination of its president, who is also the majority stockholder, Mt. Shasta Bank has followed restrictive lending policies which have created widespread resentment and dissatisfaction on the part of the local business community.

The merger of United California and Mt. Shasta Bank would result in the elimination of some present and potential competition between them, and would increase banking concentration in the State, although minutely. However, there would be substituted in Mt. Shasta a bank offering a full range of services for the ultraconservative Mt. Shasta Bank, which has not served the needs of the Mt. Shasta community commensurate with the bank's capability. Consummation of the proposal also would solve the serious difficulty of Mt. Shasta Bank in retaining qualified officers. These positive benefits to the public in the growing Mt. Shasta area more than offset any adverse effects of the transaction.

For notes see p. 310.

**21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION
OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY
THE BOARD OF GOVERNORS DURING 1965¹—Continued**

| Name of bank, and type of transaction ² (in chronological order of determination) | Resources (in millions of dollars) | Banking offices | |
|---|--|-----------------|-------------------|
| | | In operation | To be operated |
| No. 5— Kingston Trust Company, Kingston, N.Y. <i>to merge with</i> The First National Bank of Marlboro, Marlboro, N.Y. | 29.4 | 3 | } 4 |
| | 4.7 | 1 | |

SUMMARY REPORT BY ATTORNEY GENERAL (9-30-64)

The proposed merger seeks to combine Kingston Trust Company with assets of \$29.4 million and First National Bank of Marlboro with assets of \$4.7 million. The merger, among other things, represents an attempt by Kingston Trust to expand into an adjacent area where there has been considerable growth.

The merger will eliminate present competition and expected increased future competition between the acquiring and acquired banks. It will enhance resources available to Kingston Trust, which already has a high percentage of loans and deposits in its service area, to the possible detriment of 2 smaller competitors in that area. Finally, the merger will increase concentration in the service area of the resulting bank and eliminate 1 of 5 small banks able to furnish competition to 4 large institutions in that area. We, therefore, believe that the proposed merger will have an adverse competitive effect.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (2-24-65)

Marlboro (population 1,700), is located about 25 miles south of Kingston and 8 miles north of the city of Newburgh. First National, the only financial institution in Marlboro, serves a surrounding area containing an estimated 9,400 persons. The economy of the area is based primarily on large-scale fruit farming. The nearest offices of Kingston Trust and First National are about 25 miles apart, and offices of 3 other banks are located in the intervening area. The areas served by each do not overlap, and there is no significant competition between them.

Consummation of the merger would enable the resulting bank, which would rank third in total deposits among the 8 commercial banks in its service area, to offer stronger competition to larger banks with offices located 8 miles south of Marlboro in Newburgh. Bank customers in the Marlboro area would be provided with a broader range of banking services than are now available there; of particular importance would be convenient access to a bank with sufficient resources to meet most of the credit demands that are not being satisfied locally.

For notes see p. 310.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1965¹—Continued

| Name of bank, and type of transaction ² (in chronological order of determination) | Resources (in millions of dollars) | Banking offices | |
|---|--|-----------------|-------------------|
| | | In operation | To be operated |
| No. 6— The City Bank & Trust Company , Milwaukee, Wisc. <i>to purchase the assets and assume the liabilities of</i> | 38.8 | 1 | } |
| American State Bank , Milwaukee, Wisc., <i>and change its title to American City Bank & Trust Company</i> | 49.1 | 1 | |

SUMMARY REPORT BY ATTORNEY GENERAL (12-21-64)

An application has been filed under which The City Bank & Trust Company, Milwaukee, Wisconsin, would acquire by merger American State Bank, Milwaukee, Wisconsin. The sole stockholder of City Bank sold its stock to the president of American State Bank "because sale of the stock of the Applicant Bank to strangers was imminent." The "strangers" included 2 groups of Milwaukee citizens. American Bankshares Corporation was organized as part of the plan to acquire City Bank's stock. The president of American State Bank owns all of the stock of American Bankshares Corp. He sold City Bank's stock to American Bankshares Corp. and thus indirectly controls City Bank. He is also chairman of the board of another bank in Milwaukee County which the application claims does not compete with the 2 banks involved here.

City Bank has total assets of \$38.8 million and American State Bank has total assets of \$49.1 million. Branch banking is presently prohibited in Wisconsin. These 2 banks are only 1 block apart and they are in the downtown business area of Milwaukee.

Banking in Milwaukee is dominated by 3 holding companies, holding, respectively 40 per cent, 20 per cent, and 15 per cent of the total banking assets in the county. The new bank would become the fourth largest and hold approximately 4 per cent of total assets.

The circumstances strongly suggest that the proposed merger would tend to increase concentration in commercial banking in Milwaukee and would adversely affect competition.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (3-12-65)

City Bank and American State Bank are located 1 block apart in the center of the downtown business district of Milwaukee. The city of Milwaukee, a diversified industrial city and important port of some 741,000 population, is located in Milwaukee County, which has a population in excess of 1 million. There are 39 commercial banks with 55 offices in Milwaukee County, virtually all of which are located in Milwaukee or within its metropolitan area. Of these 39 banks, 14 are subsidiaries of 1 or another of 3 bank holding companies and altogether hold 76 per cent of the total commercial banking deposits in the county.

For notes see p. 310.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1965¹—Continued

| Name of bank, and type of transaction ² (in chronological order of determination) | Resources (in millions of dollars) | Banking offices | |
|---|--|-----------------|-------------------|
| | | In operation | To be operated |

BASIS FOR APPROVAL BY BOARD OF GOVERNORS—Cont.

Despite the virtually coterminous geographical markets of the proponent banks, there is little competition existing between them since City Bank provides banking services principally for individuals while American State Bank caters mainly to the banking needs of business firms. The acquiring bank, with the contemplated improved and additional services, would constitute an alternative source of relatively full banking services for the community. At the same time, because it would be capable of significantly greater competitive effectiveness than either of the proponents alone, the consequences for banking competition would not be adverse, but potentially beneficial.

| | | | |
|--|-------|---|------|
| No. 7— First Trust Company of Albany, Albany, N.Y. <i>to merge with</i> | 110.5 | 8 | } 10 |
| The National Bank of Windham, Windham, N.Y. | 4.0 | 2 | |

SUMMARY REPORT BY ATTORNEY GENERAL (1-27-65)

Windham National is 1 of the smallest of 9 banks serving an area located about 60 miles from Albany, in the heart of the Catskill Mountains. Albany Trust, the third largest bank in the Albany area, has no offices in the area served by Windham National, and no presently existing competition would be eliminated by the merger. In addition, since concentration in the service areas of the participating banks would not be significantly increased, it would appear that the merger will have little, if any, adverse effect on competition.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (4-14-65)

Windham, with an estimated population of 1,300, is located in Greene County (population 31,400), about 57 miles southwest of Albany. The only branch of Windham National is in Tannersville (population 600), about 14 miles southeast of Windham. The area served by Windham National, situated in a resort region in the northern part of the Catskill Mountains and containing a population of 5,000, is being developed to attract both winter and summer tourists. Credit needs of the community, particularly those of resort operators, are increasing, and because of the bank's small lending limit, many local borrowers find it necessary to seek credit outside the area.

For notes see p. 310.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1965¹—Continued

| Name of bank, and type of transaction ² (in chronological order of determination) | Resources (in millions of dollars) | Banking offices | |
|---|--|-----------------|-------------------|
| | | In operation | To be operated |

BASIS FOR APPROVAL BY BOARD OF GOVERNORS—Cont.

The proposed replacement of the 2 offices of Windham National with offices of First Trust would not eliminate any significant competition, while banking competition in the area served by Windham National would be stimulated without any adverse effect on other banks. Bank customers in the developing area served by Windham National would have ready access to a bank of sufficient resources to meet most of the credit demands that cannot now be satisfied locally. They would also be provided with a broader range of banking services than are now available in the Windham-Tannersville area.

| | | | |
|---|---------|----|------|
| No. 8— Wachovia Bank & Trust Company , Winston-Salem, N.C. <i>to merge with</i> | 1,062.0 | 92 | } 93 |
| The Bank of Kernersville , Kernersville, N.C. | 5.4 | 1 | |

SUMMARY REPORT BY ATTORNEY GENERAL (2-26-65)

Wachovia Bank & Trust Company, which operates 88 offices across the State of North Carolina, seeks to acquire The Bank of Kernersville, with total assets of \$5.4 million. Wachovia, with resources now exceeding \$1 billion, is the largest bank between Philadelphia and Dallas and is the 39th largest in the country. In the past 10 years it has made 10 acquisitions. It holds approximately 20 per cent of total resources of the 153 banks in the State. In North Carolina the 8 largest banks, as of June 30, 1964, operated 58.9 per cent of the banking offices, and held 63.1 per cent of the total resources and 62.4 per cent of total deposits.

Kernersville is located 10 miles east of Winston-Salem, 11 miles north of High Point, and about 18 miles west of Greensboro. These 3 cities contain offices of the 5 largest banks in the State. The Kernersville Bank's service area, according to the application, has been whittled away by competition from these large banks.

Kernersville Bank had conducted merger negotiations with another of the large North Carolina banks before negotiating the present agreement.

Considered against the background of the significant series of acquisitions on the part of the leading banks, the proposed merger would tend to accelerate the growth of oligopoly and the increasing concentration in commercial banking in North Carolina at a time when the economy of the State is growing vigorously. The over-all effect of the proposed merger would be adverse.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (4-29-65)

Kernersville, with a population of about 3,000, is located in Forsyth County, near the center of the tri-city complex formed by Greensboro, High Point, and Winston-Salem. Its economy is based principally on textile manufacturing and, because of its central location, the town is growing as a residential community and becoming a distribution point for the sur-

For notes see p. 310.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1965¹—Continued

| Name of bank, and type of transaction ² (in chronological order of determination) | Resources (in millions of dollars) | Banking offices | |
|---|--|-----------------|-------------------|
| | | In operation | To be operated |

BASIS FOR APPROVAL BY BOARD OF GOVERNORS—Cont.

rounding cities. Kernersville Bank, a family-owned and operated institution, is the only commercial banking office in Kernersville. The nearest offices of Wachovia to Kernersville are in the 3 surrounding cities from 10 to 17 miles distant. Kernersville Bank makes available only limited services relative to the banking needs of the Kernersville area and has not been a very aggressive competitor.

While the proposed merger would foreclose competition between the proponent banks and result in a very slight increase in the already heavy concentration of bank resources, it does not appear that the transaction would have any significant adverse consequences for banking competition in the State or in the relevant local market area. Wachovia will provide for the area now served by Kernersville Bank the improved and expanded banking services which are essential for the community's continued economic progress. This outweighs any adverse competitive effect and, therefore, the net effect of the transaction will be clearly beneficial.

| | | | |
|--|---------|-----|-------|
| No. 9— United California Bank, Los Angeles, Calif. <i>to merge with</i> Bank of Ceres, Ceres, Calif. | 2,957.7 | 178 | } 179 |
| | 4.2 | 1 | |

SUMMARY REPORT BY ATTORNEY GENERAL (2-3-65)

United California Bank, the fifth largest bank in California, with total resources of almost \$3 billion, proposes to acquire Bank of Ceres, with total resources of \$3.8 million. Bank of Ceres is located approximately 120 miles east of San Francisco. Six of the 8 largest banks in the State operate 23 offices and 3 small banks operate 5 offices in the county in which Ceres is located. The 8 largest banks in the State hold 88 per cent of the State's total banking resources.

This is another case in which the board of directors of a small bank has concluded that the only course open is to merge with a large banking institution. Bank of Ceres, the application claims, has been a one-man bank for many years. The frequent repetition in bank merger applications of this set of circumstances is a reflection on those who neglect to exercise their responsibilities in this area and then, in turn, use that very existence and their stock to be exchanged for that of larger rivals in an already highly concentrated market.

The continuing expansion by acquisition of the large California banks, a movement of which this proposal is a part, can only have a substantially adverse effect on competition in commercial banking in the State.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (5-12-65)

Ceres (population about 4,500) is located in an agricultural area of Stanislaus County, about 120 miles east of San Francisco. The area served by Ceres Bank extends about 3 to 9 miles from Ceres. Eight

¹For notes see p. 310.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1965¹—Continued

| Name of bank, and type of transaction ² (in chronological order of determination) | Resources (in millions of dollars) | Banking offices | |
|---|---------------------------------------|-----------------|----------------|
| | | In operation | To be operated |

BASIS FOR APPROVAL BY BOARD OF GOVERNORS—Cont.

banks, including United and several other large California banks, operate 19 offices within a radius of about 8 miles of Ceres. Two of these offices are United's and are located 5 miles north and 8 miles south of Ceres, respectively. With the acquisition of Ceres Bank, United's holdings of deposits in the relevant area would increase from about 8.8 per cent to 11.5 per cent, but its ranking as fifth largest in the State would remain unchanged.

Ceres Bank makes available only very limited services relative to the banking needs of the Ceres area, and a substantial portion of its loan portfolio originates outside the community. The bank does not make FHA or VA loans, interim real estate loans, or a number of other types of loans ordinarily available through commercial banks. While its earnings have been adequate, they are well short of the bank's reasonable earnings potential, due to ultraconservative investment and loan policies.

Although the merger would foreclose the limited existing and potential competition between the proponent banks and increase slightly the resources of the State's fifth largest bank, it does not appear that the transaction would have a significantly adverse effect on banking competition. The replacement of the nonaggressive Ceres Bank by an office of United would enhance banking competition in the local market area; at the same time, United would serve as an alternative source of full banking services, all of which would redound to the net benefit of the community concerned.

| | | | | |
|---|------|---|---|---|
| No. 10— The Bank of Wood County Company , Bowling Green, Ohio | 25.4 | 3 | } | 4 |
| <i>to merge with</i> The First National Bank of North Baltimore , North Baltimore, Ohio | 4.8 | 1 | | |

SUMMARY REPORT BY ATTORNEY GENERAL (2-12-65)

The Bank of Wood County Company proposes to acquire the First National Bank of North Baltimore. As of September 30, 1964, the latter had total assets of \$4.8 million, total deposits of \$4.2 million, and net loans and discounts of \$2.1 million.

The Bank of Wood County Company functions through a head office and branch at Bowling Green, with another branch at Perrysburg, Ohio. The latter was acquired by merger in 1962. As of September 30, 1964, it had total assets of \$25.4 million, total deposits of \$23.6 million, and net loans and discounts of \$11.6 million.

The service area for the Bank of Wood County Company encompasses the northern part of the central portion of Wood County; that for the First National Bank of North Baltimore, a similar but separate and smaller strip in the south.

Of 8 commercial banks having head offices in Wood County, the acquiring bank is the largest, and the bank to be acquired ranks fifth.

For notes see p. 310.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1965¹—Continued

| Name of bank, and type of transaction ² (in chronological order of determination) | Resources (in millions of dollars) | Banking offices | |
|---|---------------------------------------|-----------------|----------------|
| | | In operation | To be operated |

SUMMARY REPORT BY ATTORNEY GENERAL—Cont.

It is our view that there presently exists no significant competition to be eliminated between the merging banks. However, concentration of banking in Wood County, Ohio, will be increased and further mergers may be induced, so that the over-all effects on competition will be slightly adverse.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (5-21-65)

Bowling Green and North Baltimore are located in Wood County in the northwestern section of Ohio. Bowling Green, population approximately 14,000, is about 20 miles south of Toledo; North Baltimore, population approximately 3,000, is about 14 miles south of Bowling Green. The area served by Bank of Wood County is principally the northern portion of Wood County and does not overlap the area served by First National, which is in the south-central section of the county. During recent years, the rapid expansion of agricultural activities in the area has resulted in requests for credit greater than can be supplied by rural banks similar in size to First National. The low lending limit of First National has rendered it unable to accommodate several of its customers during the past few years.

No adverse competitive effects would result from the proposed merger; in fact, competition in North Baltimore would probably be stimulated without adversely affecting smaller banks in the area. Bank customers in the North Baltimore area would have ready access to a bank with resources sufficient to supply many of the larger credits required by the expanding agricultural community.

| | | | |
|---|------|----|------|
| No. 11— Riverside Trust Company , Hartford, Conn. <i>to merge with</i> | 47.7 | 10 | } 13 |
| Bristol Bank and Trust Company , Bristol, Conn. <i>and change its title to United Bank & Trust Company.</i> | 20.6 | 3 | |

SUMMARY REPORT BY ATTORNEY GENERAL (3-24-65)

Riverside Trust Company of Hartford, Connecticut, with 10 branches and total assets of \$47.7 million, proposes to merge with Bristol Bank and Trust Company, Bristol, Connecticut, with 2 branches and assets of \$20.6 million.

In the Bristol area the proposed merger would eliminate one small bank, jeopardize the position of another, and encourage the extension of other large banks into small communities, thereby threatening the effectiveness as well as the existence of similar independent institutions.

In Hartford, it should be noted, the merger would effect an increase in

For notes see p. 310.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1965¹—Continued

| Name of bank, and type of transaction ² (in chronological order of determination) | Resources (in millions of dollars) | Banking offices | |
|---|---------------------------------------|-----------------|----------------|
| | | In operation | To be operated |

SUMMARY REPORT BY ATTORNEY GENERAL—Cont.

IPC³ deposits (1.7 per cent) and loans and discounts (1.4 per cent) of the resulting bank. It would also tend to enhance the competitive position of that bank over the 2 small Hartford banks, in an area where concentration is already apparent.

We conclude therefore that the proposed merger would adversely affect competition.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (6-4-65)

Hartford and Bristol (population 162,000 and 46,000, respectively) are located some 15 miles apart in a prosperous, growing industrial area of north-central Connecticut. New Britain, with a population of 82,000, is located almost between them. Hartford is served by 5 commercial banks, including the 2 largest in the State, which have 95 per cent of the deposits in the city, and by 4 mutual savings banks. While Riverside Trust Company is the city's third largest commercial bank, it is smaller than any of the 4 savings banks. Bristol, primarily an industrial city, is served by Bristol Bank and Trust Company, the largest, 1 other commercial bank, a \$9 million institution, and a mutual savings bank, which holds two-thirds of all deposits in Bristol.

The nearest offices of the merging banks are about 10 miles apart, and it does not appear that competition between the 2 banks is significant. Competition in Hartford, and in the State of Connecticut, would not be significantly altered as a result of the proposal. Consummation of the merger would place the other commercial bank in Bristol in competition with a bank significantly larger than the one with which it now competes. However, it now competes effectively with a relatively large savings bank and there is no reason to believe that it cannot also compete successfully with the resulting bank.

Consummation of the proposed merger would enable the resulting bank, better to serve the needs, and would add to the convenience, of the growing, industrial community of Bristol. This would be accomplished without significant adverse effects on competition.

| | | | |
|---|------|---|-----|
| No. 12— The Commercial and Savings Bank of St. Clair County, St. Clair, Mich. <i>to consolidate with</i> Yale State Bank, Yale, Mich. | 18.5 | 2 | } 3 |
| | 5.4 | 1 | |

SUMMARY REPORT BY ATTORNEY GENERAL (2-9-65)

Commercial and Savings (assets of \$18.5 million as of November 30, 1964) and Yale State (assets of \$5.4 million) appear to fall into the classification of small banks, each carrying on business within the immediate area of its respective office and little beyond. There is apparently no appreciable competition between them.

For notes see p. 310.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1965¹—Continued

| Name of bank, and type of transaction ² (in chronological order of determination) | Resources (in millions of dollars) | Banking offices | |
|---|---------------------------------------|-----------------|----------------|
| | | In operation | To be operated |

SUMMARY REPORT BY ATTORNEY GENERAL—Cont.

Commercial and Savings on the other hand, at its principal place of business, on the outskirts of Port Huron, has to meet the competition of Michigan National Bank (assets of \$740.5 million as of December 31, 1963), one of the larger banks in the United States and the fourth largest bank in Michigan. Commercial and Savings poses no threat to competition in this service area, and to consolidate with Yale State, some 33 miles to the north, where a number of other small banks encircling the city of Yale offer a choice of alternate banking facilities, would not appear to alter the competitive picture to any degree there.

According to the application the acquired bank will continue as a branch of Commercial and Savings with new and improved services.

No significant anticompetitive effects are discernible.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (6-14-65)

The consolidating banks, located about 31 miles apart, are the only banks serving the communities of St. Clair, population 4,500, and Yale, population 1,600. Commercial and Savings Bank operates its sole branch in Emmet some 10 miles southeast of Yale. A number of other small independent banks serving this predominately agricultural area surrounding Yale are located from 12 to 20 miles distant. Few adverse effects would result from consummation of this consolidation and, while no pressing need apparently exists for the services of a larger bank in the Yale community, the bank resulting from the proposal could more readily—and generally more economically—make available services not offered by Yale Bank that would both facilitate the economic growth of the area and afford improved convenience for banking customers.

| | | | |
|---|-----|---|-----|
| No. 13— Citizens Bank, Vermillion, S.D. <i>to consolidate with</i> | 4.5 | 1 | } 5 |
| Security State Bank, Gayville, S.D. | 1.9 | 1 | |
| Farmers State Bank, Tabor, S.D. | 1.3 | 1 | |
| The Security State Bank, Wakonda, S.D. | 3.0 | 2 | |

SUMMARY REPORT BY ATTORNEY GENERAL (3-5-65)

Citizens Bank, Vermillion, South Dakota, serving an area comprised of Vermillion and its immediate surrounding area, proposes to merge with the Farmers State Bank of Tabor, South Dakota; the Security State Bank, Gayville, South Dakota; and The Security State Bank, Wakonda, South Dakota, with its branch at Volin, South Dakota. There is probably no direct competition between the merging banks because of the extent of common ownership or control of the banks by Mr. John T. Vucurevich, who is also president of each of them.

¹For notes see p. 310.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1965¹—Continued

| Name of bank, and type of transaction ² (in chronological order of determination) | Resources (in millions of dollars) | Banking offices | |
|---|---------------------------------------|-----------------|----------------|
| | | In operation | To be operated |

SUMMARY REPORT BY ATTORNEY GENERAL—Cont.

We conclude that the proposed merger would not have an adverse effect on competition.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (6-17-65)

The offices of the 4 relatively small participating banks, located in 3 contiguous counties in the southeastern part of South Dakota, serve an area, in which some 22,000 persons reside. The economy of the total area which is based on agriculture, chiefly feed crops and livestock feeding, is and has been experiencing a change from small family-type farms to larger units requiring greater capital investments and larger lines of credit. Lending limits at each of the banks are inadequate for the present requirements of several of their customers and portions of loans have been sold or participated to avoid overlines.

Consolidation of the 4 banks, which are controlled by the same individual, would not adversely affect any bank in the service area of the resulting institution, although it would tend to provide stronger competition for the larger banks located and doing business in the area. The resulting bank would be in a position to provide the expanded banking services, particularly loans, required in this growing agricultural area where farming units are becoming fewer and larger.

| | | | | |
|---|-------------------|-------------|------------|----|
| No. 14— State-Planters Bank of Commerce and Trusts, Richmond, Va. <i>to merge with</i> The Tri-County Bank, Mechanicsville, Va. | 325.6 11.7 | 20 4 | } } | 24 |
|---|-------------------|-------------|------------|----|

SUMMARY REPORT BY ATTORNEY GENERAL (3-31-65)

But for the effects flowing from the holding company application of the acquiring bank, hereinafter mentioned, the proposed merger between the State-Planters Bank of Commerce and Trusts, Richmond, Virginia, and The Tri-County Bank, Mechanicsville, Virginia, and its branches at Hanover, Beaverdam, and Doswell, Virginia, would appear to have no seriously adverse effects on competition.

According to the data submitted in the application, there is very little direct competition between the merging banks. While Tri-County's main office in Mechanicsville is only about 6 miles from Planters' nearest office, the area between appears to be primarily rural in nature. Planters and Tri-County, respectively, share well under 1 per cent of common depositors and borrowers. In 1964, Tri-County participated all loans it could not fully accommodate to Planters.

The proposed merger would have little, if any, effect on potential competition, since, under State law, neither bank can establish de novo branches in the other's service area due to the fact that the city of Richmond is not contiguous to Hanover County.

For notes see p. 310.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1965¹—Continued

| Name of bank, and type of transaction ² (in chronological order of determination) | Resources (in millions of dollars) | Banking offices | |
|---|---------------------------------------|-----------------|----------------|
| | | In operation | To be operated |

SUMMARY REPORT BY ATTORNEY GENERAL—Cont.

In greater Richmond, served by 10 banks with total deposits of about \$1,100 million, Planters' absorption of Tri-County would bring the former's total deposits to \$305.8 million, increasing its share of the market by less than 1 per cent.

The effect in the Hanover County service area would be mixed. The merger would substitute branch offices of the larger Planters Bank for the offices of the smaller Tri-County Bank at Mechanicsville, Beaverdam, Doswell, and Hanover. The opportunity for competition between Planters' branches and those of First and Merchants Bank, largest in Richmond (located at the towns of Montpelier and Ashland in Hanover County, which are from 7 to 10 miles distant from the resulting Planters' branches) would be increased. The residents of this predominantly rural and residential region would then have a choice of the extensive bank service offered by 2 large banks. The adverse effect of the merger lies in the fact that there would remain 1 small bank in northern Hanover County, The Hanover Bank (deposits \$6.8 million), which would thereafter compete with branches of 2 large banks instead of 1.

Coincidental with the filing of this application was the filing of an application with the Comptroller of the Currency by another subsidiary bank of United Virginia Bankshares, First and Citizens National Bank of Alexandria, Alexandria, Virginia, to merge Shirlington Trust Company, Incorporated, Arlington, Virginia, with deposits of \$13.5 million. The approval of that merger and the instant merger will increase the banking offices controlled by United Virginia Bankshares from 45 to 52 or from 6.3 per cent of the 7.3 per cent of all banking offices in Virginia and will increase its deposits by \$24.4 million or from 10.8 per cent of the total deposits of all Virginia banks to 11.1 per cent of such deposits.

The 4 bank holding companies operating in Virginia, which presently control approximately 25.6 per cent of the total deposits of all banks in the State, would be increased to 25.9 per cent. While the increase in concentration of banking represented by the 2 mergers above-mentioned are not in themselves substantial, the cumulative effect of absorbing banks by bank holding companies is a source of concern to this Department.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (7-27-65)

Hanover County, the area served by Tri-County, is a rapidly developing section of the Richmond metropolitan area lying to the north and separated from the city by Henrico County. It is served by Tri-County's main office (located about 7 miles from downtown Richmond) and 3 branches, 15 to 30 miles from Richmond; by 2 branches of the State's largest bank, First & Merchants National Bank of Richmond; and by the 2 offices of Hanover National Bank of Ashland. Of the total deposits of banks with offices in Hanover County, Tri-County holds about 40 per cent, First & Merchants, over 33 per cent, and Hanover National 27 per cent. Under State law, Richmond headquartered banks cannot establish branches in Hanover County, except through merger, since the city and county are not contiguous.

State-Planters' offices serve the city of Richmond, Henrico County, and

For notes see p. 310.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1965¹—Continued

| Name of bank, and type of transaction ² (in chronological order of determination) | Resources (in millions of dollars) | Banking offices | |
|---|---------------------------------------|-----------------|----------------|
| | | In operation | To be operated |

BASIS FOR APPROVAL BY BOARD OF GOVERNORS—Cont.

the area to the south of Richmond. The nearest offices of State-Planters and Tri-County are about 7 miles apart, and offices of other commercial banks are located in the intervening area. A close correspondent relationship exists between the 2 banks, and a substantial difference exists between the classes of loans and deposits of the two institutions.

Consummation of the proposal would provide increased competition in Hanover County for the State's largest bank, State-Planters' principal competitor, without adversely affecting the remaining smaller bank which is well established in the county and competing successfully with the State's largest bank. The substitution of branches of State-Planters for the offices of Tri-County would not increase concentration of banking resources by more than a minimal amount, and the existing competition that would be eliminated is not significant. At the same time, it would provide, under aggressive management, increased banking accommodations and accessibility to expanded banking services more consonant with the rapid development and growth of Hanover County, now barred to de novo branching by Richmond banks.

| | | | |
|--|-------|----|------|
| No. 15— The Bank of Virginia, Richmond, Va. <i>to merge with</i> Farmers Bank of Boydton, Boydton, Va. | 217.0 | 28 | } 29 |
| | 3.7 | 1 | |

SUMMARY REPORT BY ATTORNEY GENERAL (5-18-65)

The Bank of Virginia, with assets of over \$217 million, is the fourth largest bank in Richmond, Virginia, and the largest subsidiary bank of Virginia Commonwealth Corporation, 1 of 4 bank holding companies operating in Virginia.

The other bank, Farmers Bank of Boydton, is a small bank with assets of \$3.7 million serving primarily a farming community, and is the only bank in Boydton.

Boydton is 97 miles southwest of Richmond, and competition between the 2 banks is negligible.

There are 4 comparatively small banks located from 10 to 16 miles distant from Farmers Bank which may suffer some slight competitive disadvantage from the increased lending limit and added services of the resultant bank.

This proposed merger will result in the elimination of another independent bank in Virginia and 1 of the largest banks in Virginia will be slightly increased in size. Virginia Commonwealth Corporation will enter a new territory. The increasing concentration of banking in Virginia in the hands of the 6 or 7 largest banking organizations in Virginia will be fostered.

It is our view that the effect of this merger, standing alone, on competition will not be significantly adverse.

For notes see p. 310.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1965¹—Continued

| Name of bank, and type of transaction ² (in chronological order of determination) | Resources (in millions of dollars) | Banking offices | |
|---|---------------------------------------|-----------------|----------------|
| | | In operation | To be operated |

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (8-2-65)

Farmers Bank, smallest of the 5 banks operating in Mecklenburg County, is located 10 miles from its nearest competitor and about 57 miles from the nearest office of Virginia Bank. The economy of the county is primarily dependent upon agriculture; however, several industries have located in the county in the past few years, and the outlook for population and industrial growth is favorable. While Farmers Bank, which provides only limited banking services, has had a deposit growth at a rate equal to that of the 4 other banks operating in the county, its loan portfolio has expanded by less than one-half of the county's average during the past 5 years, and its ratio of loans to deposits is the lowest of any of the county banks. The substitution of an office of Virginia Bank for that of Farmers Bank would make available to the county much larger banking resources and a complete range of banking services. Such a change, which would be effected without any adverse competitive effects of significance, should have a favorable influence upon the local economy and afford added convenience to those presently forced to seek the services of larger out-of-area banks and other financial institutions.

| | | | |
|---|-------|----|------|
| No. 16— The Marine Midland Trust Company of New York, New York, N.Y. <i>to acquire the assets and assume the liabilities of</i> | 949.0 | 13 | } 14 |
| Grace National Bank of New York, New York, N.Y. <i>and change its title to Marine Midland Grace Trust Company of New York.</i> | 307.9 | 1 | |

SUMMARY REPORT BY ATTORNEY GENERAL (2-23-65)

Marine Midland Corporation ("Marine Midland") is a bank holding company, the second largest in the country, which owns 11 banks in New York having assets of \$3.3 billion and deposits of \$2.9 billion. Marine Midland is the seventh largest banking organization in New York City and State and thirteenth largest in the nation. One of Marine Midland's banks is The Marine Midland Trust Company of New York ("Marine Trust") which, with its \$948.9 million in assets and \$840.2 million deposits, is itself the eighth largest commercial bank headquartered in New York City, tenth largest in the State, and thirty-sixth largest in the United States.

For notes see p. 310.

**21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION
OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY
THE BOARD OF GOVERNORS DURING 1965 —Continued**

| Name of bank, and type of transaction ² (in chronological order of determination) | Resources (in millions of dollars) | Banking offices | |
|---|--|-----------------|-------------------|
| | | In operation | To be operated |

SUMMARY REPORT BY ATTORNEY GENERAL—Cont.

Grace National Bank of New York ("Grace Bank") is the fourteenth largest commercial bank in New York City and has assets of \$307.9 million and deposits of \$264.4 million. W. R. Grace & Company owns 80 per cent of the stock of Grace Bank.

In the proposed acquisition, Marine Midland, through Marine Trust, would acquire the business and assets of Grace Bank by paying therefor 360,000 shares of preferred stock of Marine Midland having a redemption value in 5 years of \$37.8 million. The acquisition of Grace Bank will add about 33 per cent to Marine Trust's resources and 9 per cent to the resources of Marine Midland. The latter has had a long history of acquisitions of other banks either directly or through its subsidiaries. Since 1951 some 34 banks with approximately \$500 million in deposits have been absorbed into the Marine Midland system through mergers or acquisitions.

The acquisition of Grace Bank would increase concentration in commercial banking in New York City. The 5 largest banks have 76-77 per cent of the assets and deposits, and the 8 largest (this group includes Marine Trust) have 91-92 per cent of the assets and deposits of all 44 commercial banks in New York City. The addition of Grace Bank's \$307 million in assets to the resources of the top 8 banks would further increase concentration in the hands of this group of the largest New York City banks.

Actual and potential competition between Grace Bank on the one hand and Marine Trust and other Marine Midland banks on the other, will be permanently eliminated.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (8-10-65)

Marine, eighth largest bank in New York City, is an affiliate of Marine Midland Corporation, Buffalo, New York, a registered bank holding company. Grace, twelfth largest in the city, is the sole banking subsidiary of W. R. Grace & Co. of New York, the owner of over 80 per cent of the stock of the bank. The single office of Grace is located at the outer fringe of Manhattan's financial district, about 6 blocks from Marine's main office, and several blocks further from the latter's nearest branch. Most of Marine's 13 domestic offices are located in Manhattan, the principal area served by the bank, and the remainder are located in the central portion of Queens. Marine offers complete "retail" banking services and is active, although to a lesser degree, in the national and international markets. Its international transactions center around parts of Europe, the Middle East, and the Far East.

For notes see p. 310.

**21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION
OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY
THE BOARD OF GOVERNORS DURING 1965¹—Continued**

| Name of bank, and type of transaction ² (in chronological order of determination) | Resources (in millions of dollars) | Banking offices | |
|---|--|-----------------|-------------------|
| | | In operation | To be operated |

BASIS FOR APPROVAL BY BOARD OF GOVERNORS—Cont.

Grace, under the ownership of W. R. Grace & Co., is a part of a corporate structure in which the banking business was generated as a by-product of other corporate operations. The fundamental purpose of Grace has been to deal with international banking transactions for its parent and, as a consequence, it has become a specialist in this field, particularly in Latin America. In contrast with Marine, it does not solicit "retail" trade; it discourages small checking and savings accounts; offers no consumer loans; has no real estate mortgage department; and normally utilizes the services of only a few tellers. The parent corporation now has shifted its principal interests from transportation and trading to other fields and no longer regards a banking affiliate as of special usefulness. In these circumstances, it wishes to sell its banking interests and does not desire to expand the rather limited range of banking services offered by Grace.

The acquisition of Grace by Marine, if consummated, would result in a slight increase in concentration of banking resources. However, because the 2 banks emphasize different types of banking services, competition (existing and potential) between them is quite limited, and such acquisition would not result in any significant adverse competitive effect. It is to be expected that the transfer of Grace to Marine would provide for the continuation and improvement of a banking office which seems almost certainly destined for liquidation or other disposition by its parent; and it would seem likely that the absorption of Grace—if this proposal were to be rejected—would be more attractive to a bank larger, instead of a bank smaller, than Marine. The banking public, and especially the convenience for banking customers in the international market, would be benefited as a result of combining the resources and complementary skills of the proponent banks, and this would also enhance competition, most significantly in the market for international banking services.

| | | | |
|--|------|---|-----|
| No. 17— Citizens Trust and Savings Bank, South Haven, Mich. <i>to consolidate with</i> | 22.0 | 2 | } 4 |
| The Fruit Growers State Bank of Saugatuck, Mich., Saugatuck, Mich., <i>and to acquire the assets and assume the liabilities of</i> | 6.1 | 1 | |
| The Old State Bank, Fennville, Mich. | 2.1 | 1 | |

For notes see p. 310.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1965¹—Continued

| Name of bank, and type of transaction ² (in chronological order of determination) | Resources (in millions of dollars) | Banking offices | |
|---|---------------------------------------|-----------------|----------------|
| | | In operation | To be operated |

SUMMARY REPORTS BY ATTORNEY GENERAL

(1) Fruit Growers State Bank of Saugatuck, Saugatuck, Michigan (4-12-65):

Citizens Trust and Savings Bank, South Haven, Michigan, with 1 branch and total assets of \$22 million proposes to merge The Fruit Growers State Bank of Saugatuck, Saugatuck, Michigan, with total assets of \$6.1 million.

The proposed merger would significantly increase banking concentration in the Saugatuck area, would weaken the ability of Old State Bank at Fennville to offer effective competition, and would eliminate a small independent bank, which competes substantially with the acquiring bank and other nearby banks. The merger would also further a concentration of banking in southwestern Michigan, which already has been developed by the merger activities of Kalamazoo banks.

We conclude therefore that the proposed merger would adversely affect competition.

(2) The Old State Bank, Fennville, Michigan (4-27-65):

Presently this area is highly concentrated with 2 large banks in Kalamazoo, Michigan, holding over 75 per cent of IPC demand deposits, 60 per cent of IPC time deposits, and 75 per cent of loans. Of the 5 remaining banks, the resulting bank would be the second largest. Approval of Citizens' pending application to merge with the Fruit Growers State Bank would place the resulting bank in the position of holding in excess of 7 per cent in each of the above categories, thereby further increasing this already high concentration. The resulting competitive pressure upon the remaining 2 small banks may be so great as to force them into mergers having further anticompetitive effects.

While the extent of the present competition between the 2 participating banks is not too clear, nevertheless, foreclosure of potential competition between them would result from approval of the proposed transaction.

The proposed acquisition of assets and assumption of liabilities of Old State by Citizens would appear to have an adverse effect in the service area of the resulting bank.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (8-13-65)

The Saugatuck and Fennville banks, located in small rural communities about 20 to 18 miles from South Haven, respectively, serve predominantly agricultural areas that overlap slightly the area served by the South Haven bank. Saugatuck Bank has experienced only fair earnings, and prospects for improvement are unfavorable. The recent death of the senior executive officer has resulted in a management succession problem that is made more difficult by the bank's earnings problem. The president of the Fennville bank, a family-owned institution, has suffered a serious illness and will not resume the responsibility of operating the bank as an independent

For notes see p. 310.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1965¹—Continued

| Name of bank, and type of transaction ² (in chronological order of determination) | Resources (in millions of dollars) | Banking offices | |
|---|---------------------------------------|-----------------|----------------|
| | | In operation | To be operated |

BASIS FOR APPROVAL BY BOARD OF GOVERNORS—Cont.

unit. Operating policies at the Fennville bank have been rather restrictive and non-progressive, and the routine banking needs of the community are not being adequately served. Other banks with offices surrounding the combined area served by the proponent banks include larger institutions than the South Haven bank.

Although the proposed transactions would eliminate a small amount of competition between the banks involved, it does not appear that banking competition in the relevant area would be adversely affected; indeed, it seems probable that more effective competition for the area's larger banks would result. The South Haven bank would make available through offices now operated by the Saugatuck Bank and the Fennville bank a broader range of banking services than is presently provided. Moreover, consummation of the transactions would resolve the management succession problems at the Fennville bank and at the Saugatuck Bank.

| | | | |
|--|-------|----|------|
| No. 18— New Jersey Bank and Trust Company , Clifton, N.J. <i>to merge with</i> | 361.4 | 18 | } 20 |
| Wayne State Bank , Wayne, N.J. | 7.6 | 2 | |

SUMMARY REPORT BY ATTORNEY GENERAL (5-6-65)

New Jersey Bank and Trust Company ("New Jersey Bank") is the largest bank in Passaic County, with all of its 17 offices located in the southern portion thereof. It accounts for about 30 per cent of the banking business conducted by the banks in this area. Together with First National Bank of Passaic County ("First National"), New Jersey Bank accounts for about 53 per cent of the IPC³ deposits, 57 per cent of the loans, and 60 per cent of the offices held by banks in this area, while the third ranking bank has only about eight per cent of deposits and loans and 10 per cent of offices. This high degree of concentration and the dominance of New Jersey Bank and First National have resulted to a large degree from past mergers and acquisitions by these banks.

For notes see p. 310.

**21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION
OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY
THE BOARD OF GOVERNORS DURING 1965¹—Continued**

| Name of bank, and type of transaction ² (in chronological order of determination) | Resources (in millions of dollars) | Banking offices | |
|---|--|-----------------|-------------------|
| | | In operation | To be operated |

SUMMARY REPORT BY ATTORNEY GENERAL—Cont.

Wayne State Bank, started in 1962, operates 1 office in the middle of Passaic County and is the smallest bank in this area. There is some existing competition between Wayne State Bank and New Jersey Bank, largely because many residents of Wayne work in cities served by the latter. This competition should increase, as Wayne State Bank becomes better established. This competition, and the opportunity for Wayne residents to deal with an independent bank would, of course, be eliminated by approval of this merger.

While this merger would not materially increase New Jersey Bank's present leading share of Passaic County banking assets and would introduce into the Wayne community a much stronger competitor for First National than at present Wayne State appears to be, in so doing it would substitute the strong, county-wide duopoly for the dominant position First National enjoys in Wayne, a town into which other banks are prevented from entering with de novo branches by New Jersey bank-branching law. Moreover, giving New Jersey Bank a desirable base for growth in Wayne may further enhance its position as the leading bank in this area. This would tend to strengthen the dominance of the area's 2 already dominant banks. Assuming that Wayne State Bank has definitely decided to cease operating as an independent bank, there appears to be an alternative means of providing First National with more vigorous competition in Wayne without enhancing New Jersey Bank, namely, the interest of another Passaic County bank in acquiring Wayne State Bank. We therefore believe that approval of this merger would have an adverse effect on competition.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (9-3-65)

Wayne Township, with a population of some 42,000, is the most rapidly expanding area of Passaic County. It covers an area of about 25 square miles and contains several new industrial parks and residential developments. Because of the existence of many neighborhood rather than a few regional shopping centers and the inconvenient highway system, the main office of the relatively small new State Bank and its trailer branch can conveniently serve only a small part of the township. Even so, the bank has made little effort to serve the community needs; it has generally

For notes see p. 310.

**21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION
OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY
THE BOARD OF GOVERNORS DURING 1965¹—Continued**

| Name of bank, and type of transaction ² (in chronological order of determination) | Resources (in millions of dollars) | Banking offices | |
|---|--|-----------------|-------------------|
| | | In operation | To be operated |

BASIS FOR APPROVAL BY BOARD OF GOVERNORS—Cont.

avoided mortgage loans, has made few automobile loans in the community, and, in fact, derives far less than one-half of its loan portfolio from the township.

The township's other banking offices are 2 branches of First National Bank of Passaic County (deposits \$305 million), second in size to the applicant, Jersey Bank. The latter has 4 offices located not far across the township line and 5 other banks, located in Passaic County, ranging in size from \$98 to \$11 million, as well as several in neighboring counties, are reasonably accessible to Wayne customers. Under State law, however, all are barred from entering Wayne through the establishment of de novo branches. Thus, local competition for First National is limited to that which State Bank can provide.

While consummation of the merger would increase banking concentration in Passaic County slightly, the over-all effect on competition would not be significantly adverse. Under State law, merger is the only means by which Jersey Bank may enter Wayne and thereby provide increased competition for First National Bank and better serve the convenience and needs of the Wayne community.

| | | | |
|--|---------|----|------|
| No. 19— Union Bank , Los Angeles, Calif. | 1,250.3 | 12 | } 13 |
| <i>to merge with</i> Republic National Bank of San Diego , San Diego, Calif. | 12.5 | 1 | |

SUMMARY REPORT BY ATTORNEY GENERAL (8-4-65)

The proposed merger would unite Republic National, 1 of 3 newly organized unit banks in San Diego, with Union, the sixth largest bank in California. Union has indicated in the application that it will open a de novo branch in San Diego if the merger is disapproved. The merger would eliminate some actual and a significant amount of potential competition between the applicant banks in the San Diego area. Furthermore, it would foreclose an opportunity for deconcentration of banking in the highly concentrated San Diego market, where the 5 largest banks currently control over 95 per cent of all commercial bank deposits.

To this extent the effect of the proposed merger on competition would be adverse.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (10-29-65)

In early 1965, only a few months after Republic Bank was established, it began to experience a deposit decline and within the next several months, its deposits had decreased by more than 25 per cent. In addition, the bank had extended a substantial volume of loans of questionable quality, and because it has been unable to acquire and retain an experienced loan officer, further deterioration in its asset condition seemed

For notes see p. 310.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1965—Continued

| Name of bank, and type of transaction ² (in chronological order of determination) | Resources (in millions of dollars) | Banking offices | |
|---|---------------------------------------|-----------------|----------------|
| | | In operation | To be operated |

BASIS FOR APPROVAL BY BOARD OF GOVERNORS—Cont.

probable. These difficulties are further complicated by disagreement among the bank's directors as to a proper course for the bank's future.

The nearest office of Union Bank to San Diego is located nearly 100 miles distant, and while Union Bank does obtain some business from the San Diego area, it is nearly all of a type and volume that Republic Bank could not handle or would not attract. Although consummation of the proposed merger would result in the elimination of an independent commercial bank, it does not seem probable, particularly in view of the uncertainty concerning Republic Bank's future, that it would materially affect the banking needs and convenience of the community or that the effect on banking competition would be significantly adverse. Further, consummation of the proposed merger would afford an orderly and prompt resolution of the problems that beset Republic Bank and which make the bank's prospects uncertain.

| | | | | |
|---|---------|-----|---|-----|
| No. 20— United California Bank, Los Angeles, Calif. <i>to merge with</i> | 3,148.0 | 179 | } | 180 |
| The Feather River National Bank, Oroville, Calif. | 5.2 | 1 | | |

SUMMARY REPORT BY ATTORNEY GENERAL (9-27-65)

United California Bank, Los Angeles, California, seeks to merge The Feather River National Bank, Oroville, California. Oroville is the county seat of Butte County, California; it is located about 150 miles north of San Francisco. Feather River National Bank is the only unit bank in Oroville. Started in late 1962, Feather River National Bank was in the black in 1963, and its profits more than quintupled in 1964. Its 1964 ratio of profits to assets is greater than that of United California Bank although the application claims that Feather River National Bank is now faced by serious management problems.

United California Bank is a huge, statewide banking organization, 1 of 4 statewide banks in California. It has 187 offices located throughout the State. In terms of assets it is the fifth largest in California. Several of its offices are located within 30 miles of Oroville and offer some competition to Feather River National Bank.

Mergers and acquisitions have been a major factor in the history of United California Bank. From 1955 through 1960 its predecessor, California Bank, acquired 13 banks, having a total of 20 offices, and a total of \$73.9 million in loans and \$177.1 million in deposits. In 1961 California Bank and First Western Bank and Trust Company of San Francisco merged. The Department of Justice sued to undo this merger, charging violation of the Sherman and Clayton antitrust laws. As a result United California Bank was formed and a second statewide system was created out of 65 offices of First Western Bank and Trust Company. From 1961

For notes see p. 310.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1965!—Continued

| Name of bank, and type of transaction ² (in chronological order of determination) | Resources (in millions of dollars) | Banking offices | |
|---|---------------------------------------|-----------------|----------------|
| | | In operation | To be operated |

SUMMARY REPORT BY ATTORNEY GENERAL—Cont.

to the present time United California Bank has been an aggressive acquirer of smaller banks. In this period a total of 6 banks having 10 offices, and total loans of \$26.7 million and total deposits of \$52.4 million were merged into United California Bank. Two additional merger applications by United California Bank were denied.

Banking concentration in California is already at a high level. Five banks, of which United California is 1, account for about 80 per cent of the State's banking deposits.

In view of the high level of banking concentration in California and the long history of mergers and acquisitions by United California Bank, further acquisitions by this institution and its major competitors can only lead to the destruction of viable smaller banks as factors in the California market. If this process continues, the eventual structure of California banking will be one in which only a few statewide systems can survive. Accordingly, it appears that the effect on competition of the proposed merger should be deemed adverse in light of the trend toward increasing concentration of banking by merger in California.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (11-22-65)

National is the only banking institution headquartered in Oroville, a small agricultural community of about 8,500 population. Three large institutions operate 4 branches in Oroville. The nearest offices of United are about 23 miles from National, and the areas served, separated by natural barriers, do not overlap.

In the 3 years since its opening National has pursued an aggressive policy of soliciting commercial and industrial loans well in excess of its lending capacity. Many of these loans were for long terms and were made to borrowers outside the Oroville area. The ratio of loans to deposits is excessively high and evidence indicated the loan volume cannot be reduced within the next 3 to 5 years without substantial loss to the bank. Deposits have failed to increase and the bank has been forced to limit its lending functions primarily to fulfilling outstanding commitments. The bank's problems are further complicated by its inability to find a qualified executive officer to replace temporary management.

Banking in California is characterized by the concentration of banking resources and offices in 5 large branch-banking systems. United ranks fifth in deposit size in the State, with 8.2 per cent of the total deposits in California. The addition of National's small volume of deposits would not change United's position but it would increase slightly the concentration of banking deposits. National has failed to provide meaningful competition in the Oroville area, and in view of its liquidity position, developing loan problems, and inability to acquire successor management, the banking needs of the area would be better served if the proposal were effectuated.

For notes see p. 310.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1965¹—Continued

| Name of bank, and type of transaction ² (in chronological order of determination) | Resources (in millions of dollars) | Banking offices | |
|---|---------------------------------------|-----------------|----------------|
| | | In operation | To be operated |
| No. 21— Greenfield Banking Company, Greenfield, Ind. <i>to merge with</i> | 13.6 | 2 | 3 |
| The First National Bank of Fortville, Fortville, Ind. | 4.6 | 1 | |

SUMMARY REPORT BY ATTORNEY GENERAL (9-21-65)

The Greenfield Banking Company (hereinafter Greenfield Bank), with its main office and branch in Greenfield, Indiana, has deposits of \$12.5 million as of June 30, 1965. The First National Bank of Fortville (hereinafter First National), Fortville, Indiana, has deposits of \$4.1 million as of June 30, 1965.

The proposed merger, if consummated, would result in the elimination of some competition between the merging banks, would increase the size of Greenfield Bank by 34 per cent, and would result in the increase in the concentration of banking resources in the service area thereby continuing the trend toward such concentration in Hancock County, Indiana. The resulting bank, by far the largest "local" and best located bank in the service area, and the 2 area branches of Indianapolis' American Fletcher National Bank & Trust Company, the 2 largest banks of the 6 remaining banks, would operate 5 of the area's 11 banking offices and would command over 97 per cent of all banking resources, and 3 of these 6 remaining banks would operate 8 of the area's 11 banking offices and would command 98 per cent of all banking resources. However, serious management problems have prevented the merging bank from providing adequate service to its area's customers and from really affording effective competition to the other area banks.

Taking all factors presented into consideration, it is felt that although the proposed merger would produce some adverse competitive effects, if consummated, these effects would not be serious.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (12-1-65)

Fortville Bank, located in a small agricultural community of about 2,000 population, has experienced increasing loan losses and declining earnings in recent years, despite the lack of adverse economic conditions in the community. The senior officers of the bank are past normal retirement age, and a problem of management succession exists. In these circumstances, future prospects for the bank are only fair.

While Fortville Bank is the only bank in Fortville, there are a number of banking alternatives in nearby towns including the large Indianapolis banks located 21 miles from Fortville. An office of Greenfield Bank's

For notes see p. 310.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1965¹—Continued

| Name of bank, and type of transaction ² (in chronological order of determination) | Resources (in millions of dollars) | Banking offices | |
|---|---------------------------------------|-----------------|----------------|
| | | In operation | To be operated |

BASIS FOR APPROVAL BY BOARD OF GOVERNORS—Cont.

principal competitor is located directly between Greenfield and Fortville, limiting competition between the merging banks. Approval of the proposal would permit the resulting bank to serve better the convenience and needs of the community of Fortville through more constructive loan policies and an increased lending limit. It would also provide a basis for improved earnings and continuity of management, assuring the continuation of sound banking service in the Fortville area.

| | | | |
|--|------|---|-----|
| No. 22— Williamsburg State Bank, Williamsburg, Va. (an organizing bank) <i>to merge with</i> | 0.0 | 0 | } 3 |
| Peninsula Bank and Trust Company, Williamsburg, Va. | 21.6 | 2 | |
| James-York Bank, Williamsburg, Va. <i>and change its title to Peninsula Bank and Trust Company.</i> | 2.8 | 1 | |

SUMMARY REPORT BY ATTORNEY GENERAL (7-19-65)

Peninsula Bank, with assets of \$21.6 million, and James-York Bank, with assets of \$2.8 million, are controlled by the same interests and their proposed merger will be a change in form but not in substance.

The resultant bank will become a subsidiary of United Virginia Bankshares, the largest banking institution in Virginia, its subsidiary banks now operating 61 banking offices in 21 localities and holding 12.4 per cent of the total deposits of all Virginia banks.

Five Virginia banks and 4 bank holding companies operating in Virginia now control 44.7 per cent of the banking offices and 60.9 per cent of the deposits of all Virginia banking institutions.

While each individual merger or acquisition by the large banks and bank holding companies in Virginia may not significantly increase concentration of banking in Virginia, the cumulative effect of all such comparatively recent mergers and acquisitions on concentration has been substantial and continues the trend of gathering banking power in the hands of a few large institutions.

For notes see p. 310.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1965¹—Continued

| Name of bank, and type of transaction ² (in chronological order of determination) | Resources (in millions of dollars) | Banking offices | |
|---|---------------------------------------|-----------------|----------------|
| | | In operation | To be operated |

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (12-15-65)

A majority of the voting shares of James-York Bank, which was established in 1956 as an affiliate of Peninsula Bank, is owned by James City Investment Corporation, a holding company which is owned by stockholders holding a majority of the shares of Peninsula Bank. The president and executive vice president of Peninsula Bank are, respectively, the president and vice president of James-York Bank, and 3 of the latter's 7 directors are directors of Peninsula Bank. For these reasons, the 2 banks are virtually 1 institution and the James-York Bank is viewed as a third office of Peninsula Bank.

Subsequent to the merger, United Virginia Bankshares, Incorporated, a registered bank holding company, proposes to acquire at least 90 per cent of the voting shares of the resulting bank. Upon consummation of the acquisition, United Virginia, the largest banking system in the State—6 subsidiary banks operating 47 offices with aggregate deposits of \$499 million—would operate 7.2 per cent of the offices and hold 11.9 per cent of the deposits of all Virginia banks, representing increases from 6.8 per cent and 11.4 per cent, respectively. The 4 bank holding companies operating in Virginia would control 24.3 per cent of the offices and 27 per cent of the deposits of all banks, representing increases of .4 per cent and .5 per cent, respectively.

The proposed transaction will bring into unified corporate form a bank-branch relationship that has existed for a number of years without having any significant effect on competition in the Williamsburg area.

| | | | |
|--|------|---|-----|
| No. 23— Fidelity Bank, Beverly Hills, Calif. <i>to merge with</i> | 43.6 | 2 | } 3 |
| South Bay Bank, Manhattan Beach, Calif. | 8.6 | 1 | |

SUMMARY REPORT BY ATTORNEY GENERAL (10-11-65)

Application has been made to merge the South Bay Bank of Manhattan Beach, California, into the Fidelity Bank of Beverly Hills, California, both of which are located in Los Angeles County.

Banking in Los Angeles is presently highly concentrated in the large California banking organizations, including Bank of America, Security First National Bank, United California Bank, Union Bank, and Crocker-Citizens Bank, all of which have offices in the respective service areas of one or both of the merging banks. Of the total \$12 billion of bank deposits in Los Angeles County, these 5 banks possess approximately

For notes see p. 310.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1965¹—Continued

| Name of bank, and type of transaction ² (in chronological order of determination) | Resources (in millions of dollars) | Banking offices | |
|---|---------------------------------------|-----------------|----------------|
| | | In operation | To be operated |

SUMMARY REPORT BY ATTORNEY GENERAL—Cont.

\$10.4 billion or 86.3 per cent. In contrast to this the merging banks, subsequent to their combination, will possess \$44.5 million or only 0.37 per cent of the total bank deposits in the county.

In view of the relatively minor size of the Applicant banks in relation to the highly concentrated banking market in which they now compete and the fact that their respective service areas are currently served by numerous other competitor banks, including offices of the aforementioned large California banking systems, it is our opinion that the merger of the Applicant banks will have no adverse competitive effect.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (12-22-65)

Manhattan Beach, situated approximately 15 miles southwest of downtown Los Angeles, has a population of about 34,000, and the population of its trade area is estimated at 62,000. It is chiefly a residential community heavily dependent on nearby aircraft and electronic manufacturing plants and space engineering research firms. In addition to Bay Bank, which is the smallest bank in the area, the area is served by 12 other banking offices including 9 offices of 4 of the largest banks in the State. The nearest office of Fidelity Bank is 10 miles from Bay Bank and the areas served by each bank, separated by Los Angeles International Airport, do not overlap.

The chief executive officer of Bay Bank is past normal retirement age, and there is a further need at the bank for additional managing personnel. Thus far, efforts to remedy this have not been successful. Consummation of the proposal would solve the management problem at Bay Bank and provide needed diversification in the loan portfolio of Fidelity which has specialized in real estate credit. It would also be expected to bring some increase in benefits to the community and customers now served by Bay Bank without adversely affecting area competition.

¹ During 1965 the Board approved all 23 mergers, consolidations, etc., on which it acted.

² Each transaction was proposed to be effected under the charter of the first-named bank.

³ The abbreviation "IPC" designates deposits of individuals, partnerships, and corporations.

Federal Reserve Directories and Meetings

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

(December 31, 1965)

Term expires

| | |
|---|------------------|
| WM. MCC. MARTIN, JR., of New York, <i>Chairman</i> | January 31, 1970 |
| C. CANBY BALDERSTON of Pennsylvania, <i>Vice Chairman</i> | January 31, 1966 |
| J. L. ROBERTSON of Nebraska | January 31, 1978 |
| CHAS. N. SHEPARDSON of Texas | January 31, 1968 |
| GEORGE W. MITCHELL of Illinois | January 31, 1976 |
| J. DEWEY DAANE of Virginia | January 31, 1974 |
| SHERMAN J. MAISEL of California | January 31, 1972 |

RALPH A. YOUNG, *Senior Adviser to the Board*

ROBERT C. HOLLAND, *Adviser to the Board*

ROBERT SOLOMON, *Adviser to the Board*

CHARLES MOLONY, *Assistant to the Board*

ROBERT L. CARDON, *Legislative Counsel*

CLARKE L. FAUVER, *Assistant to the Board*

OFFICE OF THE SECRETARY

MERRITT SHERMAN, *Secretary*

KENNETH A. KENYON, *Assistant Secretary*

ELIZABETH L. CARMICHAEL, *Assistant Secretary*

ARTHUR L. BROIDA, *Assistant Secretary*

KARL E. BAKKE, *Assistant Secretary*

LEGAL DIVISION

HOWARD H. HACKLEY, *General Counsel*

DAVID B. HEXTER, *Associate General Counsel*

THOMAS J. O'CONNELL, *Assistant General Counsel*

JEROME W. SHAY, *Assistant General Counsel*

WILSON L. HOOFF, *Assistant General Counsel*

DIVISION OF RESEARCH AND STATISTICS

DANIEL H. BRILL, *Director*

ALBERT R. KOCH, *Deputy Director*

J. CHARLES PARTEE, *Associate Director*

FRANK R. GARFIELD, *Adviser*

KENNETH B. WILLIAMS, *Adviser*

STEPHEN H. AXILROD, *Associate Adviser*

LYLE E. GRAMLEY, *Associate Adviser*

STANLEY J. SIGEL, *Associate Adviser*

TYNAN SMITH, *Associate Adviser*

BOARD OF GOVERNORS—Cont.

DIVISION OF INTERNATIONAL FINANCE

RALPH A. YOUNG, *Director*
ROBERT L. SAMMONS, *Associate Director*
A. B. HERSEY, *Adviser*
REED J. IRVINE, *Adviser*
SAMUEL I. KATZ, *Adviser*
JOHN E. REYNOLDS, *Adviser*
RALPH C. WOOD, *Adviser*

DIVISION OF BANK OPERATIONS

JOHN R. FARRELL, *Director*
M. B. DANIELS, *Assistant Director*
JOHN N. KILEY, JR., *Assistant Director*

DIVISION OF EXAMINATIONS

FREDERIC SOLOMON, *Director*
GLENN M. GOODMAN, *Assistant Director*
BRENTON C. LEAVITT, *Assistant Director*
JAMES C. SMITH, *Assistant Director*
ANDREW N. THOMPSON, *Assistant Director*
LLOYD M. SCHAEFFER, *Chief Federal Reserve Examiner*

DIVISION OF PERSONNEL ADMINISTRATION

EDWIN J. JOHNSON, *Director*
H. FRANKLIN SPRECHER, JR., *Assistant Director*

DIVISION OF ADMINISTRATIVE SERVICES

JOSEPH E. KELLEHER, *Director*
HARRY E. KERN, *Assistant Director*

OFFICE OF THE CONTROLLER

JOHN KAKALEC, *Controller*

OFFICE OF DEFENSE PLANNING

INNIS D. HARRIS, *Coordinator*

DIVISION OF DATA PROCESSING

M. H. SCHWARTZ, *Director*
LEE W. LANGHAM, *Assistant Director*

FEDERAL OPEN MARKET COMMITTEE

(December 31, 1965)

MEMBERS

- WM. MCC. MARTIN, JR., *Chairman* (Board of Governors)
ALFRED HAYES, *Vice Chairman* (Elected by Federal Reserve Bank of New York)
C. CANBY BALDERSTON (Board of Governors)
J. DEWEY DAANE (Board of Governors)
GEORGE H. ELLIS (Elected by Federal Reserve Banks of Boston, Philadelphia, and Richmond)
HUGH D. GALUSHA, JR. (Elected by Federal Reserve Banks of Minneapolis, Kansas City, and San Francisco)
SHERMAN J. MAISEL (Board of Governors)
GEORGE W. MITCHELL (Board of Governors)
HAROLD T. PATTERSON (Elected by Federal Reserve Banks of Atlanta, St. Louis, and Dallas)
J. L. ROBERTSON (Board of Governors)
CHARLES J. SCANLON (Elected by Federal Reserve Banks of Cleveland and Chicago)
CHAS. N. SHEPARDSON (Board of Governors)

OFFICERS

RALPH A. YOUNG, *Secretary*

- | | |
|---|---|
| MERRITT SHERMAN, <i>Assistant Secretary</i> | ERNEST T. BAUGHMAN, <i>Associate Economist</i> |
| KENNETH A. KENYON, <i>Assistant Secretary</i> | GEORGE GARVY, <i>Associate Economist</i> |
| ARTHUR L. BROIDA, <i>Assistant Secretary</i> | ROBERT C. HOLLAND, <i>Associate Economist</i> |
| HOWARD H. HACKLEY, <i>General Counsel</i> | ALBERT R. KOCH, <i>Associate Economist</i> |
| DAVID B. HEXTER, <i>Assistant General Counsel</i> | CHARLES T. TAYLOR, <i>Associate Economist</i> |
| DANIEL H. BRILL, <i>Economist</i> | PARKER B. WILLIS, <i>Associate Economist</i> |
| ALAN R. HOLMES, <i>Manager, System Open Market Account</i> | |
| CHARLES A. COOMBS, <i>Special Manager, System Open Market Account</i> | |

During 1965 the Federal Open Market Committee met approximately every three weeks as indicated in the Record of Policy Actions taken by the Committee (see pp. 71-154 of this Report).

FEDERAL ADVISORY COUNCIL

(December 31, 1965)

MEMBERS

- District No. 1—Lawrence H. Martin, President, The National Shawmut Bank of Boston, Boston, Massachusetts.
- District No. 2—William H. Moore, Chairman of the Board, Bankers Trust Company, New York, New York.
- District No. 3—William L. Day, Chairman of the Board, The First Pennsylvania Banking and Trust Company, Philadelphia, Pennsylvania.
- District No. 4—L. A. Stoner, President, The Ohio National Bank of Columbus, Columbus, Ohio.
- District No. 5—John F. Watlington, Jr., President, Wachovia Bank and Trust Company, Winston-Salem, North Carolina.
- District No. 6—Sam M. Fleming, President, Third National Bank in Nashville, Nashville, Tennessee.
- District No. 7—Edward Byron Smith, Chairman of the Board, The Northern Trust Company, Chicago, Illinois.
- District No. 8—James P. Hickok, Chairman of the Board, First National Bank in St. Louis, St. Louis, Missouri.
- District No. 9—John A. Moorhead, President, Northwestern National Bank of Minneapolis, Minneapolis, Minnesota.
- District No. 10—Roger D. Knight, Jr., Chairman of the Board, Denver United States National Bank, Denver, Colorado.
- District No. 11—James W. Aston, Chairman of the Board, Republic National Bank of Dallas, Dallas, Texas.
- District No. 12—Ransom M. Cook, Chairman of the Board, Wells Fargo Bank, San Francisco, California.

OFFICERS

JOHN A. MOORHEAD, *President* LAWRENCE H. MARTIN, *Vice President*
HERBERT V. PROCHNOW, *Secretary*
WILLIAM J. KORSVIK, *Assistant Secretary*

EXECUTIVE COMMITTEE

JOHN A. MOORHEAD, *ex officio* LAWRENCE H. MARTIN, *ex officio*
L. A. STONER EDWARD BYRON SMITH
RANSOM M. COOK

Meetings of the Federal Advisory Council were held on February 15-16, May 17-18, September 20-21, and November 15-16, 1965. The Board of Governors met with the Council on February 16, May 18, September 21, and November 16. The Council is required by law to meet in Washington at least four times each year and is authorized by the Federal Reserve Act to consult with and advise the Board on all matters within the jurisdiction of the Board.

FEDERAL RESERVE BANKS AND BRANCHES

(December 31, 1965)

CHAIRMEN AND DEPUTY CHAIRMEN OF BOARDS OF DIRECTORS

| Federal Reserve Bank of— | Chairman and Federal Reserve Agent | Deputy Chairman |
|-----------------------------|---------------------------------------|-------------------------|
| Boston | Erwin D. Canham | William Webster |
| New York | Everett N. Case | Philip D. Reed |
| Philadelphia | Walter E. Hoadley | Willis J. Winn |
| Cleveland | Joseph B. Hall | Logan T. Johnston |
| Richmond | Edwin Hyde | William H. Grier |
| Atlanta | Jack Tarver | J. M. Cheatham |
| Chicago | Franklin J. Lunding | James H. Hilton |
| St. Louis | Raymond Rebsamen | Smith D. Broadbent, Jr. |
| Minneapolis | Atherton Bean | Judson Bemis |
| Kansas City | Homer A. Scott | Dolph Simons |
| Dallas | Robert O. Anderson | Carl J. Thomsen |
| San Francisco | F. B. Whitman | John D. Fredericks |

CONFERENCE OF CHAIRMEN

The Chairmen of the Federal Reserve Banks are organized into a Conference of Chairmen that meets from time to time to consider matters of common interest and to consult with and advise the Board of Governors. Such a meeting, attended also by Deputy Chairmen of the Reserve Banks, was held in Washington on December 2-3, 1965.

Mr. Canham, Chairman of the Federal Reserve Bank of Boston, who was elected Chairman of the Conference and of the Executive Committee in December 1964, served in that capacity until the close of the 1965 meeting. Mr. Anderson, Chairman of the Federal Reserve Bank of Dallas, and Mr. Rebsamen, Chairman of the Federal Reserve Bank of St. Louis, served with Mr. Canham in 1965 as members of the Executive Committee; Mr. Anderson also served as Vice Chairman of the Conference.

FEDERAL RESERVE SYSTEM

FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1965—Cont.

On December 3, 1965, Mr. Hoadley, Chairman of the Federal Reserve Bank of Philadelphia, was elected Chairman of the Conference and of the Executive Committee to serve for the succeeding year; Mr. Rebsamen, Chairman of the St. Louis Bank, was elected Vice Chairman of the Conference and a member of the Executive Committee; and Mr. Tarver, Chairman of the Federal Reserve Bank of Atlanta, was elected as the other member of the Executive Committee.

DIRECTORS

Class A and Class B directors are elected by the member banks of the district. Class C directors are appointed by the Board of Governors of the Federal Reserve System.

The Class A directors are chosen as representatives of member banks and, as a matter of practice, are active officers of member banks. The Class B directors may not, under the law, be officers, directors, or employees of banks. At the time of their election they must be actively engaged in their district in commerce, agriculture, or some other industrial pursuit.

The Class C directors may not, under the law, be officers, directors, employees, or stockholders of banks. They are appointed by the Board of Governors as representatives not of any particular group or interest, but of the public interest as a whole.

Federal Reserve Bank branches have either 5 or 7 directors, of whom a majority are appointed by the Board of Directors of the parent Federal Reserve Bank and the others are appointed by the Board of Governors of the Federal Reserve System.

| DIRECTORS | District 1 — Boston | <i>Term expires Dec. 31</i> |
|------------------------------|---|-------------------------------------|
| <i>Class A:</i> | | |
| Ostrom Enders | Chairman, Hartford National Bank and Trust Company, Hartford, Conn. | 1965 |
| Darius M. Kelley | President, The Orange National Bank, Orange, Mass. | 1966 |
| William I. Tucker | President, Vermont National Bank, Brattleboro, Vt. | 1967 |
| <i>Class B:</i> | | |
| John R. Newell | Vice Chairman, Bath Iron Works Corp., Bath, Maine | 1965 |
| William R. Robbins | Vice President for Finance, United Aircraft Corporation, East Hartford, Conn. | 1966 |
| James R. Carter | President, Nashua Corporation, Nashua, N.H. | 1967 |

ANNUAL REPORT OF BOARD OF GOVERNORS

FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1965—Cont.

| | | |
|-----------------|------------------------------------|-------------------------------------|
| | | <i>Term expires Dec. 31</i> |
| DIRECTORS—Cont. | District 1 — Boston — Cont. | |

Class C:

| | | |
|-------------------------|--|------|
| (Vacancy | | 1965 |
| William Webster | Chairman and Chief Executive Officer, New England Electric System, Boston, Mass. . . | 1966 |
| Erwin D. Canham | Editor in Chief, The Christian Science Monitor, Boston, Mass. | 1967 |

District 2 — New York

Class A:

| | | |
|--------------------------|---|------|
| Ralph H. Rue | Chairman, The Schenectady Trust Company, Schenectady, N.Y. | 1965 |
| Robert H. Fearon | President, The Oneida Valley National Bank of Oneida, N.Y. | 1966 |
| George A. Murphy . . . | Chairman, Irving Trust Company, New York, N.Y. | 1967 |

Class B:

| | | |
|--------------------------|---|------|
| Kenneth H. Hannan . . . | Executive Vice President, Union Carbide Corporation, New York, N.Y. | 1965 |
| Albert L. Nickerson . . | Chairman of the Board, Socony Mobil Oil Company, Inc., New York, N.Y. | 1966 |
| Arthur K. Watson | Chairman, IBM World Trade Corporation and Senior Vice President, International Business Machines Corporation, Armonk, N.Y. | 1967 |

Class C:

| | | |
|-------------------------|--|------|
| Philip D. Reed | Formerly Chairman of the Board, General Electric Company, New York, N.Y. | 1965 |
| Everett N. Case | President, Alfred P. Sloan Foundation, New York, N.Y. | 1966 |
| James M. Hester | President, New York University, New York, N.Y. | 1967 |

Buffalo Branch

Appointed by Federal Reserve Bank:

| | | |
|---------------------------|--|------|
| Arthur S. Hamlin | President, The Canandaigua National Bank and Trust Company, Canandaigua, N. Y. | 1965 |
| Charles W. Millard, Jr. . | Chairman of the Board and President, Manufacturers and Traders Trust Company, Buffalo, N.Y. | 1966 |

FEDERAL RESERVE SYSTEM

FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1965—Cont.

| | | <i>Term expires Dec. 31</i> |
|-----------------|--------------------------------------|-------------------------------------|
| DIRECTORS—Cont. | District 2 — New York — Cont. | |
| | Buffalo Branch—Cont. | |

Appointed by Federal Reserve Bank—Cont.

| | | |
|----------------------------|--|------|
| John D. Hamilton | President, Chautauqua National Bank of Jamestown, N.Y. | 1967 |
| J. Wallace Ely | President, Security Trust Company of Rochester, N.Y. | 1967 |

Appointed by Board of Governors:

| | | |
|-----------------------------|---|------|
| Maurice R. Forman | President, B. Forman Company, Inc., Rochester, N.Y. | 1965 |
| Thomas E. LaMont | Farmer, Albion, N.Y. | 1966 |
| Robert S. Bennett | General Manager, Lackawanna Plant, Bethlehem Steel Company, Inc., Buffalo, N.Y. | 1967 |

District 3 — Philadelphia

Class A:

| | | |
|--------------------------------|--|------|
| Benjamin F. Sawin | Vice Chairman of the Board, Provident National Bank, Philadelphia, Pa. | 1965 |
| Charles R. Sharbaugh | Senior Vice President, United States National Bank, Ebensburg, Pa. | 1966 |
| Lloyd W. Kuhn | President, The Bendersville National Bank, Bendersville, Pa. | 1967 |

Class B:

| | | |
|------------------------------|--|------|
| Ralph K. Gottshall | Chairman of the Board and President, Atlas Chemical Industries, Inc., Wilmington, Del. | 1965 |
| Leonard P. Pool | President, Air Products and Chemicals, Inc., Allentown, Pa. | 1966 |
| Bayard L. England | Chairman of the Board, Atlantic City Electric Company, Atlantic City, N.J. | 1967 |

Class C:

| | | |
|--------------------------------|---|------|
| D. Robert Yarnall, Jr. | President, Yarway Corporation, Philadelphia, Pa. | 1965 |
| Walter E. Hoadley | Vice President and Treasurer, Armstrong Cork Company, Lancaster, Pa. | 1966 |
| Willis J. Winn | Dean, Wharton School of Finance and Commerce, University of Pennsylvania, Philadelphia, Pa. | 1967 |

ANNUAL REPORT OF BOARD OF GOVERNORS

FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1965—Cont.

| DIRECTORS—Cont. | District 4 — Cleveland | <i>Term expires Dec. 31</i> |
|---|--|-------------------------------------|
| <i>Class A:</i> | | |
| Frank E. Agnew, Jr. . . . | Chairman of the Board and Chief Executive Officer, Pittsburgh National Bank, Pittsburgh, Pa. | 1965 |
| Richard R. Hollington . . . | President, The Ohio Bank and Savings Company, Findlay, Ohio | 1966 |
| Seward D. Schooler | President, Coshocton National Bank, Coshocton, Ohio | 1967 |
| <i>Class B:</i> | | |
| Walter K. Bailey | Chairman of the Board, The Warner & Swasey Company, Cleveland, Ohio | 1965 |
| Edwin J. Thomas | Chairman of the Board and Chief Executive Officer, The Goodyear Tire & Rubber Company, Akron, Ohio | 1966 |
| David A. Meeker | Chairman of the Board and Chief Executive Officer, The Hobart Manufacturing Company, Troy, Ohio | 1967 |
| <i>Class C:</i> | | |
| Logan T. Johnston | Chairman of the Board, Armco Steel Corporation, Middletown, Ohio | 1965 |
| Albert G. Clay | President, Clay Tobacco Company, Mt. Sterling, Ky. | 1966 |
| Joseph B. Hall | Formerly Chairman of the Board, The Kroger Co., Cincinnati, Ohio | 1967 |
| | Cincinnati Branch | |
| <i>Appointed by Federal Reserve Bank:</i> | | |
| John W. Woods, Jr. | President, The Third National Bank of Ashland, Ky. | 1965 |
| John W. Humphrey | President, The Philip Carey Manufacturing Company, Cincinnati, Ohio | 1966 |
| James Pugh | President, The Security Central National Bank of Portsmouth, Ohio | 1966 |
| Kroger Pettengill | President, The First National Bank of Cincinnati, Ohio | 1967 |
| <i>Appointed by Board of Governors:</i> | | |
| R. Stanley Laing | President, The National Cash Register Company, Dayton, Ohio | 1965 |
| Walter C. Langsam | President, University of Cincinnati, Ohio | 1966 |
| Barney A. Tucker | President, Burley Belt Fertilizer Company, Lexington, Ky. | 1967 |

FEDERAL RESERVE SYSTEM

FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1965—Cont.

DIRECTORS—Cont. **District 4 — Cleveland — Cont.** *Term expires Dec. 31*

Pittsburgh Branch

Appointed by Federal Reserve Bank:

| | | |
|-------------------------------|---|------|
| Alfred H. Owens | President, The Citizens National Bank of New Castle, Pa. | 1965 |
| S. L. Drumm | President, West Penn Power Company, Cabin Hill, Greensburg, Pa. | 1966 |
| Joseph S. Armstrong | President, The Grove City National Bank, Grove City, Pa. | 1966 |
| Edwin H. Keep | President, First National Bank of Meadville, Pa. | 1967 |

Appointed by Board of Governors:

| | | |
|-----------------------------|---|------|
| F. L. Byrom | President, Koppers Company, Inc., Pittsburgh, Pa. | 1965 |
| G. L. Bach | Maurice Falk Professor of Economics and Social Science, Carnegie Institute of Technology, Pittsburgh, Pa. | 1966 |
| Robert Dickey III | President, Dravo Corporation, Pittsburgh, Pa. | 1967 |

District 5 — Richmond

Class A:

| | | |
|------------------------------|---|------|
| David K. Cushwa, Jr. | President, The Washington County National Savings Bank, Williamsport, Md. | 1965 |
| Robert T. Marsh, Jr. | Chairman of the Board, First and Merchants National Bank, Richmond, Va. | 1966 |
| George Blanton, Jr. | President, First National Bank, Shelby, N.C. | 1967 |

Class B:

| | | |
|--------------------------------|--|------|
| R. E. Salvati | Consultant, Island Creek Coal Company, Huntington, W. Va. | 1965 |
| Robert E. L. Johnson | Formerly Chairman of the Board, Woodward & Lothrop, Incorporated, Washington, D.C. | 1966 |
| Robert R. Coker | President, Coker's Pedigreed Seed Company, Hartsville, S.C. | 1967 |

ANNUAL REPORT OF BOARD OF GOVERNORS

FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1965—Cont.

DIRECTORS—Cont. **District 5 — Richmond — Cont.** *Term expires Dec. 31*

Class C:

| | | |
|----------------------------|--|------|
| Wilson H. Elkins | President, University of Maryland, College Park, Md. | 1965 |
| William H. Grier | President, Rock Hill Printing & Finishing Company, Rock Hill, S.C. | 1966 |
| Edwin Hyde | President, Miller & Rhoads, Inc., Richmond, Va. | 1967 |

Baltimore Branch

Appointed by Federal Reserve Bank:

| | | |
|-------------------------------|--|------|
| Joseph B. Browne | President, Union Trust Company of Maryland, Baltimore, Md. | 1965 |
| John P. Sippel | President, The Citizens National Bank of Laurel, Md. | 1966 |
| Martin Piribek | Executive Vice President, The First National Bank of Morgantown, W.Va. | 1967 |
| Adrian L. McCardell | President, First National Bank of Maryland, Baltimore, Md. | 1967 |

Appointed by Board of Governors:

| | | |
|-------------------------------|--|------|
| E. Wayne Corrin | President, Consolidated Gas Supply Corporation, Clarksburg, W.Va. | 1965 |
| Harry B. Cummings | Vice President & General Manager, Metal Products Division, Koppers Company, Inc., Baltimore, Md. | 1966 |
| Leonard C. Crewe, Jr. | Chairman of the Board, Maryland Specialty Wire, Inc., Cockeysville, Md. | 1967 |

Charlotte Branch

Appointed by Federal Reserve Bank:

| | | |
|----------------------------|--|------|
| G. Harold Myrick | Executive Vice President and Trust Officer, The First National Bank of Lincolnton, N.C. | 1965 |
| W. W. McEachern | Chairman and Chief Executive Officer, The South Carolina National Bank, Greenville, S.C. | 1966 |

FEDERAL RESERVE SYSTEM

FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1965—Cont.

DIRECTORS—Cont. **District 5 — Richmond — Cont.** *Term expires Dec. 31*

Charlotte Branch—Cont.

Appointed by Federal Reserve Bank—Cont.

Wallace W. Brawley . . . Senior Executive Vice President, The First Commercial National Bank of Spartanburg, S.C. 1967

Carl G. McCraw President, First Union National Bank of North Carolina, Charlotte, N.C. 1967

Appointed by Board of Governors:

J. C. Cowan, Jr. Vice Chairman of the Board, Burlington Industries, Inc., Greensboro, N.C. 1965

James A. Morris Dean, School of Business Administration, University of South Carolina, Columbia, S.C. 1966

William B. McGuire . . . President, Duke Power Company, Charlotte, N.C. 1967

District 6 — Atlanta

Class A:

(Vacancy) 1965

George S. Craft Chairman of the Board, Trust Company of Georgia, Atlanta, Ga. 1966

D. C. Wadsworth, Sr. President, The American National Bank, Gadsden, Ala. 1967

Class B:

McGregor Smith Chairman of the Board, Florida Power & Light Company, Miami, Fla. 1965

W. Maxey Jarman Chairman, Genesco, Inc., Nashville, Tenn. 1966

James H. Crow, Jr. Vice President, The Chemstrand Corporation, Decatur, Ala. 1967

Class C:

J. M. Cheatham President, Dundee Mills, Incorporated, Griffin, Ga. 1965

John A. Hunter President, Louisiana State University, Baton Rouge, La. 1966

Jack Tarver President, Atlanta Newspapers, Inc., Atlanta, Ga. 1967

ANNUAL REPORT OF BOARD OF GOVERNORS

FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1965—Cont.

| | <i>Term expires Dec. 31</i> |
|--|-------------------------------------|
| DIRECTORS—Cont. District 6 — Atlanta — Cont. | |
| Birmingham Branch | |
| <i>Appointed by Federal Reserve Bank:</i> | |
| A. Calvin Smith President, First National Bank, Greenville, Ala. | 1965 |
| John A. Hand President, The First National Bank of Bir- mingham, Ala. | 1966 |
| C. Willard Nelson President, State National Bank, Decatur, Ala. | 1967 |
| Rex J. Morthland President, The Peoples Bank & Trust Com- pany, Selma, Ala. | 1967 |
| <i>Appointed by Board of Governors:</i> | |
| Eugene C. Gwaltney, Jr. Vice President and General Superintendent, Russell Mills, Inc., Alexander City, Ala. | 1965 |
| Mays E. Montgomery General Manager, Dixie Home Feeds Co., Athens, Ala. | 1966 |
| C. Caldwell Marks Chairman of the Board, Owen-Richards Company, Inc., Birmingham, Ala. | 1967 |
| Jacksonville Branch | |
| <i>Appointed by Federal Reserve Bank:</i> | |
| Arthur W. Saarinen President, Broward National Bank of Fort Lauderdale, Fla. | 1965 |
| William H. Dial President, The First National Bank at Or- lando, Fla. | 1966 |
| Dudley Cole President, Florida First National Bank at Ocala, Fla. | 1967 |
| William R. Barnett Chairman, Barnett National Bank of Jack- sonville, Fla. | 1967 |
| <i>Appointed by Board of Governors:</i> | |
| Claude J. Yates Chairman of the Board, Florida Atlas Cor- poration, Jacksonville, Fla. | 1965 |
| J. Ollie Edmunds President, Stetson University, DeLand, Fla. | 1966 |
| Harry T. Vaughn President, United States Sugar Corporation, Clewiston, Fla. | 1967 |
| Nashville Branch | |
| <i>Appointed by Federal Reserve Bank:</i> | |
| R. S. Walling President, First National Bank, McMinn- ville, Tenn. | 1965 |

FEDERAL RESERVE SYSTEM

FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1965—Cont.

DIRECTORS—Cont. **District 6 — Atlanta — Cont.** *Term expires Dec. 31*

Nashville Branch—Cont.

Appointed by Federal Reserve Bank—Cont.

- William F. Earthman, President, Commerce Union Bank, Nashville, Tenn. 1966
- J. A. Hill President, Hamilton National Bank, Morristown, Tenn. 1967
- S. N. Brown President, Union National Bank, Fayetteville, Tenn. 1967

Appointed by Board of Governors:

- Andrew D. Holt President, University of Tennessee, Knoxville, Tenn. 1965
- James E. Ward President, Baird-Ward Printing Company, Nashville, Tenn. 1966
- Robert M. Williams President, ARO, Inc., Arnold Engineering Development Center, Tullahoma, Tenn. 1967

New Orleans Branch

Appointed by Federal Reserve Bank:

- J. R. McCravey, Jr. Vice President, Bank of Forest, Miss. 1965
- L. Y. Foote Chairman of the Board, First National Bank of Hattiesburg, Miss. 1966
- Robert M. Hearin President, First National Bank of Jackson, Miss. 1967
- W. Richard White President, First National Bank of Jefferson Parish, Gretna, La. 1967

Appointed by Board of Governors:

- J. O. Emmerich Editor, Enterprise-Journal, McComb, Miss. 1965
- George Benjamin Blair General Manager, American Rice Growers Cooperative, Lake Charles, La. 1966
- Kenneth R. Giddens President, WKRG-TV, Inc., Mobile, Ala. 1967

District 7 — Chicago

Class A:

- Harry W. Schaller President, The Citizens First National Bank of Storm Lake, Iowa 1965
- Kenneth V. Zwiener Chairman of the Board, Harris Trust and Savings Bank, Chicago, Ill. 1966

ANNUAL REPORT OF BOARD OF GOVERNORS

FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1965—Cont.

| | <i>Term expires Dec. 31</i> |
|---|-------------------------------------|
| DIRECTORS—Cont. District 7 — Chicago — Cont. | |

Class A—Cont.

| | |
|--|------|
| John H. Crocker Chairman of the Board, The Citizens National Bank of Decatur, Ill. | 1967 |
|--|------|

Class B:

| | |
|---|------|
| William A. Hanley Director, Eli Lilly and Company, Indianapolis, Ind. | 1965 |
| G. F. Langenohl Formerly Treasurer and Assistant Secretary, Allis-Chalmers Manufacturing Company, Milwaukee, Wis. | 1966 |
| William E. Rutz Director, Giddings & Lewis Machine Tool Company, Fond du Lac, Wis. | 1967 |

Class C:

| | |
|---|------|
| James H. Hilton Director, Office of University Development, Iowa State University of Science and Technology, Ames, Iowa | 1965 |
| John W. Sheldon President, Chas. A. Stevens & Co., Chicago, Ill. | 1966 |
| Franklin J. Lunding Chairman, Finance Committee, Jewel Tea Company, Inc., Chicago, Ill. | 1967 |

Detroit Branch

Appointed by Federal Reserve Bank:

| | |
|--|------|
| C. Lincoln Linderholm. President, Central Bank, Grand Rapids, Mich. | 1965 |
| Franklin H. Moore President, The Commercial and Savings Bank, St. Clair, Mich. | 1966 |
| John H. French, Jr. President, City National Bank of Detroit, Mich. | 1966 |
| Raymond T. Perring Chairman of the Board, The Detroit Bank and Trust Company, Detroit, Mich. | 1967 |

Appointed by Board of Governors:

| | |
|--|------|
| Guy S. Peppiatt Chairman of the Board, Federal-Mogul Corporation, Detroit, Mich. | 1965 |
| Max P. Heavenrich, Jr. President and General Manager, Heavenrich Bros. & Company, Saginaw, Mich. | 1966 |
| James William Miller President, Western Michigan University, Kalamazoo, Mich. | 1967 |

FEDERAL RESERVE SYSTEM

FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1965—Cont.

| | <i>Term expires Dec. 31</i> |
|--|-------------------------------------|
| DIRECTORS—Cont. | |
| District 8 — St. Louis | |
| <i>Class A:</i> | |
| Harry F. Harrington .. Chairman of the Board & President, The Boatmen's National Bank of St. Louis, Mo. | 1965 |
| H. Lee Cooper President, Ohio Valley National Bank of Henderson, Ky. | 1966 |
| Harry E. Rogier President, The First National Bank of Vandalia, Ill. | 1967 |
| <i>Class B:</i> | |
| Harold O. McCutchan. Senior Executive Vice President, Mead Johnson & Company, Evansville, Ind. | 1965 |
| Roland W. Richards .. Senior Vice President, Laclede Steel Company, St. Louis, Mo. | 1966 |
| Mark Townsend Chairman of the Board, Townsend Lumber Company, Inc., Stuttgart, Ark. | 1967 |
| <i>Class C:</i> | |
| Raymond Rebsamen .. Chairman of the Board, Rebsamen & East, Inc., Little Rock, Ark. | 1965 |
| William King Self President, Riverside Industries, Marks, Miss. | 1966 |
| Smith D. Broadbent, Jr. . Owner, Broadbent Hybrid Seed Company, Cadiz, Ky. | 1967 |
| Little Rock Branch | |
| <i>Appointed by Federal Reserve Bank:</i> | |
| H. C. Adams Executive Vice President, The First National Bank of De Witt, Ark. | 1965 |
| Cecil W. Cupp President and Chairman, Arkansas Bank and Trust Company, Hot Springs, Ark. | 1966 |
| R. M. LaGrone, Jr. .. President, The Citizens National Bank of Hope, Ark. | 1966 |
| Ross E. Anderson Chairman of the Board, The Commercial National Bank of Little Rock, Ark. | 1967 |
| <i>Appointed by Board of Governors:</i> | |
| Carey V. Stabler President, Little Rock University, Little Rock, Ark. | 1965 |
| Frederick P. Blanks ... Planter, Parkdale, Ark. | 1966 |
| Reeves E. Ritchie President, Arkansas Power & Light Company, Little Rock, Ark. | 1967 |

ANNUAL REPORT OF BOARD OF GOVERNORS

FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1965—Cont.

DIRECTORS—Cont. **District 8 — St. Louis — Cont.** *Term expires Dec. 31*

Louisville Branch

Appointed by Federal Reserve Bank:

| | | |
|-----------------------------|---|------|
| John H. Hardwick | President, The Louisville Trust Company, Louisville, Ky. | 1965 |
| Ray A. Barrett | President, The State Bank of Salem, Ind. | 1966 |
| Wm. G. Deatherage | President, Planters Bank & Trust Co., Hopkinsville, Ky. | 1966 |
| J. E. Miller | Executive Vice President, Sellersburg State Bank, Sellersburg, Ind. | 1967 |

Appointed by Board of Governors:

| | | |
|----------------------------|---|------|
| C. Hunter Green | Vice President and General Manager, Southern Bell Telephone and Telegraph Company, Louisville, Ky. | 1965 |
| Lisle Baker, Jr. | Executive Vice President & General Manager, The Courier-Journal & Louisville Times Company, Louisville, Ky. | 1966 |
| Richard T. Smith | Farmer, Madisonville, Ky. | 1967 |

Memphis Branch

Appointed by Federal Reserve Bank:

| | | |
|-------------------------------|--|------|
| Charles R. Caviness | President, National Bank of Commerce of Corinth, Miss. | 1965 |
| Allen Morgan | President, The First National Bank of Memphis, Tenn. | 1966 |
| Con T. Welch | President, Citizens Bank, Savannah, Tenn. | 1966 |
| Leon C. Castling | President, First National Bank at Marianna, Ark. | 1967 |

Appointed by Board of Governors:

| | | |
|------------------------------|---|------|
| Sam Cooper | President, HumKo Products Division, National Dairy Products Corporation, Memphis, Tenn. | 1965 |
| Edward B. LeMaster | President, Edward LeMaster Co., Inc., Memphis, Tenn. | 1966 |
| James S. Williams | Plant Manager, American Greetings Corporation, Osceola, Ark. | 1967 |

FEDERAL RESERVE SYSTEM

FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1965—Cont.

| DIRECTORS—Cont. | District 9 — Minneapolis | <i>Term expires Dec. 31</i> |
|---|--|-------------------------------------|
| <i>Class A:</i> | | |
| Curtis B. Mateer | Executive Vice President, The Pierre National Bank, Pierre, S. D. | 1965 |
| Harold C. Reffling | Executive Vice President, First National Bank in Bottineau, N. D. | 1966 |
| John F. Nash | President, The American National Bank of St. Paul, Minn. | 1967 |
| <i>Class B:</i> | | |
| John H. Toole | President, Toole and Easter, Missoula, Mont. | 1965 |
| Ray C. Lange | President, Chippewa Canning Company, Inc., Chippewa Falls, Wis. | 1966 |
| Joyce A. Swan | Executive Vice President & Publisher, Minneapolis Star and Tribune, Minneapolis, Minn. | 1967 |
| <i>Class C:</i> | | |
| Atherton Bean | Chairman of the Board, International Milling Company, Minneapolis, Minn. | 1965 |
| Judson Bemis | President, Bemis Bro. Bag Co., Minneapolis, Minn. | 1966 |
| Byron W. Reeve | President, Lake Shore, Inc., Iron Mountain, Mich. | 1967 |
| Helena Branch | | |
| <i>Appointed by Federal Reserve Bank:</i> | | |
| B. Meyer Harris | President, The Yellowstone Bank, Laurel, Mont. | 1965 |
| Charles H. Brocksmith | President, First Security Bank of Glasgow, N. A., Glasgow, Mont. | 1966 |
| Glenn H. Larson | President, First State Bank of Thompson Falls, Mont. | 1966 |
| <i>Appointed by Board of Governors:</i> | | |
| Edwin G. Koch | President, Montana School of Mineral Science and Technology, Butte, Mont. | 1965 |
| C. G. McClave | President and General Manager, Montana Flour Mills Co., Great Falls, Mont. | 1966 |

ANNUAL REPORT OF BOARD OF GOVERNORS

FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1965—Cont.

| DIRECTORS—Cont. | District 10 — Kansas City | <i>Term expires Dec. 31</i> |
|---|--|-------------------------------------|
| <i>Class A:</i> | | |
| Burton L. Lohmuller | President, The First National Bank of Cen- tralia, Kans. | 1965 |
| Eugene H. Adams | President, The First National Bank of Den- ver, Colo. | 1966 |
| Kenneth H. Peters | President, The First State Bank of Larned, Kans. | 1967 |
| <i>Class B:</i> | | |
| K. S. Adams | Chairman of the Board, Phillips Petroleum Company, Bartlesville, Okla. | 1965 |
| Fred W. Gilmore | President, Union Stock Yards Company of Omaha, Nebr. | 1966 |
| Robert A. Olson | President, Kansas City Power & Light Com- pany, Kansas City, Mo. | 1967 |
| <i>Class C:</i> | | |
| Dean A. McGee | Chairman of the Board, Kerr-McGee Oil Industries, Inc., Oklahoma City, Okla. | 1965 |
| Homer A. Scott | Vice President and District Manager, Peter Kiewit Sons' Company, Sheridan, Wyo. | 1966 |
| Dolph Simons | Editor and President, The Lawrence Daily Journal-World, Lawrence, Kans. | 1967 |
| Denver Branch | | |
| <i>Appointed by Federal Reserve Bank:</i> | | |
| Armin B. Barney | Chairman of the Board, Colorado Springs National Bank, Colorado Springs, Colo. | 1965 |
| J. P. Brandenburg | President, The First State Bank of Taos, N. Mex. | 1966 |
| Theodore D. Brown | President, The Security State Bank, Sterling, Colo. | 1966 |
| <i>Appointed by Board of Governors:</i> | | |
| Robert T. Person | President, Public Service Company of Colo- rado, Denver, Colo. | 1965 |
| R. A. Burghart | Ingle Land and Cattle Company, Colorado Springs, Colo. | 1966 |

FEDERAL RESERVE SYSTEM

FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1965—Cont.

DIRECTORS—Cont. **District 10 — Kansas City — Cont.** *Term expires Dec. 31*

Oklahoma City Branch

Appointed by Federal Reserve Bank:

| | | |
|-----------------------------|---|------|
| Howard J. Bozarth | President, City National Bank and Trust Company, Oklahoma City, Okla. | 1965 |
| Guy L. Berry, Jr. | President, The American National Bank and Trust Company, Sapulpa, Okla. | 1966 |
| C. M. Crawford | President, First National Bank, Frederick, Okla. | 1966 |

Appointed by Board of Governors:

| | | |
|----------------------------|--|------|
| James E. Allison | Consultant, Warren Petroleum Corporation, Tulsa, Okla. | 1965 |
| Otto C. Barby | Attorney and rancher, Beaver, Okla. | 1966 |

Omaha Branch

Appointed by Federal Reserve Bank:

| | | |
|----------------------------|--|------|
| R. E. Barton | President, The Wyoming National Bank of Casper, Wyo. | 1965 |
| Henry D. Kosman | Chairman of the Board and President, Scottsbluff National Bank, Scottsbluff, Nebr. | 1965 |
| W. B. Millard, Jr. | Chairman of the Board, Omaha National Bank, Omaha, Nebr. | 1966 |

Appointed by Board of Governors:

| | | |
|----------------------------------|--|------|
| John T. Harris | Merchant and cattleman, McCook, Nebr. | 1965 |
| Clifford Morris Hardin | Chancellor, The University of Nebraska, Lincoln, Nebr. | 1966 |

District 11 — Dallas

Class A:

| | | |
|-----------------------------|--|------|
| Ralph A. Porter | President, The State National Bank of Denison, Tex. | 1965 |
| Murray Kyger | Chairman of the Board, The First National Bank of Fort Worth, Tex. | 1966 |
| J. Edd McLaughlin | President, Security State Bank & Trust Company, Ralls, Tex. | 1967 |

ANNUAL REPORT OF BOARD OF GOVERNORS

FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1965—Cont.

| DIRECTORS—Cont. | District 11 — Dallas — Cont. | <i>Term expires Dec. 31</i> |
|-----------------|-------------------------------------|-------------------------------------|
|-----------------|-------------------------------------|-------------------------------------|

Class B:

| | |
|--|------|
| J. B. Perry, Jr. President and General Manager, Perry Brothers, Inc., Lufkin, Tex. | 1965 |
| D. A. Hulcy Chairman of the Board, Lone Star Gas Company, Dallas, Tex. | 1966 |
| H. B. Zachry President, H. B. Zachry Co., San Antonio, Tex. | 1967 |

Class C:

| | |
|--|------|
| Robert O. Anderson Owner, Lincoln County Livestock Company, Roswell, N. Mex. | 1965 |
| Max Levine Chairman of the Board, Foley's, Houston, Tex. | 1966 |
| Carl J. Thomsen Senior Vice President, Texas Instruments, Inc., Dallas, Tex. | 1967 |

El Paso Branch

Appointed by Federal Reserve Bank:

| | |
|---|------|
| Chas. B. Perry Chairman of the Board and President, First State Bank, Odessa, Tex. | 1965 |
| Dick Rogers President, First National Bank in Alpine, Tex. | 1966 |
| Robert W. Heyer President and Chief Executive Officer, Southern Arizona Bank & Trust Company, Tucson, Ariz. | 1966 |
| Robert F. Lockhart Vice President, The State National Bank of El Paso, Tex. | 1967 |

Appointed by Board of Governors:

| | |
|---|------|
| Roger B. Corbett President, New Mexico State University, University Park, N. Mex. | 1965 |
| C. Robert McNally, Jr. Rancher, Roswell, N. Mex. | 1966 |
| Gordon W. Foster President, Food Mart, Inc., El Paso, Tex. | 1967 |

FEDERAL RESERVE SYSTEM

FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1965—Cont.

| DIRECTORS—Cont. | District 11 — Dallas — Cont. | <i>Term expires Dec. 31</i> |
|---|---|-------------------------------------|
| | Houston Branch | |
| <i>Appointed by Federal Reserve Bank:</i> | | |
| M. M. Galloway | President, First Capitol Bank, West Columbia, Tex. | 1965 |
| J. A. Elkins, Jr. | Chairman of the Board, First City National Bank of Houston, Tex. | 1966 |
| John E. Gray | President, First Security National Bank of Beaumont, Tex. | 1966 |
| A. G. McNeese, Jr. | President, Bank of the Southwest National Association, Houston, Texas | 1967 |
| <i>Appointed by Board of Governors:</i> | | |
| D. B. Campbell | Works Manager, Sabine River Works, E. I. du Pont de Nemours & Company, Orange, Tex. | 1965 |
| Lovett C. Peters | Vice President—Transportation and Supplies, Continental Oil Company, Houston, Tex. | 1966 |
| Edgar H. Hudgins | Ranching—Partner in Hudgins Division of J. D. Hudgins, Hungerford, Tex. | 1967 |
| | San Antonio Branch | |
| <i>Appointed by Federal Reserve Bank:</i> | | |
| Dwight D. Taylor | Formerly President, Pan American State Bank, Brownsville, Tex. | 1965 |
| Forrest M. Smith | President, National Bank of Commerce of San Antonio, Tex. | 1966 |
| J. R. Thornton | Chairman of the Board and President, State Bank and Trust Company, San Marcos, Tex. | 1966 |
| Max A. Mandel | President, The Laredo National Bank, Laredo, Tex. | 1967 |
| <i>Appointed by Board of Governors:</i> | | |
| John R. Stockton | Professor of Business Statistics and Director of Bureau of Business Research, The University of Texas, Austin, Tex. | 1965 |
| G. C. Hagelstein | President and General Manager, Union Stock Yards San Antonio, Tex. | 1966 |
| Harold D. Herndon | Independent Oil Operator, San Antonio, Tex. | 1967 |

ANNUAL REPORT OF BOARD OF GOVERNORS

FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1965—Cont.

DIRECTORS—Cont. **District 12 — San Francisco** *Term expires Dec. 31*

Class A:

- M. Vilas Hubbard Chairman of the Board & Chief Executive Officer, Citizens Commercial Trust and Savings Bank of Pasadena, Calif. 1965
- Carroll F. Byrd Chairman of the Board and President, The First National Bank of Willows, Calif. 1966
- Charles F. Frankland . . Chairman of the Board & Chief Executive Officer, The Pacific National Bank of Seattle, Wash. 1967

Class B:

- Fred H. Merrill President, Fireman's Fund American Insurance Companies, San Francisco, Calif. 1965
- Joseph Rosenblatt Honorary Chairman of the Board, The Eimco Corporation, Salt Lake City, Utah 1966
- Marron Kendrick President, Schlage Lock Company, San Francisco, Calif. 1967

Class C:

- F. B. Whitman Director and Consultant, The Western Pacific Railroad Company, San Francisco, Calif. 1965
- John D. Fredericks Chairman of the Board & Chief Executive Officer, Pacific Clay Products, Los Angeles, Calif. 1966
- Frederic S. Hirschler . . President, The Emporium Capwell Company, San Francisco, Calif. 1967

Los Angeles Branch

Appointed by Federal Reserve Bank:

- Ralph V. Arnold President and Chairman of the Board, First National Bank and Trust Company, Ontario, Calif. 1965
- Douglas Shively President, Citizens State Bank of Santa Paula, Calif. 1966
- Harry J. Volk President, Union Bank, Los Angeles, Calif. 1966

Appointed by Board of Governors:

- Arthur G. Coons President, Occidental College, Los Angeles, Calif. 1965
- S. Alfred Halgren Vice President and Director, Carnation Company, Los Angeles, Calif. 1966

FEDERAL RESERVE SYSTEM

FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1965—Cont.

DIRECTORS—Cont. **District 12 — San Francisco — Cont.** *Term expires Dec. 31*

Portland Branch

Appointed by Federal Reserve Bank:

- E. J. Kolar President, The United States National Bank of Portland, Oreg. 1965
- E. M. Flohr President, The First National Bank of Wallace, Idaho 1966
- E. W. Firstenburg Chairman of the Board & President, First Independent Bank, Vancouver, Wash. . . . 1966

Appointed by Board of Governors:

- Graham J. Barbey President, Barbey Packing Corporation, Astoria, Oreg. 1965
- Robert F. Dwyer Lumberman, Portland, Oreg. 1966

Salt Lake City Branch

Appointed by Federal Reserve Bank:

- (Vacancy) 1965
- Alan B. Blood Executive Vice President, Barnes Banking Company, Kaysville, Utah 1966
- Newell B. Dayton Chairman of the Board, Tracy-Collins Bank & Trust Company, Salt Lake City, Utah. . 1966

Appointed by Board of Governors:

- Howard W. Price President, The Salt Lake Hardware Company, Salt Lake City, Utah 1965
- Peter E. Marble Rancher, Deeth, Nev. 1966

Seattle Branch

Appointed by Federal Reserve Bank:

- Maxwell Carlson President, The National Bank of Commerce of Seattle, Wash. 1965
- M. F. Hastings President, The First National Bank of Ferndale, Wash. 1966
- Chas. H. Parks Executive Vice President, Seattle-First National Bank, Spokane, Wash. 1966

Appointed by Board of Governors:

- William McGregor Vice President, McGregor Land and Live-stock Company, Hooper, Wash. 1965
- Robert D. O'Brien President, Pacific Car and Foundry Company, Seattle, Wash. 1966

ANNUAL REPORT OF BOARD OF GOVERNORS

FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1965

PRESIDENTS and VICE PRESIDENTS

| Federal Reserve Bank or branch | President First Vice President | Vice Presidents |
|--------------------------------|---------------------------------------|---|
| Boston | George H. Ellis E. O. Latham | D. Harry Angney Ansgar R. Berge R. W. Eisenmenger Luther M. Hoyle, Jr. Oscar A. Schlaikjer Charles E. Turner G. Gordon Watts Parker B. Willis |
| New York | Alfred Hayes William F. Treiber | Harold A. Bilby John J. Clarke Charles A. Coombs Marcus A. Harris Alan R. Holmes Robert G. Link Fred W. Piderit, Jr. Walter H. Rozell, Jr. Horace L. Sanford Thomas O. Waage Inasley B. Smith |
| Buffalo | | |
| Philadelphia | Karl R. Bopp Robert N. Hilkert | Hugh Barrie Joseph R. Campbell Norman G. Dash David P. Eastburn David C. Melnicoff Harry W. Roeder J. V. Vergari Richard G. Wilgus |
| Cleveland | W. Braddock Hickman Edward A. Fink | George E. Booth, Jr. Roger R. Clouse Phillip B. Didham Elmer F. Fricke John J. Hoy Harry W. Huning Fred S. Kelly Maurice Mann Clifford G. Miller Fred O. Kiel Clyde E. Harrell |
| Cincinnati Pittsburgh | | |
| Richmond | Edward A. Wayne Aubrey N. Heflin | Robert P. Black J. G. Dickerson, Jr. W. S. Farmer Upton S. Martin John L. Nosker J. M. Nowlan James Parthemos B. U. Ratchford R. E. Sanders, Jr. Joseph F. Viverette D. F. Hagner Stuart P. Fishburne E. F. MacDonald |
| Baltimore Charlotte | | |

FEDERAL RESERVE SYSTEM

FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1965
PRESIDENTS and VICE PRESIDENTS—Cont.

| Federal Reserve Bank or branch | President First Vice President | Vice Presidents | |
|--|--|--|--|
| Atlanta Birmingham Jacksonville Nashville New Orleans | Harold T. Patterson Monroe Kimbrel | Harry Brandt L. B. Raisty R. M. Stephenson E. C. Rainey T. A. Lanford R. E. Moody, Jr. M. L. Shaw | J. E. McCorvey Brown R. Rawlings Charles T. Taylor |
| Chicago Detroit | C. J. Scanlon Hugh J. Helmer | E. T. Baughman Paul C. Hodge C. T. Laibly H. J. Newman Harry S. Schultz | A. M. Gustavson L. H. Jones Richard A. Moffatt Leland M. Ross Bruce L. Smyth R. A. Swaney |
| St. Louis Little Rock Louisville Memphis | Harry A. Shuford Darryl R. Francis | Marvin L. Bennett Dale M. Lewis Joseph C. Wotawa John F. Breen Donald L. Henry E. Francis DeVos | Homer Jones Howard H. Weigel Orville O. Wyrick |
| Minneapolis Helena | Hugh D. Galusha, Jr. M. H. Strothman, Jr. | Kyle K. Fossum C. W. Groth M. B. Holmgren | John J. Gillette R. K. Grobel Franklin L. Parsons Clement A. Van Nice |
| Kansas City Denver Oklahoma City Omaha | George H. Clay Henry O. Koppang | Wilbur T. Billington Raymond J. Doll Carl F. Griswold, Jr. George D. Royer, Jr. Clarence W. Tow John W. Snider H. W. Pritz George C. Rankin | John T. Boysen J. R. Euans M. L. Mothersead R. E. Thomas |

ANNUAL REPORT OF BOARD OF GOVERNORS

FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1965—Cont.

PRESIDENTS and VICE PRESIDENTS—Cont.

| Federal Reserve Bank or branch | President First Vice President | Vice Presidents | |
|---|--|--|--|
| Dallas El Paso Houston San Antonio | Watrous H. Irons Philip E. Coldwell | Roy E. Bohne Ralph T. Green James A. Parker W. M. Pritchett | James L. Cauthen G. R. Murff T. W. Plant Thomas R. Sullivan Fredric W. Reed J. L. Cook Carl H. Moore |
| San Francisco Los Angeles Portland Salt Lake City Seattle | Eliot J. Swan H. E. Hemmings | J. L. Barbonchielli D. M. Davenport A. B. Merritt | J. Howard Craven E. H. Galvin C. H. Watkins P. W. Cavan W. M. Brown A. L. Price E. R. Barglebaugh |

CONFERENCE OF PRESIDENTS

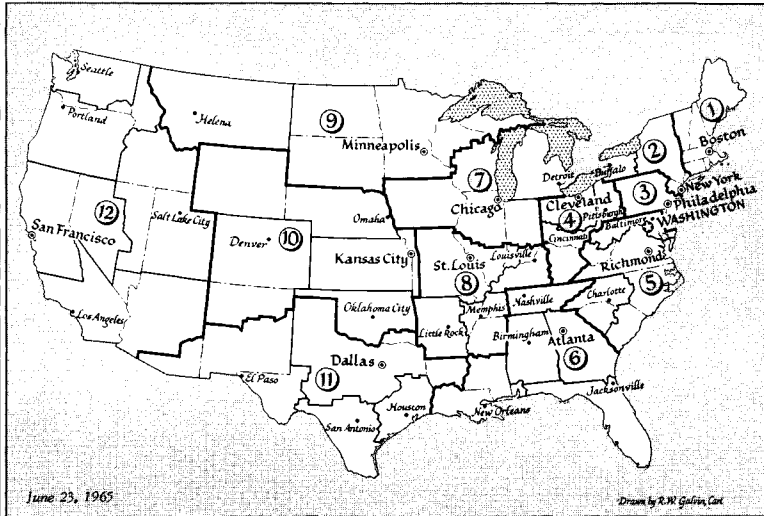
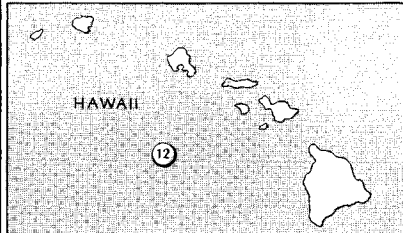
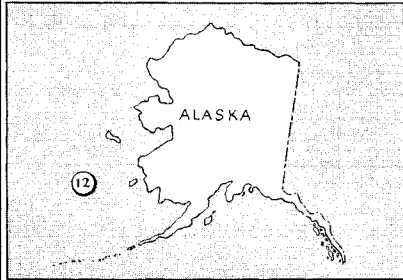
The Presidents of the Federal Reserve Banks are organized into a Conference of Presidents that meets from time to time to consider matters of common interest and to consult with and advise the Board of Governors.

Mr. Bopp, President of the Federal Reserve Bank of Philadelphia, and Mr. Wayne, President of the Federal Reserve Bank of Richmond, were elected Chairman of the Conference and Vice Chairman, respectively, in March 1965, and served in those capacities during the remainder of 1965.

Mr. Lawrence C. Murdoch, Jr., of the Federal Reserve Bank of Philadelphia and Mr. W. T. Cunningham, Jr., of the Federal Reserve Bank of Richmond were appointed Secretary of the Conference and Assistant Secretary, respectively, in March 1965, and served during the remainder of the year.

★ THE FEDERAL RESERVE SYSTEM ★

BOUNDARIES OF FEDERAL RESERVE DISTRICTS AND THEIR BRANCH TERRITORIES



Legend

- Boundaries of Federal Reserve Districts
- Boundaries of Federal Reserve Branch Territories
- Board of Governors of the Federal Reserve System
- Federal Reserve Bank Cities
- Federal Reserve Branch Cities

NOTE.—District and branch territories described in ANNUAL REPORT for 1953, p. 24; later changes in branch territories, in ANNUAL REPORT for 1954, p. 57, and in Federal Reserve *Bulletin* for January 1959, p. 17; September 1959, p. 1141; June 1964, p. 719; and July 1965, p. 957.

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