

Minutes for June 16, 1960

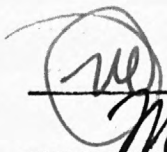
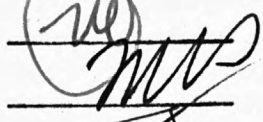
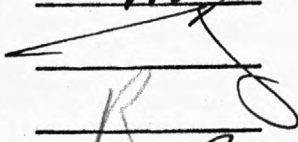
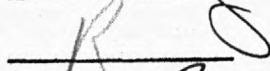
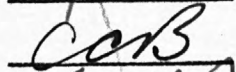
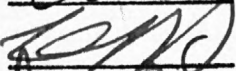
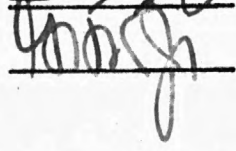
To: Members of the Board

From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, please initial below. If you were present at the meeting, your initials will indicate approval of the minutes. If you were not present, your initials will indicate only that you have seen the minutes.

Chm. Martin	<u></u>
Gov. Szymczak	<u></u>
Gov. Mills	<u></u>
Gov. Robertson	<u></u>
Gov. Balderston	<u></u>
Gov. Shepardson	<u></u>
Gov. King	<u></u>

Minutes of the Board of Governors of the Federal Reserve System  
on Thursday, June 16, 1960. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman  
Mr. Balderston, Vice Chairman  
Mr. Szymczak  
Mr. Mills  
Mr. Robertson

Mr. Sherman, Secretary  
Mr. Hackley, General Counsel  
Mr. Masters, Associate Director, Division of  
Examinations  
Mr. Hexter, Assistant General Counsel  
Mr. Furth, Associate Adviser, Division of  
International Finance  
Mr. Nelson, Assistant Director, Division of  
Examinations  
Mr. Goodman, Assistant Director, Division of  
Examinations  
Mr. Landry, Assistant to the Secretary  
Mr. Hooff, Assistant Counsel  
Mr. Young, Assistant Counsel  
Mr. Poundstone, Review Examiner, Division of  
Examinations  
Mr. Potter, Legal Assistant

Items circulated to the Board. The following items, which had  
been circulated to the Board and copies of which are attached to these  
minutes under the respective item numbers indicated, were approved  
unanimously:

	<u>Item No.</u>
Letter to the Chase International Investment Corporation, New York City, approving an extension of time within which shares of Nigerian Textile Mills Limited may be acquired by Arcturus Investment & Development, Ltd.	1
Letter to the Federal Reserve Bank of Chicago approving the payment of salaries to the Bank's electricians at specified rates.	2
Letter to the Cudahy Marine Bank, Cudahy, Wisconsin, approving an investment in bank premises.	3

6/16/60

Production in United States courts of records of foreign branches of American banks. A memorandum from Messrs. Furth, Poundstone, and Walter Young had been circulated under date of June 2, 1960, recommending deferral of further staff study of questions involving the production in United States courts of records of foreign branches of American banks. The memorandum referred to Board consideration on January 15, 1960, of a question arising in connection with a suit brought by the Internal Revenue Service to determine the tax liability of a corporation that was a customer of The First National City Bank of New York's branch in the Republic of Panama. The United States Court of Appeals for the Second Circuit had ruled that First National City must produce its branch's records relating to the particular customer. First National City petitioned the Supreme Court for a writ of certiorari and requested the Board, if inquiry was made from the Department of Justice or the Treasury, to state that it would be in the public interest for the Supreme Court to grant the writ. It was noted further in the memorandum that the Board decided that any such inquiry should be answered by a statement that the Board had no views to express in the matter, since it involved questions beyond the Board's authority and interest. Subsequently, the Supreme Court denied the petition for a writ of certiorari on January 25, 1960, (361 U.S. 948).

Mr. Furth referred to the fact that at its January 15 meeting the Board concluded that the question of production in court of records of foreign branches of American banks should be studied and that the views of the Comptroller of the Currency and other interested agencies should

6/16/60

-3-

be obtained because First National City had indicated an intention to go to Congress to seek a change in the law should the Supreme Court deny its petition for a writ or should it grant the writ and later agree with the decision of the United States Court of Appeals. He said that conversations had been held on this matter with the Comptroller's Office, which had already discussed the problem with the General Counsel of the Treasury, with the result that both the Comptroller's Office and the Treasury Department agreed to take no steps to encourage a review of the case by the Supreme Court. Mr. Furth went on to say that at a meeting on June 1, 1960, concerning another matter, which had been attended by Governor Szymczak and staff members, with Mr. Wriston, Senior Vice President of First National City, and Mr. Harfield of the bank's counsel, Mr. Wriston disclosed that the bank had reopened the question before the District Court to establish that the production of the records would contravene the laws of Panama. At present Mr. Wriston had no intention to ask the Congress for a change in the law. Under these circumstances, Mr. Furth said it was believed premature to enter into a further study of the problems involved, wherein two principles seemed to be in conflict: on the one hand, the Board was interested in maintaining the position that the United States authorities had jurisdiction of foreign branches of United States banks; on the other hand, the Board was interested in preventing such branches from suffering competitive disadvantages. Mr. Furth said that it would depend on the exact circumstances of a case which of these two principles would be of overriding importance.

6/16/60

Following discussion, the recommendation of Messrs. Furth, Poundstone, and Young that further staff study be deferred of questions involving the production in the United States courts of records of foreign branches of American banks was approved unanimously.

Application to acquire Virgin Islands National Bank, St. Thomas, Virgin Islands (Items 4 through 7). There had been distributed a memorandum dated June 14, 1960, from the Division of Examinations recommending approval of an application by The First Pennsylvania Banking and Trust Company, Philadelphia, Pennsylvania, for permission to acquire the stock of Virgin Islands National Bank, Charlotte Amalie, St. Thomas, Virgin Islands, it being noted that the Philadelphia Reserve Bank had also recommended approval of this application. In a letter dated June 8, 1960, to the Board the Office of the Comptroller of the Currency had offered no objection to the Board's giving its approval to the proposal, provided that no restrictions were imposed on the national bank other than the restrictions to which it was already subject as a national bank. Approval of the application had also been indicated by the Pennsylvania Secretary of Banking subject to certain conditions in a letter dated May 27, 1960, to counsel for First Pennsylvania. To the memorandum from the Division of Examinations were attached draft letters and an agreement as follows:

- (a) Letter to be sent to The First Pennsylvania Banking and Trust Company, Philadelphia, Pennsylvania, following execution by Virgin Islands National Bank, Charlotte Amalie, St. Thomas, Virgin Islands, of an appropriate agreement

6/16/60

-5-

with the Board granting First Pennsylvania permission, subject to all of the provisions of sections 9 and 25 of the Federal Reserve Act, to purchase and hold substantially all of the 5,000 shares of stock of the national bank at a cost not to exceed \$1,650,000.

- (b) Form of agreement between the Board and Virgin Islands National Bank to be executed in quadruplicate by the latter.
- (c) Letter to the Virgin Islands National Bank granting it permission under section 10(b) of the Board's Regulation K, Corporations Doing Foreign Banking or Other Foreign Financing Under the Federal Reserve Act, to exceed the prescribed limits regarding aggregate outstanding liabilities in relation to its capital and surplus, providing a satisfactory liquidity condition is maintained.
- (d) Letter to the Comptroller of the Currency transmitting copies of the foregoing and commenting thereon.
- (e) Letter to The First Pennsylvania Banking and Trust Company granting a determination that it will not be deemed to be a holding company affiliate for any purposes other than those of section 23A of the Federal Reserve Act and will not need a voting permit in order to vote the bank stock it proposes to acquire.

Mr. Goodman observed that the instant application was a novel one since it provided for the acquisition by First Pennsylvania of all the shares of a national bank, which would then be continued in operation pursuant to an agreement with the Board of Governors under section 25 of the Federal Reserve Act, which authorizes a member bank to invest in the stock of a bank "chartered or incorporated under the laws of the United States . . . , and principally engaged in . . . banking in a dependency or insular possession of the United States . . . ." For this reason, Mr. Goodman said, there was attached to the memorandum of the Division of Examinations a proposed agreement to be executed by the national bank

6/16/60

-6-

similar to agreements between the Board and other corporations operating pursuant to section 25. He noted that the reason for the acquisition of the national bank in this manner had been dictated by the fact that as a Pennsylvania institution, First Pennsylvania could not conduct a banking business in the Virgin Islands directly nor could it own a Virgin Islands banking corporation. Furthermore, it was understood that the national bank would not transfer its business to an Edge corporation. He noted also that upon acquisition of a majority of shares of the Virgin Islands National Bank, First Pennsylvania would become a "holding company affiliate" of the national bank. Consequently, First Pennsylvania had requested the Board for a section 301 determination that First Pennsylvania would not 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, within the meaning of section 2(c) of the Banking Act of 1933, as amended. Should this be done, Mr. Goodman said, First Pennsylvania would not be deemed to be a holding company affiliate for any purposes other than those under section 23A of the Federal Reserve Act, and would not need a voting permit from the Board to vote the bank stock it proposed to acquire, although, as was usual in granting such determinations, First Pennsylvania would be informed that the Board reserved the right to rescind the determination at any time on the basis of the then existing facts. He concluded by noting that a condition prescribed by the Pennsylvania Department of Banking required that the premium represented by the excess of acquisition cost of shares of

6/16/60

the national bank over their book value be charged off by First Pennsylvania in equal amounts over a period of five years. The proposed letter to First Pennsylvania that was also attached to the memorandum of the Division of Examinations would require the immediate elimination of this premium at time of purchase.

Mr. Farrell, Director, Division of Bank Operations, joined the meeting at this point.

Mr. Hexter said that this was a situation in which the Board and the Comptroller's Office would have overlapping jurisdiction. Although this was presently the case so far as supervision of domestic national banks was concerned, no conflict had arisen because the supervisory purpose of both agencies had been the same, namely, promotion of sound banking. In the present case, however, there was a possibility of conflict with respect to the agreement corporation that would be set up because of divergent objectives inherent in the fact that the Comptroller's Office would continue to be interested primarily in the sound banking aspects of the operations of the Virgin Islands National Bank, whereas the Board would also be interested in promoting the foreign commerce of the United States. Secondly, it surprised him that the Comptroller's Office did not object to a condition prescribed by the Pennsylvania Banking Department that there be made available to the latter the reports of examination of the national bank made by the national bank authorities as well as correspondence between the national bank and the supervisory authority relative thereto.



6/16/60

-8-

Mr. Hackley said that he also was struck by the novelty of a national bank becoming an agreement corporation under section 25 of the Federal Reserve Act, although the Legal Division was satisfied that this fell within the language of the statute. The other feature on which Mr. Hackley commented was the fact that First Pennsylvania would become a holding company affiliate. This would clearly involve a one-bank case on which it was the practice of the Board to grant a favorable determination in the absence of special reasons for not doing so. No such special reasons were apparent in this case. In response to a question from Chairman Martin, Mr. Hackley stated that the statute provided for the operation of agreement corporations of this type, either in foreign countries or in insular possessions of the United States, for the purpose of engaging in international or foreign banking or other international or foreign financial operations.

Stating that he agreed with the recommendation of the Division of Examinations in this case, Governor Mills expressed some concern over the technical nature of certain of the questions involved in the intricate proposal before the Board. He then referred to the proposed letter granting permission to Virgin Islands National Bank to exceed the prescribed limits of section 10(b) of the Board's Regulation K relating to "aggregate liabilities of corporations," provided the national bank maintained a position of liquidity consonant with the nature of its liabilities, subject to the right of the Board to terminate this permission upon 90 days' written notice.

6/16/60

-9-

Mr. Goodman replied that in 1945, prior to the 1957 revision of Regulation K, a review was made of section 10(b) of the Regulation, to which the Board had granted exceptions to Edge and agreement corporations.

Governor Mills observed that apparently the Board in the past had implicitly granted the same privileges to Edge and agreement corporations that were being approved explicitly in this instance.

Commenting on this point, Mr. Hexter said that the limitation of section 10(b) had been included in the Regulation in the expectation that it would be applied to domestic agreement corporations. It had not been envisaged that a national bank would be an agreement corporation. Since national banks are supervised by the Comptroller of the Currency, in his opinion there was justification for the exception referred to by Governor Mills.

Governor Mills then made reference to the draft letter to Chairman Day of First Pennsylvania that would inform him of the Board's determination that First Pennsylvania would not be deemed to be a holding company affiliate upon acquisition of the stock of Virgin Islands National Bank and that it would not need a voting permit from the Board to vote the stock of the latter institution. He was concerned, Governor Mills said, with the statement contained in the letter that the Board understood that First Pennsylvania did not and would not own or control any stock of or manage or control any banking institution other than Virgin Islands National. The reason for his concern, said Governor Mills, was

6/16/60

-10-

that this statement appeared to conflict with the expressed intention of First Pennsylvania to extend its business in the Caribbean area.

Mr. Goodman replied that it was his impression that Mr. Day was not entirely clear in his own mind as to the manner in which his bank might "begin more intensive operations abroad by concentrating primarily in the Caribbean and Central American areas" as he had stated in his letter of May 9, 1960, to the Philadelphia Reserve Bank. Should he attempt to engage in operations through the medium of the Virgin Islands National Bank, it would be necessary for him to seek permission from the Comptroller of the Currency.

Governor Mills then asked whether the section of the draft agreement appended to the memorandum of the Division of Examinations relating to "further limitations and restrictions" might not be superfluous. As he saw it, further restrictions upon the agreement corporation would come about only through an amendment to Regulation K or through rulings of the Board.

Mr. Goodman replied that this provision had been included in the draft agreement to give the Board the power to modify the agreement without any legal question as a substitute for an amendment to the Regulation. On a further question from Governor Mills concerning stipulation in the draft agreement that the national bank pay the expenses of all examinations in an amount determined by the Board, Mr. Goodman said that such a charge would not necessarily be imposed. In further discussion, it was brought

6/16/60

-11-

out that the current practice is for the Board to absorb the costs of examining State member banks but that the cost of examining Edge Act corporations had on occasion been borne by those corporations and that the Division of Examinations currently has under way a study of this whole program.

Governor Balderston referred to the statement in the draft letter to First Pennsylvania regarding its application for permission to purchase and hold stock of Virgin Islands National that, within six months from the date it acquired the national bank, necessary steps be taken to increase the capital accounts of the latter "in no event in an amount less than \$500,000." Since First Pennsylvania was being required to write off this year the premium paid for its stock in the national bank and since six months was an arbitrary period, Governor Balderston suggested that nine months be specified as the permissible period within which the national bank's capital accounts be increased instead of six months. There was agreement with this point.

Following further discussion, unanimous approval was given to the recommendations of the Division of Examinations for:

- (a) Approval of the application of The First Pennsylvania Banking and Trust Company for permission to acquire the stock of Virgin Islands National Bank;
- (b) Approval of the form of agreement between the Board and Virgin Islands National Bank to be executed by the latter;
- (c) Approval of a letter to Virgin Islands National Bank granting it permission to exceed the limits prescribed in section 10(b) of the Board's Regulation K under certain conditions;

6/16/60

-12-

- (d) Approval of a letter to the Comptroller of the Currency transmitting copies of the foregoing and commenting thereon; and
- (e) Approval of a letter to The First Pennsylvania Banking and Trust Company determining that the bank is not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies.

In approving the application, it was understood that the letter to The First Pennsylvania Banking and Trust Company formally granting the Board's approval for permission to acquire the stock of Virgin Islands National Bank and the letter to Virgin Islands National Bank granting permission to exceed the prescribed limits of Regulation K would not be sent until the Virgin Islands National Bank had executed the aforementioned agreement.

There are attached hereto as Items 4, 5, 6, and 7, respectively, copies of the letter sent to the Federal Reserve Bank of Philadelphia transmitting the agreement to be executed by Virgin Islands National Bank, the form of agreement, the letter to the Comptroller of the Currency, and the letter to The First Pennsylvania Banking and Trust Company regarding its holding company affiliate status.

Secretary's Note: Copies of the letters sent to The First Pennsylvania Banking and Trust Company and Virgin Islands National Bank on July 5, 1960, following execution of the agreement by the national bank are attached to the minutes of that date.

Mr. Molony entered the room during discussion of the foregoing question and Messrs. Furth, Goodman, and Poundstone withdrew at its conclusion.

6/16/60

-13-

Reports on competitive factors--Steubenville, Ohio, and Portland, Maine. Pursuant to the understanding at the Board meeting on June 15, 1960, that the conclusions included in the reports to the Comptroller of the Currency on a proposed consolidation and a proposed merger be reviewed by the Legal Division, there had been distributed under date of June 15, 1960, a memorandum from the Division of Examinations containing revised conclusions in each case. The proposed consolidation involved The Peoples Bank of Tiltonville, Tiltonville, Ohio, into The First National Bank and Trust Company in Steubenville, Steubenville, Ohio; and the proposed merger involved The First National Bank of Bath, Bath, Maine, and The Thomaston National Bank, Thomaston, Maine, with an into the First National Bank of Portland, Portland, Maine.

Mr. Hackley said that the reworded conclusions in each of the reports to the Comptroller of the Currency appeared to be in line with the thinking expressed at yesterday's Board meeting. He noted that the conclusion in the case of The First National Bank and Trust Company in Steubenville was stated in a more forthright manner than the conclusion in the other case. However, both conclusions were limited primarily to considerations of the effects upon competition of the proposed consolidation and merger, as follows:

Steubenville case

The proposed consolidation would not appear to eliminate any significant present competition. However, the combination of a small bank with the largest bank in the county would cause the resulting bank to have about 46 per cent of total deposits and 40 per cent of commercial banking offices and could have a potentially

6/16/60

-14-

adverse effect upon the competitive position of the nearby Community Savings Bank Company and perhaps also upon other small banks in the immediate area. For this reason and the other circumstances of the case, the consolidation could have a tendency toward a monopoly.

#### Portland case

The proposed merger would not affect the competitive situation in the Portland area and in the State of Maine the continuing bank would have only 11 per cent of commercial bank deposits and 6 per cent of offices. In Bath the merger would reduce the number of competing commercial banks from three to two and would result in the First National Bank of Portland having two of the three commercial banking offices and about 60 per cent of deposits. If the large local savings bank is included, the continuing bank would have two of four banking offices and 25 per cent of commercial and savings deposits. There are also two savings and loan associations in Bath with assets of \$4,400,000. In view of the elimination of one commercial bank in Bath, there would be a definite lessening of competition. In Thomaston there would be no reduction in banking facilities since the offices of the Thomaston National Bank would be continued as a branch and there would not appear to be a material change in the local competitive situation. There are two local savings and loan associations. The First National Bank of Portland has a branch in Rockland, four miles distant, and, subsequent to the proposed merger, the applicant would have two of eight banking offices and about 30 per cent of bank deposits within an area extending in a radius of about 10 miles from Thomaston.

Governor Robertson said that he would vote to approve each of these reports due to the urgency of transmitting them to the Comptroller's Office. However, he felt the reports still failed to "hit the mark" in carrying out the requirements of Public Law 86-463, that the Board give its opinions concerning the competitive effects of proposed mergers, consolidations, or absorptions. He had not been able to formulate the exact way in which this should be done; nevertheless, this was something that would have to

6/16/60

-15-

be worked out to provide a consistent approach to the numerous requests for such reports that were now coming to the Board.

The reports to the Comptroller of the Currency on the proposed consolidation involving The First National Bank and Trust Company in Steubenville, Ohio, and the proposed merger involving the First National Bank of Portland, Maine, were then approved unanimously.

Mr. James C. Smith, Assistant Director, Division of Examinations, joined the meeting during the foregoing discussion and Messrs. Hexter, Nelson, Hooff, and Potter withdrew at its conclusion.

Report to Bureau of the Budget regarding immunity of witnesses (Item No. 8). There had been distributed under date of June 14, 1960, a memorandum from Mr. Walter Young regarding a request dated June 8, 1960, from the Budget Bureau for a report on a draft bill submitted by the Department of Justice "To amend chapter 223 of title 18, United States Code, with respect to the immunity of witnesses."

Mr. Young stated that the purpose of the legislation was to standardize the procedures for granting immunity from prosecution for witnesses before administrative bodies, grand juries, and the courts. He noted that there are presently about 30 Federal regulatory statutes containing immunity provisions. In some cases, but not all, witnesses are required to claim their constitutional privilege against self-incrimination before immunity would attach. The draft bill, Mr. Young said, would require a person to claim his privilege against self-incrimination



6/16/60

-16-

in order to obtain immunity, after which he could not be compelled to testify unless the Attorney General or an Assistant Attorney General designated by him so determined. The draft bill also would repeal all parts of certain named statutes of regulatory agencies relating to immunity. However, no law specifically relating to the Federal Reserve would be directly affected. Mr. Young noted that there was attached to the memorandum a draft reply to the Budget Bureau stating that, while the Board had little or no background of experience on which to base a well-informed statement regarding the draft legislation, its purpose to standardize procedures in cases involving immunity seemed desirable.

Governor Mills said that he believed it was unfortunate that the Board had been requested to make a report on legislation of this kind, which essentially concerned the fifth amendment. As he read the intent of the bill, an unwary witness could find himself giving criminal testimony that might subject him to penalty and possibly imprisonment. However, he did not see how the Board could avoid responding to the request from the Bureau of the Budget for a report.

Governor Balderston then stated reasons why he felt it undesirable for the Board to go on record as favoring the legislation, and Governor Robertson suggested that in light of these comments, the letter to the Budget Bureau be changed to state that "the Board has little or no background of experience on which to base a well-informed judgment regarding the draft legislation."

6/16/60

-17-

A letter incorporating this suggestion was approved unanimously, and a copy is attached as Item No. 8.

Messrs. Landry and Walter Young then withdrew from the meeting.

Report of examination of Federal Reserve Bank of San Francisco.

There had been circulated to the Board the report of examination of the Federal Reserve Bank of San Francisco as of February 23, 1960. At Chairman Martin's request, Mr. Smith commented on the examination report, including in his remarks the statement that nothing in the report appeared to call for action by the Board at this time. Following a discussion of the report, Mr. Smith withdrew from the meeting.

Letter to Federal Reserve Bank of Dallas re cafeteria (Item No. 9).

Governor Balderston stated that President Irons of the Dallas Reserve Bank had written him under date of May 30, 1960, regarding the temporary change in the manner of operation of the Bank's cafeteria and the possible effect on the Bank's absorption rate which, according to the Board's letter of May 14, 1946 (S-912, F.R.L.S. 3181) should not exceed one-half of the cost of operation. He noted that the Division of Personnel Administration in a memorandum dated June 9, 1960, recommended that the Board approve a temporary exception to the allowable absorption rate in the event the functional expense report for 1960 showed the 50 per cent rate had been exceeded at Dallas.

After discussion, approval was given to a letter stating that, in view of the circumstances outlined in President Irons' letter of May 30, 1960, the Board would interpose no objection to the absorption by the


6/16/60

-18-

Dallas Reserve Bank of more than one-half the cost of operating the head office cafeteria during 1960. A copy of the letter is attached as

Item No. 9.

The meeting then adjourned.

  
Secretary

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON 25, D. C.

Item No. 1  
6/16/60

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

June 16, 1960



Mr. H. Dawson Martin, Assistant Secretary,  
Chase International Investment Corporation,  
18 Pine Street,  
New York 5, New York.

Dear Mr. Martin:

Reference is made to your letter of May 26, 1960, transmitted through the Federal Reserve Bank of New York, regarding the Board's letter of September 11, 1959, granting consent for Arcturus Investment & Development, Ltd., Montreal, Canada, your wholly owned subsidiary, to purchase, at an approximate cost of US\$378,000, and hold 135,000 shares, par value N\$ 1 each, of the capital stock of a textile manufacturing company to be organized under the laws of the Federation of Nigeria, provided such stock is acquired within one year from the date of the Board's letter. The Board also granted its consent for Arcturus to acquire and hold, in consideration for financial services rendered and to be rendered to the company, an additional 16,875 shares of such stock.

Your letter states that the textile manufacturing company was incorporated on February 2, 1960, under the name "Nigerian Textile Mills Limited"; that the company has made the first call for payments on the subscriptions to be made on June 1, 1960; that you anticipate the second call, which will complete the payments on the subscriptions, will be made in September or October of this year; but that payment of the second call may not be made before September 11, 1960. In accordance with your request and on the basis of the information furnished in your letter, the Board of Governors extends to December 31, 1960, the time within which the shares of Nigerian Textile Mills Limited may be acquired by Arcturus Investment & Development, Ltd.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON 25, D. C.

Item No. 2  
6/16/60

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

June 16, 1960



CONFIDENTIAL (FR)

Mr. H. J. Newman, Vice President,  
Federal Reserve Bank of Chicago,  
Chicago 90, Illinois.

Dear Mr. Newman:

The Board of Governors approves the payment of salaries by the Federal Reserve Bank of Chicago to the incumbents of the positions shown below at the rates indicated, effective July 1, 1960, in accordance with the request contained in your letter of June 6, 1960:

<u>Title</u>	<u>Annual Salary</u>
Head Electrician	\$8,860.80
Electrician	7,974.72

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON 25, D. C.

Item No. 3  
6/16/60

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

June 16, 1960



Board of Directors,  
Cudahy Marine Bank,  
Cudahy, Wisconsin.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors approves, under the provisions of Section 24A of the Federal Reserve Act, an additional investment of \$220,000 in bank premises.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON 25. D. C.

Item No. 4  
6/16/60

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

June 16, 1960



Mr. Joseph R. Campbell, Vice President,  
Federal Reserve Bank of Philadelphia,  
Philadelphia 1, Pennsylvania.

Dear Mr. Campbell:

This refers to the application dated May 9, 1960, of The First Pennsylvania Banking and Trust Company ("First Pennsylvania"), Philadelphia, Pennsylvania, transmitted in your letter of May 17, 1960, for permission to purchase and hold substantially all of the 5,000 shares of stock of Virgin Islands National Bank ("National Bank"), Charlotte Amalie, St. Thomas, Virgin Islands, at a cost of approximately \$1,500,000 plus expenses (total amount not to exceed \$1,650,000).

The Board of Governors is prepared to grant the requested permission upon condition that National Bank shall deliver to you, within ninety days from the date of this letter, four copies of the enclosed agreement duly executed by the appropriate officers of National Bank. Upon receipt of a duly executed copy of such agreement, the Board will forward the requested permission to First Pennsylvania, with a copy to you for your information and files. Enclosed is a draft of the proposed letter to First Pennsylvania which you are requested to deliver to First Pennsylvania for its information as to the conditions the Board proposes to prescribe.

Please have four copies of the enclosed agreement executed on behalf of National Bank by its appropriate officers and forward the original and two executed copies thereof to the Board of Governors. The other copy of the agreement should be retained for the records of the Reserve Bank.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

Enclosures

AGREEMENTItem No. 5  
6/16/60

In consideration of the granting by the Board of Governors of the Federal Reserve System (hereinafter referred to as the Board of Governors), under the provisions of Section 25 of the Federal Reserve Act and pursuant to an application heretofore filed with the Board of Governors by The First Pennsylvania Banking and Trust Company, Philadelphia, Pennsylvania, of permission to acquire and hold stock of Virgin Islands National Bank (hereinafter referred to as National Bank), National Bank, in accordance with the provisions of said Section 25 of the Federal Reserve Act, hereby undertakes and agrees with the Board of Governors as follows:

1. Compliance with Section 11 of Regulation K:

That National Bank shall not purchase or hold any asset, or otherwise exercise any of its powers in the United States or abroad in any manner, which would not be permissible under the provisions of Regulation K, issued by the Board of Governors, if such corporation were a Banking Corporation as defined in Regulation K.

2. Further Limitations and Restrictions:

That National Bank shall restrict its operations and conduct its business in such manner and under such other or further limitations and restrictions as the Board of Governors may hereafter from time to time prescribe, in Regulation K or otherwise.

3. Examinations and Reports:

- (a) That at such times as may be fixed by the Board of Governors, National Bank shall submit to examination by examiners selected or approved by the Board of Governors;
- (b) That National Bank shall pay the expenses of all such examinations in the amount determined by the Board of Governors;
- (c) That National Bank shall do everything necessary to facilitate such examinations and shall make available to the examiners all information which they may require;



(d) That National Bank shall make reports to the Board of Governors at such times and in such form and covering such matters as the Board of Governors may prescribe.

This agreement is executed in quadruplicate.

Virgin Islands National Bank

By \_\_\_\_\_  
President

Date \_\_\_\_\_

Attest:

\_\_\_\_\_  
Cashier

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON 25, D. C.

Item No. 6  
6/16/60

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

June 16, 1960



The Honorable Ray M. Gidney,  
Comptroller of the Currency,  
Main Treasury Building,  
Washington 25, D. C.

Dear Mr. Gidney:

Reference is made to Mr. Haggard's letter of June 8, 1960, in reply to the Board's request of May 26, 1960, for your views regarding the proposal of The First Pennsylvania Banking and Trust Company ("First Pennsylvania") to acquire substantially all of the stock of Virgin Islands National Bank ("National Bank"); Charlotte Amalie, St. Thomas, Virgin Islands, pursuant to the provisions of Sections 9 and 25 of the Federal Reserve Act, whereunder National Bank would enter into an agreement with the Board as required by Section 25 of the Federal Reserve Act.

It is noted that your Office would have no objection to the Board giving its approval to the proposal provided that no restrictions are imposed on National Bank other than the restrictions to which it is already subject as a national bank, and the further restriction, if the Board deems it necessary, that National Bank shall not carry on any part of its business in the Continental United States except such as shall be incidental to its Virgin Islands business. It was further stated that, should it be contemplated that the agreement between National Bank and the Board will impose any additional restrictions or requirements on National Bank, your Office would appreciate an opportunity to discuss these restrictions or requirements.

In order that you may be fully informed as to the requirements proposed to be made of First Pennsylvania and the agreement to be executed by National Bank, enclosed are copies of the following:

- 1) Letter of this date to Vice President Campbell of the Federal Reserve Bank of Philadelphia;
- 2) Proposed letter to The First Pennsylvania Banking and Trust Company;
- 3) Agreement to be executed by Virgin Islands National Bank;
- 4) Proposed letter granting permission to Virgin Islands National Bank to exceed the prescribed limits of Section 10(b) of the Board's Regulation K relating to "Aggregate liabilities of Corporation."

The Honorable Ray M. Gidney

Although Regulation K is believed to be generally more liberal regarding operations abroad than the statutes that ordinarily govern national banks, there are some provisions which are more restrictive. However, it is not believed that it would be within the spirit of the law and regulation to enter into an agreement with National Bank along the lines indicated in the third paragraph of your letter of June 8.

With reference to the comment in that letter that there are only a small number of restrictions which are to some extent inconsistent with the powers of a national bank, and that in all but one of these the Board has the authority under the Regulation to permit exceptions (as, for example, in Sections 9, 10(a) and 10(b)), your office recommended that exceptions to these sections be contained in the agreement. With respect to Section 10(b), the Board is prepared to grant permission to National Bank to exceed the prescribed limits. With regard to Section 9, the Board will give prompt consideration to any request for "prior consent" to investment in stock of other corporations in the limited classes of cases in which national banks may make such investments. However, with respect to Section 10(a), the Regulation does not contemplate the granting of exceptions in the classes of situations that are likely to arise in this case. As regards Section 4, the Regulation does not provide for the granting of exceptions which would permit a Banking Corporation (a) to issue any obligations other than promissory notes due within one year evidencing borrowing from banks and (b) to engage in the business of issuing, underwriting, selling or distributing securities (except such activities of the Corporation's branch or agency in a foreign country with respect to obligations of the national government of such country).

In response to specific inquiry, First Pennsylvania has advised the Federal Reserve Bank of Philadelphia that it has no objections to National Bank being subject to Sections 4, 9, and 10(a) of Regulation K.

The proposed agreement makes certain requirements regarding reports and examinations, as in the case of other "Agreement Corporations." For the time being, the Board would expect National Bank, if it becomes an Agreement Corporation to make semi-annual reports of condition in the form required of other Agreement Corporations, but, at this time, the Board does not contemplate that examinations would be made by its examiners except as may be agreed upon with your Office under the program of examinations of overseas branches of member banks and Foreign Banking Corporations.

The Board recognizes the desirability of eliminating any unnecessary duplication of supervisory efforts and hopes that the provisions of Regulation K would not prevent National Bank from effectively serving the economy of the Virgin Islands.

The Honorable Ray M. Gidney

-3-

In view of discussions between representatives of your Office and of the Board, it is understood that you will have no objections to the proposed agreement and the proposed letters to First Pennsylvania and to National Bank (items 3, 2 and 4 enumerated above).

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

Enclosures

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON 25, D. C.

Item No. 7  
6/16/60

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

June 16, 1960



Mr. William L. Day, Chairman,  
The First Pennsylvania Banking and Trust Company,  
Philadelphia, Pennsylvania.

Dear Mr. Day:

This refers to the request contained in your letter of May 9, 1960, submitted through the Federal Reserve Bank of Philadelphia, for a determination by the Board of Governors of the Federal Reserve System as to the future status of The First Pennsylvania Banking and Trust Company as a holding company affiliate.

From the information submitted, the Board understands that The First Pennsylvania Banking and Trust Company proposes to acquire substantially all of the outstanding shares of stock of Virgin Islands National Bank, Charlotte Amalie, St. Thomas, Virgin Islands; but that such Company does not and will not, directly or indirectly, own or control any stock of, or manage or control any banking institution other than Virgin Islands National Bank.

In view of these facts, the Board has determined that The First Pennsylvania Banking and Trust Company will not 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 within the meaning of section 2(c) of the Banking Act of 1933, as amended; and, accordingly, such Company will not be deemed to be a holding company affiliate except for the purposes of section 23A of the Federal Reserve Act and will not need a voting permit from the Board of Governors in order to vote the bank stock which it proposes to acquire.

If however, the facts should at any time differ from those set out above to an extent which would indicate that The First Pennsylvania Banking and Trust Company might be deemed to be so engaged, this matter should again be submitted to the Board.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Mr. William L. Day

-2-

The Board reserves the right to rescind this determination and make a further determination of this matter at any time on the basis of the then existing facts.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON 25, D. C.

Item No. 8  
6/16/60

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

June 16, 1960

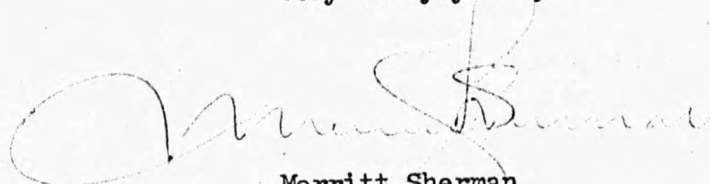
Mr. Phillip S. Hughes,  
Assistant Director for  
Legislative Reference,  
Bureau of the Budget,  
Washington 25, D. C.

Dear Mr. Hughes:

This is in response to your legislative referral memorandum of June 8, 1960, requesting the views of the Board on a draft bill submitted by the Department of Justice relating to immunity of witnesses.

Since the Board has little or no background of experience on which to base a well-informed judgment regarding the draft legislation it has no comments to offer.

Very truly yours,



Merritt Sherman,  
Secretary.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON 25, D. C.

Item No. 9  
6/16/60

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

June 16, 1960



Mr. Watrous H. Irons,  
President,  
Federal Reserve Bank of Dallas,  
Dallas 2, Texas.

Dear Mr. Irons:

In view of the circumstances outlined in your letter of May 30, 1960, the Board will not object to the absorption by your Bank of more than one-half the cost of operating the head office cafeteria during the year 1960. It is recognized that this would be an exception to the limitation on costs that ordinarily may be absorbed by a Federal Reserve Bank, as stated in the Board's letter of May 14, 1946 (S-912, F.R.L.S. 3181).

It is noted from your letter that the Bank will make every effort to effect economies and to keep the absorption rate as low as practicable.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.