MINUTES

Board of Governors of the Federal Reserve System

December 10, 1971

Minutes of the Board of Governors of the Federal Reserve System on Friday, December 10, 1971. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Burns, Chairman 1/
Mr. Robertson, Vice Chairman
Mr. Mitchell
Mr. Maisel
Mr. Brimmer

Mr. Holland, Executive Director
Mr. Smith, Secretary
Mr. Bernard, Assistant Secretary
Mr. Hackley, Assistant to the Board
Mr. Molony, Assistant to the Board
Mr. Cardon, Assistant to the Board
Mr. Hexter, Assistant to the Board
Mr. Coyne, Special Assistant to the Board
Mr. O'Brien, Special Assistant to the Board
Mr. Solomon, Director, Division of Supervision and Regulation
Mr. Sanders, Deputy General Counsel
Mrs. Heller, Adviser, Legal Division
Mr. Axilrod, Associate Director, Division of Research and Statistics
Mr. Chase, Associate Director, Division of Research and Statistics
Mr. Norwood, Adviser, Division of International Finance
Mr. Gemmill, Associate Adviser, Division of International Finance
Mr. Leavitt, Deputy Director, Division of Supervision and Regulation
Mr. Dahl, Assistant Director, Division of Supervision and Regulation
Mr. Lyon, Assistant Director, Division of Supervision and Regulation
Miss Key, Technical Assistant, Office of the Secretary

Other appropriate members of the staff also attended portions of the meeting.

1/ Withdrew from meeting and reentered at points indicated in minutes.

Consent calendar. The Board unanimously approved an application of Marine Midland Bank-New York, New York, New York, for an extension of time within which to dispose of shares of Banco de Guayaquil, Guayaquil, Ecuador. A copy of the letter sent to the applicant is attached as Item No. 1.

This concluded consideration of the consent calendar.

Franklin National Bank. The Board unanimously approved an application of Franklin National Bank, Mineola, New York, to establish a branch in London, England. A copy of the letter sent to the applicant is attached as Item No. 2.

Chairman Burns and Mr. Holland then withdrew from the meeting.

Bamerical International Financial Corporation. The Board unanimously approved an application of Bamerical International Financial Corporation, San Francisco, California, to acquire shares of Metro-America C.A., Sociedad Financiera, a finance company to be formed in Caracas, Venezuela. A copy of the letter sent to the applicant is attached as Item No. 3.

Property management by holding companies. On September 7, 1971, the Board published for comment a proposal to add property management to the list of permissible activities for bank holding companies under section 4(c)(8) of the Bank Holding Company Act.

In a memorandum dated November 5, 1971, the Legal Division summarized comments received. Five requests for a hearing had been

received, and the Division recommended that a hearing be held. A draft notice of hearing was attached to the memorandum.

Discussion indicated agreement with the recommendation; however, Governor Maisel suggested that a list of the issues to be explored at the hearing be included in the notice.

The Board thereupon agreed that a hearing would be held before available members of the Board, and that the notice would be revised to incorporate Governor Maisel's suggestion. A copy of the notice published in the Federal Register is attached as Item No. 4.

Requests for hearings. In a memorandum dated December 9, 1971, the Legal Division presented requests for formal hearings on two bank holding company cases.

The Minnesota Commerce Commission, which is comprised of the State Banking Commissioner, the State Insurance Commissioner, and the State Securities Commissioner, recommended denial of the application of Northwest Bancorporation, Minneapolis, Minnesota, to acquire shares of Merchants State Bank of Stillwater, Stillwater, Minnesota, and requested a formal hearing on the case. At its meeting November 9, 1971, the Board had agreed that an oral presentation on the case would be held in Minneapolis, and the presentation had been scheduled for December 15, 1971.

Discussion indicated a general unwillingness to grant the request for a formal hearing, and it was suggested that the oral presentation might be postponed in order to give the Commerce Commission additional

time to prepare its comments. The staff was requested to confer with the Commission to determine if the proposed course of action would be satisfactory. However, it was agreed that if the Commission continued its request for a formal hearing the request would be granted. (Note: The Minnesota Commerce Commission continued its request for a formal hearing and an order for hearing was subsequently issued in the form attached as Item No. 5.)

In the December 9 memorandum the Legal Division also discussed requests for a formal hearing on the application of NCNB Corporation, Charlotte, North Carolina, to establish a de novo corporation in Camden, South Carolina, to engage in trust business. The application had been filed with the Federal Reserve Bank of Richmond, and after publication of the proposal the Reserve Bank had received several requests for a hearing.

The Legal Division noted that Regulation Y provides that in de novo cases the Board is not required to grant a hearing upon receipt of adverse comments. The Division recommended that the Board not have a formal hearing. However, if the Board felt that an informal hearing would be appropriate, the Division recommended that an oral presentation be held before staff of the Richmond Reserve Bank.

After discussion, the recommendation was approved. A copy of the letter sent to the Federal Reserve Bank of Richmond is attached as Item No. 6.

Chairman Burns and Mr. Holland returned to the meeting at this point.

Simplified procedures, Regulation Y. At its meeting on December 7, 1971, the Board considered a petition of the National Association of Insurance Agents for a stay of an amendment to Regulation Y, Bank Holding Companies, that established simplified procedures for a bank holding company applying to engage de novo in certain insurance agency and other activities. The amendment was adopted by the Board in August and became effective on September 1, 1971. The Association claimed that the procedure followed by the Board in promulgating the amendment violated the requirements of the Administrative Procedure Act and the Bank Holding Company Act. The Legal Division recommended denial of the petition for a stay for reasons set forth in a memorandum of November 24, it being the Division's opinion that the procedures followed with respect to the amendment met all statutory requirements and were not unfair to the petitioner, even though the amendment, as adopted, had not been published for comment.

At the December 7 meeting, Governor Maisel took exception to the procedures that had been followed. The revisions of the proposed rule making had not been published for comment, on the ground that the changes were liberalizing. It was true that they were liberalized as far as bank holding companies were concerned, but from the point of view of competitors in the insurance business they were more restrictive in

that they deprived those competitors of local notification of a prospective entry into the market. He suggested the desirability of reconsidering the simplified procedures to avoid such inequities.

The Legal Division had now explored alternative courses of action that the Board might follow upon reconsideration and presented its findings in a memorandum dated December 8, 1971.

Discussion at today's meeting developed a consensus for publishing for comment section 225.4(b)(1) and (3) with revisions that would require holding companies engaging de novo in insurance activities: (1) to publish notice of the proposed activity in a local newspaper and (2) to furnish the appropriate Reserve Bank with copies of the notice within 30 days of publication. It also was suggested that the simplified procedures be revised: (1) to require holding companies acquiring small finance companies to publish notice of the acquisition within 30 days after consummation of the transaction and (2) to allow a holding company to acquire under simplified procedures a finance company whose insurance involvement is limited to making available to its borrowers (at each borrower's option) credit life and/or credit disability insurance covering the balance on the borrower's debt, through a group insurance policy in which the finance company is the assured policyholder.

It was thereupon agreed that section 225.4 would be revised as suggested and published for comment and that the existing simplified procedures would be suspended pending consideration of the proposed

changes. It was understood that a notice of proposed rule making would be prepared and that it would be issued after clearance of suggested changes with Governor Maisel and other interested Board members.

Mortgage banking. On October 12, 1971, the Board considered the applications of (1) BTNB Corporation, Birmingham, Alabama, to acquire Cobbs, Allen & Hall Mortgage Company, Inc., Birmingham, and (2) First Chicago Corporation, Chicago, Illinois, to acquire I. J. Markin & Co., Chicago. It was decided that a hearing on mortgage cases then before the Board would be held, and the hearing was held on November 8, 1971. The Division of Supervision and Regulation now presented four mortgage banking cases for the Board's consideration, with its recommendations and those of the Banking Markets Section taking account of the information presented at the hearing. The four cases are described in the following entries.

1. First Union National Bancorp. In a memorandum dated December 8, 1971, the Division of Supervision and Regulation recommended approval of the application of First Union National Bancorp, Inc., Charlotte, North Carolina, to acquire Reid-McGee & Company, Jackson, Mississippi. The Banking Markets Section also recommended approval.

During discussion of the application Governor Brimmer raised a question about the public benefit of the proposed acquisition. He noted that the Board is required by law to disapprove such an application unless the possible adverse effects on competition are outweighed

by benefits to the public, and he said that in this case he felt that there would be adverse effects on competition that would not be outweighed by increased benefits to the public. In expressing agreement with Governor Brimmer, Governor Robertson said he felt that it was the Board's responsibility to promote competition, and that approval of this application would impede competition.

Governor Brimmer also pointed out that one of the applicant's subsidiaries, Cameron-Brown Company, ranked as the ninth largest mortgage company in the nation, and that Cameron-Brown clearly possessed the requisite expertise and resources to enter de novo any mortgage banking market in the United States.

Continuing discussion indicated that the members of the Board present were about evenly divided on the case, and action was deferred until a later meeting.

2. BTNB Corporation. In a memorandum dated October 5, 1971, the Division of Supervision and Regulation recommended denial of the application of BTNB Corporation, Birmingham, Alabama, to acquire Cobbs, Allen & Hall Mortgage Company, Inc., Birmingham, on grounds that the acquisition would have possible anticompetitive effects that would not be outweighed by significant public benefits. The Banking Markets Section also recommended denial.

The Board thereupon unanimously denied the application, with the understanding that an order reflecting that decision would be prepared for consideration.

3. First Chicago Corporation. In a memorandum dated October 4, 1971, the Division of Supervision and Regulation recommended approval of the application of First Chicago Corporation, Chicago, Illinois, to acquire I. J. Markin & Co., Chicago. It was the opinion of the staff that in this case there were few anticompetitive effects and few public benefits.

Discussion indicated that the members of the Board present were about evenly divided on the case. Chairman Burns said that he felt the staff was understating the public benefit in that commercial banks were doing a smaller mortgage business than they should be doing. By acquiring mortgage companies commercial banks could do more mortgage lending, and he felt this would constitute a public benefit that had not been considered by the staff. However, Governors Robertson and Brimmer thought that the anticompetitive effects of the proposed acquisition had not been given enough emphasis and that the benefits to the public would be very slight. They felt that in this case, as in the First Union National Bancorp case, the applicant should enter the market de novo rather than through acquisition.

The Board thereupon deferred action on the application until a later meeting.

4. Central National Chicago Corporation. In a memorandum dated December 8, 1971, the Division of Supervision and Regulation recommended approval of the application of Central National Chicago Corporation,

Chicago, Illinois, to acquire Union Realty Mortgage Co., Inc., Chicago. It was the opinion of the Banking Markets Section that the competitive effect of the proposed acquisition would be slightly adverse, but that the acquisition might benefit the public by increasing the amount of financial resources available to Union Realty and thus enabling it to compete more effectively with larger Chicago mortgage companies.

The Board unanimously approved the application, with the understanding that an order reflecting that decision would be prepared for consideration.

H. R. 11235. The Office of Management and Budget had requested the Board's views on H. R. 11235, a bill to subsidize the cost of home improvement credit. A draft reply had been prepared endorsing the general objective of the bill, but pointing out certain specific features of the bill that would affect its ultimate scope.

The Board unanimously approved the letter. A copy is attached as Item No. 7.

All members of the staff then withdrew except Messrs. Holland, Smith, and Burke.

Reserve Bank officer salaries. The Committee on Organization, Compensation, and Building Plans had distributed a memorandum dated December 8, 1971, proposing certain modifications in the guidelines for salary increases for Presidents and First Vice Presidents contained in the Board's letter of December 10, 1968. In order to conform with

the policy under Phase II, as set forth in the Board's letter of November 18, 1971, the Committee suggested some reduction in the amounts of the increases provided under the earlier guidelines. The Committee recommended that Reserve Banks be advised that while it was hoped that proposed increases would be 5 per cent or less, the Board would be willing to consider recommendations for increases of up to $3,000 for the year 1972 for eligible Presidents and increases of up to $2,000 for eligible First Vice Presidents.

The Committee's recommendation was approved. A copy of the letter sent to the Chairman of the Federal Reserve Bank of Boston is attached as Item No. 8; similar letters were sent to the Chairmen of other Reserve Banks where the President and/or First Vice President would have been eligible for an increase under the 1968 guidelines.

Mr. Burke then withdrew and Messrs. Bernard, Molony, and Axilrod returned to the meeting.

Discount rate. On December 9, 1971, the directors of the Federal Reserve Banks of St. Louis, Kansas City, and San Francisco had established, subject to review and determination by the Board of Governors, a rate of 4-1/2 per cent (a decrease from 4-3/4 per cent) on discounts for and advances to member banks under sections 13 and 13a of the Federal Reserve Act; a rate of 5 per cent on advances to member banks under section 10(b) of the Act; and a rate of 6-1/2 per cent on advances to individuals, partnerships, and corporations other than member banks under the last paragraph of section 13 of the Act.

It was reported by the staff that most short-term interest rates had declined on balance since November 10 when the previous reduction in the discount rate from 5 to 4-3/4 per cent was announced. Three-month Treasury bills currently were trading at around 4.10 per cent, down about 10 basis points over the interval, and rates on other short-term market securities typically had fallen 1/8 to 1/4 percentage point. Some commercial banks, which had adopted a floating prime rate, had reduced that rate to 5-1/4 or 5-3/8 per cent from the 5-1/2 per cent level prevailing on November 10. The largest short-term rate declines had occurred in the Federal funds market where recent trading had been at rates of around 4-3/8 to 4-1/2 per cent, down about 50 basis points from a month earlier.

According to the staff reports, growth in the narrowly defined money stock (M_1) and in total member bank reserves had remained sluggish in recent weeks and on balance these monetary aggregates had grown only slighly since mid-summer. On the other hand, the broadly defined money stock (M_2) and the bank credit proxy had continued to expand at a more substantial pace in recent weeks, as inflows of bank time and savings deposits had remained large.

Chairman Burns indicated that he was inclined to approve the proposed reduction in the discount rate at this time. In his view the present stance of monetary policy was not satisfactory in the light of the current economic situation. He was particularly concerned about

the sluggish growth in bank reserves in recent months and he also wanted to see more rapid expansion in M_1 whose growth had been well below the target path desired by the Federal Open Market Committee. He added that he had received many communications expressing apprehension about the state of the economy and the stance of monetary policy. Views regarding the outlook for the economy were markedly more pessimistic among businessmen than among economists.

Governor Mitchell said he saw a slight advantage in reducing the discount rate at this time. Such a reduction might have a marginally salutary effect on spending decisions if it helped to foster a view that interest rates were likely to remain at lower levels for some length of time. He was convinced, however, that an aggressive change in monetary policy would be needed to alter to any significant extent the pessimistic views currently prevailing among businessmen regarding the outlook for the economy. Chairman Burns indicated that he agreed with that assessment.

Governor Maisel said he felt the current stance of monetary policy was wrong. In particular, he did not feel that reserves had been supplied as amply in recent weeks as the Federal Open Market Committee had intended at its November 16 meeting. In this situation he felt a 1/4 point reduction in the discount rate would be of marginal benefit at best.

Governor Brimmer said he saw some advantages in delaying any reduction in the discount rate. On the international side, the foreign exchange markets were still unsettled and there were major uncertainties regarding the size and timing of dollar reflows in the event of an agreement on foreign exchange parities among the Group of Ten nations. With regard to the domestic financial situation, he hoped monetary policy would not be equated with the performance of M_1 whose sluggish growth was related to weakness in demand rather than to any curtailment in supply. The other monetary aggregates were behaving well in his view and he was not sure he would necessarily want to push for a more aggressive monetary policy at next Tuesday's meeting of the Federal Open Market Committee. In any event, he would be inclined to wait until after that meeting and also until the directors at additional Reserve Banks had had an opportunity to consider a reduction in the discount rate before the Board took any action.

Governor Robertson said he would favor approving the proposed discount rate change today. In his view the Federal Open Market Committee would be in a better position on Tuesday to move to a more appropriate policy if the Board had already acted to lower the discount rate.

In subsequent discussion Chairman Burns observed that a reduction in the discount rate today would serve to signal the Board's concern about the present stance of monetary policy and would set the stage for consideration of a move to a more aggressive monetary policy at the

meeting of the Federal Open Market Committee on Tuesday. In his view the Manager of the System Open Market Account had interpreted the directive issued at the November 16 meeting of the Committee too conservatively and had not eased money market conditions sufficiently in the light of continued shortfalls in the growth rates of bank reserves and M_1 below the target paths desired by the Committee.

Governor Mitchell agreed that if the Committee was tending toward a more aggressive policy, it would be desirable to reduce the discount rate today. Governor Maisel said he would prefer to wait until after the meeting on Tuesday before taking any action, but he would vote in favor of the proposed reduction today if that was the preference of the other members of the Board. Governor Brimmer indicated that he would not cast a dissenting vote despite his preference for taking action at a later date.

Accordingly, the Board approved unanimously, effective Monday, December 13, 1971, the following rates for the Federal Reserve Banks of St. Louis, Kansas City, and San Francisco and for any other Reserve Bank whose directors acted today to establish such rates: 4-1/2 per cent on advances to and discounts for member banks under sections 13 and 13a of the Federal Reserve Act; 5 per cent on advances to member banks under section 10(b) of the Act; and 6-1/2 per cent on advances to individuals, partnerships, and corporations other than member banks under the last paragraph of section 13 of the Act. (Note: Advice was received later

during the day that the directors of the Boston Bank had established the same rates.)

The Secretary was authorized to advise other Reserve Banks whose directors acted after today to establish the rates on advances and discounts approved by the Board today of the approval of such action. (Note: Pursuant to this authorization, the Secretary advised Reserve Banks of the approval of such rates as follows: New York, Philadelphia, Cleveland, and Chicago, effective December 17, 1971; Atlanta and Minneapolis, effective December 23, 1971; and Richmond and Dallas, effective December 24, 1971.)

The staff was requested to prepare a draft of press release on the discount rate action for Board consideration at a meeting to be held at 2:00 p.m. this afternoon.

All members of the staff except Mr. Holland then withdrew and Mr. McIntosh, Director, Division of Federal Reserve Bank Operations, entered.

Governor Robertson presented a draft letter to Mr. John K. Carlock, Fiscal Assistant Secretary, Department of Treasury, proposing that unfit currency be cut longitudinally immediately after cancellation. After a brief discussion, the proposed letter was approved. A copy is attached as Item No. 9.

The meeting then recessed and reconvened in the Board Room at 2:00 p.m. with Chairman Burns and Governors Robertson, Mitchell, Maisel,

and Brimmer present and the following staff members: Messrs. Holland, Smith, Bernard, Broida, Molony, and Axilrod.

Discount rate. Consideration was given to the text of the press release announcing today's action on the discount rate. It was agreed that the announcement should be worded in less neutral fashion than the press releases issued on the occasion of previous reductions in the discount rate over the past year. After discussion, the Board authorized the issuance of a press release in the form attached as Item No. 10.

The meeting then adjourned.

(Note: The White House today announced that it had accepted the resignation of Governor Sherrill as a member of the Board, effective November 15, 1971. Attached under Item No. 11 are copies of Governor Sherrill's letter of resignation and the President's letter accepting the resignation.)

Tyman Smith
Secretary

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

Item No. 1
12/10/71

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 10, 1971

Marine Midland Bank-New York
140 Broadway
New York, New York 10015

Gentlemen:

As requested in your letter of November 8, 1971, the Board of Governors extends until December 1, 1972, the time within which your bank may dispose of the shares of Banco de Guayaquil, Guayaquil, Ecuador, which were acquired pursuant to the provisions of Section 213.4(a) of Regulation M.

Very truly yours,

(Signed) Tynan Smith

Tynan Smith
Secretary of the Board

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

Item No. 2
12/10/71

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 10, 1971

Franklin National Bank
199 Second Street
Mineola, New York 11501

Gentlemen:

The Board of Governors of the Federal Reserve System grants its permission for Franklin National Bank, Mineola, New York, pursuant to the provisions of Section 25 of the Federal Reserve Act to establish a branch in London, England, and to operate and maintain such branch subject to the provisions of such Section and of Regulation M.

Unless the branch is actually established and opened for business on or before January 1, 1973, all rights granted hereby shall be deemed to have been abandoned and the authority hereby granted will automatically terminate on that date.

In passing upon your application for this branch, the Board considered the over-all condition of your bank, particularly the large volume of assets classified and specially mentioned by examiners in recent reports of examination in relation to the bank's relatively low capital position. It is the Board's understanding that strenuous efforts are being made by the bank to reduce the volume of problem assets and that the bank's parent holding company has recently contributed $30,000,000 to the bank's surplus account. It is also understood that the proposed branch in London will be moderate in terms of staffing, quarters, and the volume of business to be conducted. The Board will have a continuing special interest in the operation of the branch and of the progress made by the bank in reducing the volume of problem assets and in otherwise improving the condition of the bank.

Please advise the Board of Governors, through the Federal Reserve Bank of New York, when the branch is opened for business, furnishing information as to the exact location of the branch. The Board should also be promptly informed of any future change in location of the branch in London.

With respect to the establishment of foreign branches, funds provided by home office (whether in the form of allocated capital, advances, or otherwise) should be regarded as foreign assets for purposes of the foreign credit restraint effort. In view of the Board's concern with minimizing the impact of foreign investments on the balance of payments, the above consent is given with the understanding that in the conduct of the branch's operations, maximum reliance will be placed on resources obtained outside the United States. Accordingly, it is understood that any investment required will be made within the Foreign Credit Restraint Guidelines as they apply to your bank and its affiliates.

Very truly yours,

(Signed) Tynan Smith

Tynan Smith
Secretary of the Board

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

Item No. 3
12/10/71

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 10, 1971

Bamerical International Financial Corporation
555 California Street - 2nd floor
San Francisco, California 94104

Gentlemen:

As requested in your letters of September 15 and October 20, 1971, the Board of Governors grants consent for your Corporation ("BIFC") to purchase and hold up to 40 per cent of the stock of Metro-America C.A., Sociedad Financiera ("METAM"), a finance company to be formed in Caracas, Venezuela, at a cost of approximately Bolivares 4,000,000 (about $888,889), provided the shares are acquired within one year from the date of this letter.

It is noted that while BIFC will not hold a majority of the stock of METAM, nor appoint a majority of METAM's directors, it will appoint the director manager, who will have control of the daily operations of METAM.

In view of this, the Board's consent to the proposed purchase and holding of shares of METAM by BIFC is granted subject to the following conditions:

(1) That BIFC shall not hold, directly or indirectly, any shares of stock in METAM if METAM at any time fails to restrict its activities to those permissible to a corporation in which a corporation organized under Section 25(a) of the Federal Reserve Act could, with the consent of the Board of Governors, purchase and hold stock, or if METAM establishes any branch or agency or takes any action or undertakes any operation in Venezuela or elsewhere, in any manner, which at the time would not be permissible to BIFC;

(2) That, when required by the Board of Governors, BIFC will furnish the Board with such reports regarding the activities of METAM as it may require from time to time; and

(3) That any share acquisitions or dispositions by METAM be reported under Section 211.8(d) of Regulation K in the same manner as if METAM were a corporation organized under Section 25(a) of the Federal Reserve Act.

Subject to continuing observation and review, the Board suspends, until further notice, the provisions of subparagraph (1) of the immediately preceding paragraph of this letter so far as they relate to restrictions (i) on loans granted by METAM in Venezuela in the currency of that country and (ii) on the issuance of obligations with maturities in excess of one year, provided the obligations are not issued in the United States or guaranteed by BIFC or any of its affiliates.

Upon completion of the proposed acquisition, it is requested that the Board of Governors be furnished, through the Federal Reserve Bank of San Francisco, with copies of Articles of Association, Memorandum of Association, and By-Laws of METAM.

The foregoing consent is given with the understanding that the investment will be made within the Foreign Credit Restraint Guidelines as they apply to Bank of America National Trust and Savings Association and its affiliates.

Very truly yours,

(Signed) Tynan Smith

Tynan Smith
Secretary of the Board

Item No. 4
12/10/71

FEDERAL RESERVE SYSTEM

[12 CFR PART 225]

[Reg. Y]

BANK HOLDING COMPANIES

Notice of Hearing Regarding Property Management Activities

By notice published in the Federal Register on September 14, 1971 (36 F.R. 18427), the Board of Governors proposed to add to the list of activities that it has determined to be closely related to banking or managing or controlling banks (§ 225.4(a) of Regulation Y) the following: "performing property management services."

The National Association of Real Estate Boards has asked for a hearing on this matter. The Board has directed that such a hearing be held before available members of the Board in the Board Room of its building on 20th Street and Constitution Avenue, N.W., Washington, D. C. on January 26, 1972, beginning at 10:00 a.m.

Among the issues that will be explored at the hearing is whether bank holding company activities in the area of property management should be limited to any one or more of the following:

(a) properties held in a fiduciary capacity;

(b) properties owned by the holding company or its subsidiaries for conducting its own bank and bank related operations;

(c) properties acquired by the holding company or a subsidiary as a result of a default on a loan;

(d) farm management;

(e) properties that are part of a land redevelopment program;

(f) management of office buildings and other business or industrial properties;

(g) management of single and multi-family apartment buildings; or

(h) management of the air rights above, or the oil and mineral rights below a parcel of land.

Interested persons are invited to participate by presenting their views on all issues raised by the pending proposal. Interested persons need not participate in the hearing through oral presentation in order to have their views considered. All views previously expressed in written comments on the pending proposal are under consideration by the Board and are available for inspection and copying in Room 1020 of the Board's building.

Persons interested in participating in the hearing by presenting material orally should inform the Secretary of the Board in writing not later than January 7, 1972. Each person admitted as a party to the proceeding will be given up to 30 minutes to present his views.

Anyone wishing to submit written comments on issues raised at the hearing may do so at any time before the close of business February 16, 1972.

By order of the Board of Governors, December 21, 1971.

(Signed) Tynan Smith

Tynan Smith
Secretary of the Board

[SEAL]

Item No. 5
12/10/71

FEDERAL RESERVE SYSTEM

NORTHWEST BANCORPORATION

ORDER FOR HEARING

On August 3, 1971, there was published in the Federal Register (36 Federal Register 14285) a notice of receipt by the Board of Governors of an application filed pursuant to section 3(a) of the Bank Holding Company Act of 1956 (12 U.S.C. 1842(a)) by Northwest Bancorporation, Minneapolis, Minnesota, for prior approval by the Board of action whereby Applicant would acquire 90 per cent or more of the voting shares of Farmers and Merchants State Bank of Stillwater, Stillwater, Minnesota. The notice advised that the application was available for study at the office of the Board of Governors and the Federal Reserve Bank of Minneapolis, and designated a period within which comments and views on the proposed acquisition could be filed with the Board.

In view of the numerous comments on the proposal received, it appeared to the Board that it was in the public interest that there be conducted a public oral presentation at which views and comments with respect to this application might be presented. Accordingly, on November 18, 1971, there was published in the Federal Register (36 Federal Register 22027) notice of a public oral presentation to be held in Minneapolis. Subsequently, the Commerce Commission of the State of Minnesota unanimously recommended that the Board deny the application and requested a formal hearing.

The Board has concluded that such a request is in the public interest and, pursuant to section 262.3(f) of the Board's Rules of Procedure (12 CFR 262.3(f)) a public hearing will be held with respect to this application and the factors specified in § 3 of the Holding Company Act, commencing at 10:00 a.m. on February 28, 1972, at the Federal Reserve Bank of Minneapolis, 73 South Fifth Avenue, Minneapolis, Minnesota, before Mr. Dent Daldy, who has been designated hearing examiner.

Any person desiring to give testimony, present evidence, or otherwise participate in these proceedings should file with the Secretary, Board of Governors of the Federal Reserve System, Washington, D. C. 20551, on or before January 14, 1972, a written request containing a statement of the nature of the petitioner's interest in the proceedings, the extent of the participation desired, a summary of the matters concerning which petitioner wishes to give testimony or submit evidence, and the names and identity of witnesses who propose to appear. Requests will be presented to the hearing examiner for his determination, and persons submitting them will be notified of his decision.

By order of the Board of Governors, December 20, 1971.

(Signed) Tynan Smith

Tynan Smith
Secretary of the Board

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

Item No. 6
12/10/71

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 15, 1971

Mr. Aubrey N. Heflin, President
Federal Reserve Bank of Richmond
Richmond, Virginia 23261

Dear Mr. Heflin:

This refers to the letter of November 12, 1971 from Mr. Nosker, Vice President, to the Board concerning the application under § 4(c)(8) of the Bank Holding Company Act of NCNB Corporation, Charlotte, North Carolina, to establish a de novo corporation in Camden, South Carolina, to engage in the trust business.

The Board has considered the various protests filed in connection with that application and believes it desirable that such officials of your Bank as you may find appropriate conduct a public oral presentation to explore the nature of the objections raised. The Board intends to decide the application and would appreciate a report on the presentation together with your analysis of and recommendation on the application.

Please direct questions, if any, to Mr. Greenspan of the Board's Legal Division (ext. 265).

Very truly yours,

(Signed) Tynan Smith

Tynan Smith
Secretary

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

Item No. 7
12/10/71

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 10, 1971

Mr. Wilfred H. Rommel
Assistant Director for
Legislative Reference
Office of Management and Budget
Washington, D. C. 20503

Dear Mr. Rommel:

This is in response to the recent request of the Office of Management and Budget for priority treatment of the Board's views on H.R. 11235, "to further achievement of the national housing goal by providing a source of credit for home improvement loans within the financial means of families of middle income."

To conserve, as well as to enhance, the quality of our national resource represented by the vast stock of existing housing is obviously an important objective for public policy. However, in the absence of any comprehensive analysis of credit gaps in this area and costs of, and results from, on-going programs, the Board is not in a position to judge the need for an additional program of the potential scope that would be authorized by H.R. 11235.

The Board would like to point out issues raised by two features of the draft bill that would affect its ultimate scope. One concerns the definition of potential beneficiaries of interest-rate assistance. By basing eligibility solely on the test of whether income is no higher than the median, the bill would qualify more than one-half of the nation's owner-occupant families for assistance, without posing any additional tests of eligibility such as asset holdings, condition or suitability of present dwelling accommodations, or ability to maintain satisfactory quarters without benefit of Federal assistance. This proposed broad definition

of eligibility for loans at below-market interest rates stands in contrast to the limited amount of resources that will inevitably be available for subsidy payments.

Also, the bill provides no definition of eligible home improvement loans or of eligible families. Nor does it set any special limit on the maximum size or maturity of subsidized home improvement loans not insured by the Federal Housing Administration, or on the minimum age of dwelling units eligible for such assistance.

Very truly yours,

(Signed) Tynan Smith

Tynan Smith
Secretary of the Board

Item No. 8
12/10/71

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

December 15, 1971

Dear Jim:

Under the outstanding letter of December 10, 1968, from Chairman Martin to each Chairman, certain Presidents and First Vice Presidents would be eligible for a pay increase this year. The Board of Governors, as you know and as we have discussed, has taken a position strongly in support of the Phase II program and in effect limited expenditures for wages and salaries to 5 percent of the salary base as earlier defined. Perhaps you will recall the remarks at the recent Conference of Chairmen and Deputy Chairmen in which Governor Maisel characterized the thinking within the Board of Governors as to the importance, at this critical time, of the public posture of the System in relation to the Phase II program. Pursuant then to these kinds of considerations, the Board of Governors has determined that the current guidelines on salary increases for Presidents and First Vice Presidents should be modified.

The Board will look to each Chairman for salary recommendations for men at these levels as in the past. While it is hoped that such proposals would be 5 percent or less, the Board is willing to consider recommendations of up to $3,000 for the year 1972 for President Morris. The First Vice President in your Bank would not be eligible this year under the existing guidelines.

This modified approach is effective for this review period only and will be reassessed next year.

Sincerely yours,

Arthur F. Burns

Mr. James S. Duesenberry, Chairman
Federal Reserve Bank of Boston
30 Pearl Street
Boston, Massachusetts 02106

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

Item No. 9
12/10/71

OFFICE OF THE VICE CHAIRMAN

December 10, 1971

Mr. John K. Carlock
Fiscal Assistant Secretary
Department of the Treasury
Washington, D.C. 20220

Dear John:

Thank you for your prompt response to my letter concerning the joint Federal Reserve-Treasury study of the currency verification and destruction operation. I am advised that the study is now under way and that all aspects of the operation are being thoroughly reviewed. Understandably, it will be sometime before this effort can be completed and the resulting recommendations are implemented.

As was mentioned to you previously, the Board is deeply concerned over recent developments, particularly since it has now been demonstrated that cancelled notes can be circulated outside the Federal Reserve Banks. In the interest of strengthening our existing operation, and until such time as a better method can be found, the Board requests that the Reserve Banks and Branches be directed by the Treasury Department to begin cutting unfit currency longitudinally immediately after cancellation and that they be directed to do so promptly where facilities are available and elsewhere as soon as the necessary arrangements can be made.

I also understand that the Treasury Department is considering requiring a member of the Audit Staff to witness all currency cancellation, verification, and destruction operations as an interim measure. We would find this measure acceptable on that basis.

I would appreciate your prompt consideration of the above requests.

Sincerely,

(signed)J. L. Robertson

J. L. Robertson

Item No. 10
12/10/71

For immediate release. December 10, 1971.

The Board of Governors of the Federal Reserve System today approved actions by the directors of the Federal Reserve Banks of Boston, St. Louis, Kansas City, and San Francisco, reducing the discount rate of those banks from 4-3/4 per cent to 4-1/2 per cent, effective Monday, December 13.

The action was taken in recognition of the prevailing levels of market interest rates and to assist the progress of economic expansion.

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

Item No. 11
12/10/71

WILLIAM W. SHERRILL
MEMBER OF THE BOARD

November 15, 1971

My dear Mr. President:

I respectfully submit my resignation as a Member of the Board of Governors of the Federal Reserve System. It has been a privilege to serve in this position, and my decision to leave has been reached after careful consideration and with much reluctance.

It has been a genuine pleasure serving with Dr. Arthur Burns and my other colleagues, all men of unusual competence, and I shall miss their association. Dr. Burns' appointment as Chairman of the Federal Reserve Board will be marked, I believe, as one of the best appointments made by any President.

May I say that your courageous leadership in moving the nation toward economic stability has been a source of inspiration to me, Mr. President. As a private citizen, I hope to provide you continuing support as you carry the heavy burdens of your office. You may be sure that government service has made me recognize more clearly than most citizens how very much we all depend upon you.

Faithfully yours,

William W. Sherrill

William W. Sherrill

The President
of the United States
The White House
Washington, D. C.

THE WHITE HOUSE

WASHINGTON

DEC 10 1971

Dear Mr. Sherrill:

Your letter of November 15 has come to my attention, and as you have requested, I accept your resignation as a Member of the Board of Governors of the Federal Reserve System, effective November 15, 1971.

Your distinguished service in government, first as Director of the Federal Deposit Insurance Corporation and then for four years as a Member of the Board, has justly earned you the gratitude and admiration of every American. You have discharged your exacting responsibilities with great skill and dedication, and I have especially valued your important contributions and support during the past few months in our efforts to revitalize the nation's economy.

As you return to private life, you may be certain that I am pleased to join with your many friends and colleagues here in extending my warm wishes for continued success and happiness in the years ahead.

Sincerely,

Richard Nixon

Honorable William W. Sherrill
1011 Savile Lane
McLean, Virginia 22101