FR 609
Rev. 10/59

Minutes for September 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

Gov. Szymczak

Gov. Mills

Gov. Robertson

Gov. Balderston

Gov. Shepardson

Gov. King

Minutes of the Board of Governors of the Federal Reserve System on Friday, September 16, 1960. The Board met in the Board Room at 9:45 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Balderston, Vice Chairman
Mr. Szymczak
Mr. Robertson
Mr. Shepardson
Mr. King

Mr. Sherman, Secretary
Mr. Thomas, Adviser to the Board
Mr. Young, Adviser to the Board
Mr. Shay, Legislative Counsel
Mr. Noyes, Director, Division of Research and Statistics
Mr. Koch, Adviser, Division of Research and Statistics
Mr. Landry, Assistant to the Secretary
Mr. Keir, Chief, Government Finance Section, Division of Research and Statistics

Report on money market. Messrs. Thomas and Keir presented a report on money market conditions and the situation with respect to member bank reserves.

Following this presentation all members of the staff with the exception of Messrs. Sherman, Shay, and Landry withdrew and the following entered the room:

Mr. Hackley, General Counsel
Mr. Solomon, Director, Division of Examinations
Mr. Hexter, Assistant General Counsel
Mr. Nelson, Assistant Director, Division of Examinations
Mr. Goodman, Assistant Director, Division of Examinations
Mr. Thompson, Supervisory Review Examiner, Division of Examinations
Mr. Poundstone, Supervisory Review Examiner, Division of Examinations
Mr. Walter Young, Assistant Counsel
Miss Hart, Assistant Counsel

Discount rates. The establishment without change by the Federal Reserve Banks of New York, Philadelphia, Chicago, and San Francisco on September 15, 1960, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

Letter to Federal Reserve Banks regarding H.R. 12580 (Item No. 1). Copies had been distributed of a memorandum dated September 13, 1960, from Mr. Hackley attaching a draft of letter to all Reserve Banks advising of the approval of H.R. 12580, known as the Social Security Amendments of 1960, which, among other things, extended to certain instrumentalities of the United States, including the Federal Reserve Banks, the unemployment compensation program, effective as to remuneration paid after 1961 for services performed after 1961. There was also attached an additional memorandum to files dated September 13 that analyzed the complicated provisions of the bill insofar as they related to extension of the unemployment compensation program to the Reserve Banks. Mr. Hackley noted that the complexity of H.R. 12580 suggested the desirability of sending a copy of the additional memorandum to the Reserve Banks for their information, and he so recommended.

There being no objection, Mr. Hackley's recommendation and the letter to the Reserve Banks concerning H.R. 12580 were approved. A copy of the letter is attached hereto as Item No. 1.

Governor Szymczak suggested that, because of the complexity of this legislation, it might be a suitable topic for an agenda for a meeting of Counsel of the Federal Reserve Banks, if one was to be held in the near future, and Mr. Hackley responded that he would bear this in mind, particularly since he felt such a meeting would be desirable.

Mr. Shay then withdrew from the meeting.

Qualification for service as Reserve Bank director (Item No. 2). There had been distributed a revised draft of letter to the Federal Reserve Bank of Dallas in response to its letter of August 19, 1960, which presented two questions relating to qualification for service as a Reserve Bank director: (1) whether candidates for election as directors of Federal Reserve Banks must comply with the Board's 1915 resolution with respect to the holding of public or political office, and (2) whether candidates for election as Class B directors must comply with the requirements of paragraph 14 of section 4 of the Federal Reserve Act with respect to connections with banks.

In accordance with the understanding at the September 8 meeting, a revised draft of letter to the Dallas Bank had been prepared along the lines of the discussion at that meeting, but because of a technical inaccuracy, and following consultation with Governors Balderston and Szymczak, the approach had been modified and the draft now before the Board had been submitted for further consideration.

Mr. Hackley said that it did not seem desirable to issue a categorical ruling that would apply to all cases that might arise under the questions the Dallas Bank had presented. The answer as to the interpretation of the Board's 1915 resolution depended upon the circumstances of each particular situation. The Board had held that some public offices were of such a nonpolitical nature as to make it unnecessary for a person to resign either before or after election as a Reserve Bank director. Similarly, the existence of a banking connection did not necessarily mean that a person was not eligible to be a candidate for election as a Class B director of a Federal Reserve Bank, although the law was clear in providing that at the time of election a Class B director shall be actively engaged in the district in commerce, agriculture, or some other industrial pursuit, and that no Class B director shall be an officer, director, or employee of any bank. Accordingly, the present letter would take the position that the questions presented in the letter from the Dallas Reserve Bank should be determined as a matter of judgment in each case in the light of the spirit and purposes of the Board's 1915 resolution and the relevant provisions of section 4 of the Federal Reserve Act.

After further discussion, the letter to the Federal Reserve Bank of Dallas was approved unanimously in the form of attached Item No. 2, with the understanding that copies would be sent to all Federal Reserve Banks.

Mr. Walter Young withdrew from the meeting at this point.

Request of Union Bond and Mortgage Company for tax certification. Under date of September 9, 1960, a memorandum from Mr. Hexter had been distributed regarding the request of Union Bond and Mortgage Company, Port Angeles, Washington, for a tax certification under the Bank Holding Company Act of 1956.

Mr. Hexter stated that Union was a bank holding company that also owned stock of Forks Building Corporation and Peninsula Investment Company, Inc. Union proposed to distribute its holdings of stock of Forks and Peninsula to its shareholders and wished this distribution to have the tax benefits provided by section 1101(a)(1) of the Internal Revenue Code. Mr. Hexter said that these tax benefits were not available unless the Board certified "that the distribution...is necessary or appropriate to effectuate section 4 of the Bank Holding Company Act", which in general prohibits a holding company from retaining ownership "of any voting shares of any company which is not a bank". In this case, the Board could not issue the requested certification unless it was satisfied that none of the exceptions provided by section 4(c) of the Bank Holding Company Act covered the stock of either Forks or Peninsula.

An argument could be made, Mr. Hexter said, that the exceptions provided in section 4(c)(1) or section 4(c)(4) of the Bank Holding Company Act applied to the stock of Forks held by Union. However, the Board in a letter dated September 14, 1959, to the San Francisco Reserve Bank

requested that Union be informed that there would seem to be no basis for holding that the exemptions of section 4(c)(1) applied to these shares and did not mention applicability of section 4(c)(4). Union had developed its proposal since that time, presumably in reliance on the Board's expressed view that section 4(c)(1) was inapplicable. Furthermore, it might be argued that the Board's failure to mention section 4(c)(4) in its letter of September 14, 1959, justified Union in assuming that that exception also was not applicable. Under the circumstances, and since the question was not free from doubt, the Board might deem it advisable to hold that shares of Forks are not covered by any exceptions to the divestment requirements of section 4.

In the case of Peninsula, where the circumstances were different from those of Forks, Mr. Hexter said that the Legal Division had concluded that the exception of section 4(c)(1) was not applicable and, for the reasons stated in his memorandum of September 9, that it would be advisable for the Board to take the position that neither was section 4(c)(6) applicable to the shares of Peninsula. Accordingly, it was the recommendation of the Legal Division that the Board determine that none of the exceptions to the divestment requirement of section 4 applies to the shares of either Forks or Peninsula. If the Board made such a determination, the Legal Division would then proceed to obtain the information required as a basis for the tax certification requested by Union.

The recommendation of the Legal Division was approved unanimously, with the understanding that the staff would take the necessary steps to prepare the tax certification for the Board's consideration.

At this point Messrs. O'Connell, Assistant General Counsel, and Hooff, Assistant Counsel, entered the room, and Mr. Thompson and Miss Hart withdrew.

Request of Otto Bremer Company (Item No. 3). Copies had been distributed under date of September 14, 1960, of a draft of notice of request for determination pursuant to section 4(c)(6) of the Bank Holding Company Act of 1956 and order for hearing thereon in the application of Otto Bremer Company, St. Paul, Minnesota, relative to the proposed Western State Credit Corporation, Marshall, Minnesota. Attached to the draft of notice was a memorandum from the Legal Division dated September 14, 1960, detailing arrangements made for the hearing in this matter set for 10 a.m., October 12, 1960, at the offices of the Federal Reserve Bank of Minneapolis and noting that, should the Board approve the draft of notice of request and order for hearing, such notice would be published in the Federal Register and copies thereof transmitted to the appropriate parties.

There being no objection, the notice of request and order for hearing thereon with regard to the application of Otto Bremer Company for a determination under section 4(c)(6) of the Bank Holding Company Act relative to the proposed Western State Credit Corporation was approved unanimously. A copy of the notice is attached as Item No. 3.

Secretary's Note: Pursuant to the foregoing action, a letter was sent on September 23, 1960, to Mr. Charles W. Schneider, hearing examiner with the National Labor Relations Board, enclosing a certification of his assignment as Hearing Examiner in the aforementioned matter.

Report on competitive factors (Allentown and Catasauqua, Pennsylvania). Pursuant to the provisions of section 18(c) of the Federal Deposit Insurance Act, as amended, there had been distributed a memorandum from the Division of Examinations dated September 9, 1960, attaching a proposed report to the Comptroller of the Currency on the competitive factors involved in a proposed consolidation of The First National Bank of Allentown, Allentown, Pennsylvania, and National Bank of Catasauqua, Catasauqua, Pennsylvania.

Following discussion of suggestions for change in wording, unanimous approval was given to a report which concluded as follows:

> The proposal would result in the elimination of one strong competitor in the area. In view of the resulting concentration of resources in the continuing bank, it would appear that the proposal would be adverse to the maintenance of sound competition in the area.

Report on competitive factors (Milwaukie and Portland, Oregon). Under date of September 9, 1960, there had been distributed a draft of report to the Federal Deposit Insurance Corporation on the competitive factors involved in the proposed merger of Pioneer Bank of Milwaukie, Milwaukie, Oregon, with and into Security Bank of Oregon, Portland, Oregon. The conclusion of the report was as follows:

The two banks involved have not been in active competition to a significant extent. The proposed transaction would not alter the position of applicant as a minor factor, with reference to deposit volume, in the context of total deposits in the area of greater Portland. The effect in the immediate Milwaukie area would be to enhance the competitive capacity of the smaller of the two banking offices presently serving Milwaukie.

The report was approved unanimously.

At this point Messrs. Marget, Director, and Maroni, Economist, Division of International Finance, entered the room.

Gold loan to Uruguay (Item No. 4). There had been distributed before the meeting copies of a memorandum dated September 16, 1960, from Mr. Marget attaching a draft of telegram to the Federal Reserve Bank of New York that would approve a $16 million three-month gold collateral loan requested by the Central Bank of Uruguay in a wire of September 1, 1960. Agreement was expressed in the memorandum with the substance of a memorandum from the New York Reserve Bank of September 9, 1960, which concluded that although there were numerous balance of payment and financial problems facing Uruguay, the country appeared to be taking steps to bolster its foreign exchange position until wool exports increased early in 1961. It was Mr. Marget's opinion that the granting of this loan would conform to the usual gold collateral loan policy of the Federal Reserve System. Therefore, he recommended that the Board approve the requested loan for a period of three months and that an appropriate telegram be sent to the New York Bank advising of such approval.

This recommendation was approved unanimously. A copy of the telegram to the New York Reserve Bank authorizing the extension of a $16 million gold collateral loan to Uruguay for three months is attached as Item No. 4.

Messrs. Marget and Maroni then withdrew.

Old Kent Bank and Trust Company case (Item No. 5). Copies of a memorandum from the Legal Division dated September 15, 1960, had been distributed concerning the questions (1) whether the Board should recommend to the Department of Justice that a petition for writ of certiorari to the United States Supreme Court be sought in the Old Kent Bank and Trust case, or (2) whether the Board should recommend that Justice file in the United States Court of Appeals a motion for leave to file a petition for rehearing of this case en banc. The Legal Division recommendations, as set forth in the September 15 memorandum, were that the Board defer to the judgment of the Department of Justice as to the filing of such motions, at the same time expressing the view that the Board had no strong feeling as to their practical value. Attached to the memorandum was a draft of letter that would transmit these views to the Department of Justice.

Mr. O'Connell recalled that by memorandum of September 11, 1960, the Board was advised of the recent decision of the United States Court of Appeals whereby that Court denied the petition filed by Justice on the Board's behalf seeking a rehearing by the Court of its decision of

April 28, 1960, reversing a District Court judgment in the Board's favor. The Legal Division was not inclined to recommend that the Justice Department seek a petition for a writ of certiorari to the Supreme Court on the Board's behalf, this view having been premised on the belief that the Court, which usually was not disposed to entertain such motions except in cases where clarification of the law was needed to serve the ends of justice or for future cases, would find that the issue originally involved had found satisfactory resolution in the recent merger legislation. It was also the judgment of lawyers in the Department of Justice, Mr. O'Connell said, that there was little chance of the Supreme Court's granting a petition for a writ of certiorari.

With regard to the alternative of seeking from the Court of Appeals a rehearing en banc (9 judges on the Court of Appeals) on a case previously determined by less than all members of the Court, Mr. O'Connell said that the United States Attorney's office filed such motions only in exceptional cases where a rendered decision makes law enforcement impossible--in other words, where the results flowing from a decision of a minority number of the Court would be unduly harsh or make extremely difficult future conduct that a petitioner alleges it may and should lawfully undertake. Mr. O'Connell said that the Legal Division's reluctance to recommend the filing of such a motion was impelled principally by the recent enactment of Congress of Public Law 86-463 relating to mergers of banks which, for practical purposes, rendered moot

the supervisory problem raised in the Old Kent case. The Chief of the Appellate Section in the United States Attorney's Office held this view and had expressed the opinion that the circumstances of this case do not warrant the use of the extraordinary procedure that would be involved in seeking a rehearing en banc. Although the Board might ask the Department of Justice to file such a motion as the last remaining course of action at this level of appeal, Mr. O'Connell noted that subsequent to preparation of the September 15 memorandum from the Legal Division it had been learned that the Solicitor General of the United States was disinclined to pursue this case further in the courts.

Governor Robertson expressed surprise that the petition filed last spring for rehearing of this case had been made to the three-judge court that originally decided it rather than to the full court, to which Mr. O'Connell replied that this had been done as a result of decisions by the Solicitor General and the Justice Department. Mr. Hackley added the comment that enactment of the bank merger law on May 13, 1960, occurred subsequent to the Board's letter to Justice recommending a rehearing en banc.

Governor Shepardson stated his understanding that the net effect of not pursuing the Old Kent case further in the courts would be that Old Kent would retain its branches but that, in the light of the new bank merger law, the problem of lack of Board jurisdiction over bank mergers encountered in that case and in the case of Wachovia Bank and Trust Company, Winston-Salem, North Carolina, would no longer recur.

Mr. O'Connell said that this was correct. He added that in the latter case, in which the Board had been sued by Wachovia following disapproval on November 13, 1958, of a request by Wachovia to operate certain branches after merger with The Wilmington Savings & Trust Company, Wilmington, North Carolina, the branches now being operated by Wachovia would remain in operation without authority from the Board.

There followed a discussion of the possible desirability of authorizing the branches involved in the Old Kent and Wachovia applications as a matter of courtesy, even though the courts had said the Board did not possess the power to approve or disapprove the establishment of these particular branches under section 9 of the Federal Reserve Act.

At the conclusion of this discussion, unanimous approval was given to the letter to the Department of Justice expressing the Board's views on the question of further appellate action in the Old Kent Bank and Trust Company case, a copy of which is attached as Item No. 5.

At this point Messrs. O'Connell, Hooff, and Nelson withdrew from the meeting.

Excessive loans by subsidiary of foreign banking corporation. On September 7, 1960, The Chase Manhattan Bank, New York City, had written to the Board regarding the Board's letter of August 24, 1960, with respect to loans outside the United States by foreign banking subsidiaries of foreign banking corporations. Chase stated that the Board's August 24 ruling would have a substantial adverse effect on the present banking

operations and future standing of the South African subsidiary of Chase Manhattan Overseas Corporation (CMOC), for which investment the Board granted consent in its letter of January 5, 1959. For this reason, Chase requested that the effect of the Board's August 24 ruling be suspended until such time as Chase had had an opportunity to present its views to the Board, either through the Federal Reserve Bank of New York or directly.

A draft of proposed reply to Chase, copies of which had been distributed before this meeting, would take the position that, in the circumstances, no request would be made at this time for immediate correction of any outstanding loans of the South African bank in which Chase Manhattan Overseas Corporation held stock even though they did not conform to limitations outlined in the Board's August 24 letter. With respect to further credit extensions, however, the draft reply would say that neither Chase Manhattan Overseas Corporation nor the South African bank, nor the two institutions combined, should grant additional loans which in the aggregate to any one person would exceed 10 per cent of the combined capital and surplus of Chase Manhattan Overseas Corporation unless permitted by exceptions in section 10(a) of Regulation K, Corporations Doing Foreign Banking or Other Foreign Financing under the Federal Reserve Act. The draft reply would go on to say that, if Chase desired to submit any additional information as to reasons why the position of the Board should be modified, such material should be furnished

through the New York Reserve Bank, and the letter would conclude with the statement that the Board was prepared to give prompt consideration to the views of Chase upon receipt of the completed report of an examination of Chase Manhattan Overseas Corporation and a survey of the South African bank that was commenced as of August 19, 1960.

Mr. Solomon referred to the Board's decision on August 24, 1960, to reject the request of International Banking Corporation, in which it was joined by The Chase Manhattan Bank and Bank of America, New York, that foreign banking subsidiaries of Edge Act corporations be permitted to be governed in the conduct of their lending operations by applicable laws and customs of the country where located, as a result of which the Board had written Chase on that date stating that, unless permitted by exceptions granted in section 10(a) of Regulation K, neither Chase Manhattan Overseas Corporation nor the South African bank, nor the two institutions combined, should have aggregate loans to any one person in excess of $150,000 -- a figure arrived at as representing 10 per cent of the combined capital and surplus of the Chase subsidiary (CMOC) that was operating under agreement with the Board, which in turn owned substantially all of the stock of the South African bank. Mr. Solomon noted that the August 24 decision grew out of a request from International Banking Corporation dated December 7, 1959, relative to a criticism in an examination report of International Banking Corporation made as of October 5, 1959, of certain loan participations held by its subsidiary,

Bank of Monrovia, Liberia, that had been sold to that bank by The First National City Bank of New York. These four loans in each case exceeded 10 per cent of the capital and surplus of International Banking Corporation. Accordingly, the Board requested International Banking Corporation to arrange to have Bank of Monrovia reduce each excess loan to within the limitation of $700,000 or otherwise eliminate the violation. Mr. Solomon went on to say that Chase and its South African subsidiary were affected to a greater degree than was true of International Banking Corporation and Bank of Monrovia in the earlier case in that Chase Manhattan Overseas Corporation had less capital and also because the Chase subsidiary was making loans in South Africa, whereas the excess loans of the Bank of Monrovia were not loans made in Liberia but rather were participations in loans to Mexican, Canadian, Austrian, and South African borrowers -- a factor indicating that International Banking Corporation's Liberian subsidiary had not been restricted in serving the Liberian economy because of Regulation K requirements. Mr. Solomon said that he agreed with that part of the draft letter stating that existing loans would not have to be reduced to the 10 per cent limitation, and he then stated reasons why, from the standpoint of practical operations of the Chase subsidiary and its relations with customers in South Africa, he believed it preferable not to require, as would be done in the draft letter, that Chase and its South African subsidiary bank discontinue the present practice of making loans that were in excess of 10 per cent of capital and surplus pending consideration of the views they had asked permission to express.

Governor Szymczak referred to a conversation with President Hayes of the New York Reserve Bank who felt that it would be unnecessarily drastic for the Board to require Chase Manhattan Overseas Corporation to reduce outstanding loans of the South African bank to conform to the limitations outlined in the Board's letter of August 24 or to discontinue making new loans unless they met those limitations. President Hayes had said that the New York Reserve Bank would try to submit a proposed solution to the problem to the Board not later than September 30. Therefore, Governor Szymczak said, he would recommend that the Board not be as drastic as was proposed in the draft letter but that it follow Mr. Solomon's suggestion, and that it emphasize the desirability of hearing from the New York Reserve Bank promptly as to its proposed solution of the problem.

Chairman Martin said that, as he had indicated many times before, he was sympathetic to the problems of those who were trying to facilitate financing in the foreign area. It was extremely difficult to carry on business in this area, considering not only the inherent risks but also the regulations of different authorities that had to be observed. He felt it important that the Board give all the encouragement that it could to those who were willing to engage in this field.

Mr. Hexter expressed the view that, if the Board believed a subsidiary of an American bank operating abroad should not be subject to the 10 per cent limitation on loans to a single person, then Regulation K and agreements thereunder should be changed. Technicalities aside, he

had no doubt but that loans in excess of that figure were contrary to Regulation K as now written. Therefore, he felt the position taken in the draft letter with respect to future loans was correct.

Mr. Goodman expressed the view that, should the Board approve Mr. Solomon's suggestion for deferring the applicability of the 10 per cent limit to loans of the South African subsidiary of Chase, it would seem necessary as a matter of equity to go back to International Banking Corporation and give similar permission with respect to Bank of Monrovia.

Mr. Solomon said that, although he did not have particularly strong feelings regarding his suggested modification of the draft letter to The Chase Manhattan Bank, he still believed the Board reasonably could grant a stay of execution of its letter of August 24 pending an opportunity for Chase to present its views more fully. The Board was not now fully aware of the effect that application of the 10 per cent limitation might have on the operations and relations of the South African bank, and he did not see the necessity for requiring an immediate change in the existing practice. Mr. Solomon noted that Regulation K was not a criminal statute, although in the end the question came down to whether the Regulation should be changed. Pending such a decision by the Board, he did not think there would be much sacrifice of principle if the Board were to tell Chase that it could continue to follow its present operating practices until the Board had made a final determination of the question.

Mr. Hexter said that in his view such an action would have the effect of suspending for Chase the entire limitation on loans embraced in the philosophy of Regulation K. He felt that if this were done on the grounds that, prior to the Board's letter of August 24, Chase had been making noncomforming loans, the same freedom from the provisions of the Regulation should be extended to all Edge and agreement corporations.

Chairman Martin said that the difficulty with this approach was that each of these foreign banking corporations was dealing with a particular set of problems all its own. Whether it seemed necessary for one to do something that might be a violation of the Board's Regulation depended on the particular circumstances under which it was operating. In his view, the Board would be going too far if it were to say at this juncture that all Edge and agreement corporations could disregard the 10 per cent loan limitation.

Mr. Hexter then called attention to the exception in section 10(a)(8) of Regulation K, which would exclude certain classes of transactions from its scope. He pointed out that Chase could request the Board to permit the making of an excess loan under this section if it felt that was necessary.

Mr. Solomon said that this provision of the Regulation might not cover the particular loans that Chase was concerned about, although the section might tie in with the idea that some relaxation was needed in the limitation under discussion. Further, the Chase letter might perhaps be

viewed as an application within the spirit of that provision. Use of the provision for exceptions would, of course, be equally available to any foreign banking corporation.

Mr. Hexter said that the matter presented to the Board today was simply the question of the status of the Chase subsidiary in the interim until the Board acted on the merits of the case. In his opinion, a letter along the lines of the draft before the Board would serve as an incentive for the Edge corporations to expedite the presentation to the Board of reasons for a change in the Regulation, whereas suspension of the loan limitations pending further study would be an incentive the other way.

Chairman Martin said that it was quite appropriate to bring up the legal status of Regulation K and the points Mr. Hexter had raised. To him, they seemed to bear out what he had felt for some time, namely that Regulation K was not a satisfactory regulation for carrying out what he believed to be the purposes of the law in facilitating the financing of foreign trade. His own view was that the Board should encourage foreign financing of the types under discussion by giving those who were willing to enter into the field the maximum latitude feasible until it found it necessary to place restrictions on them.

Governor Robertson stated that as he saw this case, the Board had laid down a rule in its Regulation, the rule had been violated, and the question was what the Board should do about the situation. His view was

that under the circumstances the Board need do nothing about the violations that had already occurred but that, pending a decision as to whether the rule should be changed, Chase should be required to apply it to future loans on a uniform basis with others.

Chairman Martin commented that he doubted whether it was possible to apply uniform rulings of this kind to each foreign banking corporation if the Board was to succeed in the objective of facilitating foreign financing on a workable basis. However, he recognized that there could be an argument for taking the harsh course in this case and, if the Board so decided at a later date, relaxing the rule across the board.

Governor Shepardson said that he, too, felt there were serious problems in connection with Regulation K. He had continually had a question as to what the Board could do in controlling banking in foreign countries if it were to impose rules that were contrary to the laws of the country in which the foreign banking corporation operated. He felt that the Board's requirements and regulations in this field should be consistent as among different corporations but at the same time they should be workable. If the Board's present Regulation K was wrong, it should be changed. As to the specific case before the Board, to him there seemed to be a clear-cut distinction between the situation presented by Chase and the position taken on August 24 in requesting International Banking Corporation to arrange to have its subsidiary, Bank of Monrovia, reduce its excess loans. Personally, Governor Shepardson said that he strongly favored

Mr. Solomon's suggestion for responding to Chase in connection with its South African subsidiary. He would be sorry to interfere with loan negotiations that the Chase subsidiary might have under way, and he did not believe that the Board could know what difficulties it would be compounding if it now required the Chase subsidiary to apply the limitations indicated in its letter of August 24. Because he could distinguish that situation from the August 24 ruling on International Banking Corporation, he would take this course but would not now make a change in the request to International Banking Corporation. If the latter were to ask the Board for relief, it would be incumbent upon the Board to consider such a request.

Governor Balderston suggested that perhaps the problem could be handled best by treating the inquiry from Chase as an application to apply an exception provided in section 10(a)(8) of Regulation K, and authorizing such an exception for its South African subsidiary.

Mr. Goodman stated that he was troubled by the suggestion that Governor Balderston had just made as well as by Mr. Solomon's proposal. He suggested that, rather than sending such a letter, the matter be discussed by telephone through the Federal Reserve Bank of New York, the Chase people be assured that their problem would receive prompt consideration and early action, and that the Board avoid giving an answer such as either Governor Balderston or Mr. Solomon suggested.

In response to a question from Chairman Martin as to what he would recommend, Governor Szymczak said that, after hearing the discussion and in view of President Hayes' indication that the New York Reserve Bank would try to have a recommendation in the hands of the Board before the end of September, he would suggest informally to Chase that they get in touch with the Reserve Bank to see what solution could be worked out within the next few days. He gathered that if this were done Chase representatives would be anxious to visit the Board's offices to present their request directly.

Governor King said that he took a dim view of the Board's trying to pass on many detailed matters in the operations of these foreign subsidiaries. He wanted to be practical. On the other hand, the logic of the view that Mr. Hexter had expressed to the effect that Regulation K should either be amended or applied in the future to Chase as well as to others seemed to him to be flawless. The Board could expedite its consideration of the Chase request and reach a decision without sacrificing the principle of applying the Regulation as now written. For this reason, he would subscribe to the view that had been expressed by Mr. Hexter and to the position indicated by Governor Robertson in his comments.

Governor Robertson said that he had expressed approval of the position taken in the draft letter before the Board, but he understood that Governor Szymczak and Mr. Goodman were now suggesting that there be

no letter but that the matter be handled by telephone. However, he gathered that the telephone discussion would take the same position as that taken in the letter and that the door would not be opened for the Chase subsidiary to make future loans beyond the limitations indicated in the Board's letter of August 24.

Governor Szymczak responded that he did not believe it would be necessary for the Board to open the door at this time because if Chase received this word with assurance that the Board would expedite consideration of their problem they would be seeking an opportunity to present their views to the Board at once.

Governor Robertson said that this approach, whether by letter or telephone, might facilitate expediting a Board decision on the basic question presented. Therefore, he would concur in the informal approach if it was understood that in the discussions with Chase there would be no deviation from the position taken in the draft letter.

Chairman Martin commented that perhaps under the circumstances this would be the best way to handle the inquiry, and it was understood that such a procedure would be followed.

Messrs. Goodman and Poundstone then withdrew from the meeting.

Pan American Bank of Miami situation. Governor Robertson said that, as indicated in his comments at the afternoon session of the Board on September 14, a meeting had been held in his office yesterday attended by Mr. Tenney of Connecticut Mutual Life Insurance Company and Mr. Sottile

and counsel for both. Mr. Sottile reported the apparent sale of two banks for about $2 million and requested an extension of the deadline date of September 15, 1960, for 30 days in order to sell three more with the understanding that he would dispose of all of such holdings eventually and place $3 million in the Pan American Bank to correct its capital deficiency before selling that institution. Governor Robertson said that he had raised the question of making available the first $2 million to the insurance company to correct the default in its loan to Mr. Sottile. Although this would eventually remove the insurance company from the picture, Governor Robertson said that he was convinced the company would stand by to render assistance in the ultimate solution of this problem. The meeting concluded with the understanding that Governor Robertson would take up these proposals with the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation. Governor Robertson noted that he had pointed out to Mr. Tenney afterwards that the Connecticut Mutual Life Insurance Company would lose control should the $2 million be used to take its loan to Mr. Sottile out of default and that the insurance company would be in a stronger position if this sum were put into Pan American Bank, thereby enabling the insurance company to sell the stock it holds in this institution for a larger sum.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board a letter to the Federal Reserve Bank of Philadelphia (attached Item No. 6) approving the reappointment of Harold Edwin Ikeler, Jr., as assistant examiner.

Secretary

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

Item No. 1
9/16/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 16, 1960.

Dear Sir:

On September 13, 1960, the President signed H. R. 12580, known as the "Social Security Amendments of 1960." Among other things, this Act extends the Federal-State unemployment compensation program to cover employees of certain Federal instrumentalities that have not heretofore been covered by the program, including employees of the Federal Reserve Banks. Such coverage will become effective as to remuneration paid after 1961 for services performed after 1961.

Heretofore, the Federal Reserve Banks and their employees have been excepted from the unemployment compensation program because, essentially, no funds were provided for payment of benefits. This was because the Reserve Banks were not "wholly owned" instrumentalities of the United States under Title XV of the Social Security Act, under which the Federal Government reimburses State authorities for unemployment compensation payments paid to former employees of such instrumentalities, and because the States were not authorized to require the Reserve Banks to contribute directly to State unemployment funds. Technically speaking, the States lacked this authority because both section 3305(b) of the Internal Revenue Code, which authorizes the States to require contributions to State unemployment funds, and section 3306 of the Code, which defines "employment," were not applicable to any Federal instrumentality which was exempt by any provision of law from the unemployment compensation tax imposed by section 3301 of the Code, and because section 7 of the Federal Reserve Act exempts the Reserve Banks from Federal Taxation.

As amended by the Act of September 13, 1960, sections 3305(b) and 3306 are made applicable to any instrumentality of the United States unless (1) it is "wholly or partially owned" by the United States or (2) it is specifically exempted by some other provision of law from the unemployment compensation tax imposed by section 3301 of the Internal Revenue Code.

There is nothing in the Act of September 13, 1960, to indicate that Congress regarded the Federal Reserve Banks as being "wholly or partically owned" instrumentalities of the United States.

Rather, as the following excerpt from the Report of the House Ways and Means Committee (p. 55), dated June 30, 1960, indicates, the program is extended to the Federal Reserve Banks because they are not specifically exempted from the tax imposed by section 3301 of the Internal Revenue Code:

> ". . . Any instrumentality of the United States which is neither wholly nor partially owned by the United States will be subject to the Federal unemployment tax unless it is exempt by virtue of a provision of law which grants specific exemption from the Federal unemployment tax. The additional Federal instrumentalities brought under the Federal unemployment compensation program by this change will include the Federal Reserve Banks, Federal credit unions, Federal land banks, Federal land bank associations and Federal home loan banks. Employees of partially owned instrumentalities will be brought under the unemployment compensation program for Federal employees. This will include employees of instrumentalities such as the banks for cooperatives, Federal intermediate credit banks, and some production credit associations." (Report, p. 55)(Emphasis added)

It should be noted that the Committee's reference to extension of the program for Federal employees to "partially" owned instrumentalities refers to the amended provisions of Title XV of the Social Security Act which heretofore have applied only to employees of the United States and of wholly owned instrumentalities.

A copy of the Act of September 13, 1960, will be sent you as soon as copies are available. For your information and with the thought that it may be of interest to your Counsel, there is enclosed a copy of a memorandum prepared by Mr. Hackley regarding this matter.

Very truly yours,

Merritt Sherman,
Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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

Item No. 2
9/16/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 16, 1960

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

Dear Mr. Irons:

This is in response to your letter of August 19, 1960, regarding the questions (1) whether candidates for election as directors of Federal Reserve Banks must comply with the Board's 1915 resolution with respect to the holding of public or political office and (2) whether candidates for election as Class B directors must comply with the requirements of paragraph 14 of section 4 of the Federal Reserve Act with respect to connections with banks.

It is difficult, if not impossible, to answer these questions categorically, since the answer may depend upon the circumstances of a particular case.

Literally, the Board's 1915 resolution requires that "candidates for election shall comply" with the resolution. As indicated in the Board's letter of August 3, 1950 (F.R.L.S. #3151), it is obviously desirable that a situation should not be permitted to exist that might be interpreted as associating the Reserve Banks with any political party or political activity. There may be cases in which, because of the nature or importance of the political or public office held by a person, his retention of the office while a candidate for election as a director might tend to associate the Reserve Bank in the public mind with political activities; and in such a case retention of the office while a candidate would be contrary to the spirit of the Board's resolution. On the other hand, there may be many cases in which the office may be of such a nonpolitical nature as to make it unnecessary for the candidate to resign the office prior to his election as a Reserve Bank director. As you know, the Board has raised no objection to the holding of certain types of public office even after election as a director.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

The provision of section 4 of the Federal Reserve Act which prohibits a Class B director from being an officer, director, or employee of any bank does not, of course, apply until a person is elected and takes his oath of office as a Class B director. However, the law requires that Class B directors be actively engaged in commerce, agriculture, or industry, thus suggesting that they should represent the "borrowing" segment of the public as contrasted with the "lending" segment represented by Class A directors. For this reason, it is believed that Class B directors should be representative of as wide a variety of non-banking business interests as possible.

There might be cases involving persons who are engaged in commerce, agriculture, or industry and are therefore technically eligible as Class B directors, but who are nevertheless prominently associated with banking in the public mind because of important official connections with banks. The candidacy of such a person for election as a Class B director could be regarded as inconsistent with the purposes of the law. On the other hand, it is recognized that many prominent business men also hold directorships in banks and that in certain circumstances it would be unduly harsh to require them to resign such directorships before actual election as Class B directors.

For the reasons indicated, the Board believes that the questions presented in your letter should be determined as a matter of judgment in each case in the light of the spirit and purposes of the Board's 1915 resolution and the relevant provisions of section 4 of the Federal Reserve Act.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Item No. 3
9/16/60

BOARD OF GOVERNORS

OF THE

FEDERAL RESERVE SYSTEM

NOTICE OF REQUEST FOR DETERMINATION

PURSUANT TO SECTION 4(c)(6) OF

BANK HOLDING COMPANY ACT OF 1956 AND

ORDER FOR HEARING THEREON

Notice is hereby given that request has been made to the Board of Governors of the Federal Reserve System, pursuant to section 4(c)(6) of the Bank Holding Company Act of 1956 [12 U.S.C. 1843] and section 5(b) of the Board's Regulation Y [12 CFR 222.5(b)], by Otto Bremer Company, St. Paul, Minnesota, a bank holding company, for a determination by said Board that the proposed activities of the proposed Western State Credit Corporation, Marshall, Minnesota, are of the kind described in the aforementioned sections of the Act and the Regulation so as to make it unnecessary for the prohibitions of section 4 of the Act with respect to shares in nonbanking organizations to apply in order to carry out the purposes of the Act.

Inasmuch as section 4(c)(6) of the Bank Holding Company Act of 1956 requires that any determination pursuant thereto be made by the Board after due notice and hearing and on the basis of the record made at such hearing,

IT IS HEREBY ORDERED That pursuant to section 4(c)(6) of the Bank Holding Company Act of 1956 and in accordance with sections 5(b) and 7(a) of the Board's Regulation Y [12 CFR 222.5(b),

222.7(a)], promulgated under the Bank Holding Company Act of 1956, a hearing with respect to this matter be held commencing on October 12, 1960, at 10:00 a.m., at the offices of the Federal Reserve Bank of Minneapolis, Minneapolis, Minnesota, before a duly selected hearing officer, such hearing to be conducted in accordance with the Rules of Practice for Formal Hearings of the Board of Governors of the Federal Reserve System [12 CFR Part 263]. The right is reserved to the Board or such hearing officer to designate any other date or place for such hearing or any part thereof which may be determined to be necessary or appropriate for the convenience of the parties. The Board's Rules of Practice for Formal Hearings provide, in part, that "All such hearings shall be private and shall be attended only by respondents and their representatives or counsel, representatives of the Board, witnesses, and other persons having an official interest in the proceedings; Provided, however, That on the written request of one or more respondents or counsel for the Board, or on its own motion, the Board, when not prohibited by law, may permit other persons to attend or may order the hearing to be public."

Any person desiring to give testimony in this proceeding should file with the Secretary of the Board, directly or through the Federal Reserve Bank of Minneapolis, on or before October 3, 1960, a written request containing a statement of the nature of the petitioner's interest in the proceeding, and a summary of the matters concerning

which said petitioner wishes to give testimony. Such request will be presented to the designated hearing officer for his determination. Persons submitting timely requests will be notified of the hearing officer's decision.

Dated at Washington, D. C., this 16th day of September, 1960.

By order of the Board of Governors.

(SIGNED) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

T E L E G R A M
LEASED WIRE SERVICE

Item No. 4
9/16/60

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

September 16, 1960

COOMBS - NEW YORK

Your wire September 15. Board approves granting of loan or loans on gold up to a total amount of $16 million by your Bank to the Banco de la Republica Oriental del Uruguay on the following terms and conditions:

(a) To be made in multiples of $1 million up to 98 per cent of the value of gold bars set aside in your vaults under pledge to you;

(b) To run for 3 months with option to repay before maturity in multiples of $1 million;

(c) To bear interest at the discount rate of your Bank in effect on the date on which each such loan is made; and

(d) To be made not later than 30 days after your receipt of the Board's approval of this loan facility.

It is understood that the usual participation will be offered to the other Federal Reserve Banks.

(Signed) Merritt Sherman
SHERMAN

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

Item No. 5
9/16/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 16, 1960

Mr. George Cochran Doub,
Assistant Attorney General,
United States Department of Justice,
Washington 25, D. C.

Attention Mr. Samuel D. Slade,
Chief, Appellate Section

Re: Old Kent Bank and Trust Company v. William McC. Martin, Jr., et al. (No. 15,244, C.A.D.C.)
Your Ref: GCD:SDS:JGL, 145-105-8

Dear Mr. Doub:

In reference to the above-captioned case, the Board has been advised through your office of the denial on September 8, 1960, by the United States Court of Appeals for the District of Columbia of the petition for rehearing filed by your Department on the Board's behalf. In this connection, it is understood that conversations have taken place between Mr. John Laughlin of your staff and Mr. O'Connell of the Board's Legal Division on the subject of any further action by the Department seeking a reversal or setting aside of the Court of Appeals' decision of April 28, 1960.

It is understood that the Department has requested an expression of the Board's views as to the desirability of either of the following alternative courses of action: a motion for leave to file a petition for rehearing en banc or the filing of a petition for a writ of certiorari in the United States Supreme Court. As to either course of action, if the sole consideration were the Board's judgment as to the validity of its original position in this case, the Board's answer would be unequivocally in favor of seeking the remedies suggested. An expression of the Board's feelings in this regard was set forth in its letter of May 9, 1960. That letter was transmitted in response to your request for the Board's views on a proposal to file in the Court of Appeals a petition for rehearing en banc following the Court's reversal of the judgment and order of the United States District Court in the Board's favor.

Subsequent to the exchange of correspondence, it was mutually agreed that a more advantageous course of action would be to file a petition for rehearing by the members of the Court who had originally ruled on the appeal. While the effect on a motion for rehearing en banc of the Court's denial of the petition for rehearing is a matter of speculation, it would seem that the Court would perhaps be less inclined to receive favorably a motion for leave to file a petition for rehearing en banc in view of the denial for rehearing by the minority panel. The validity of this conclusion is supported, in the judgment of the Board, by the fact that the petition for rehearing filed by the Department presented the Board's position in a most thorough manner, making available to the Court every reasonable grounds for granting the rehearing sought. In view of this fact, it does not seem likely that reason would be found for the granting of a rehearing by the entire Court.

A further reason for the Board's departure from its original position of urging the filing of a petition for rehearing en banc is the fact that, subsequent to the Board's letter of May 9, 1960, the Congress enacted Public Law 86-463 which amended the Federal Deposit Insurance Act to broaden the scope of Federal supervisory jurisdiction as to mergers and consolidations of insured banks. It is believed that the Court of Appeals and the Supreme Court might take the position that the potential dangers asserted by the Board to be inherent in the reversal by the Court of Appeals in this case have now been removed by the merger legislation. Since the Board understands that, as to either petition herein discussed, a court would give substantial consideration to the future need for further judicial action on the decision in question, it is the Board's judgment that the probability of either petition being granted has been considerably lessened by the passage of the merger legislation.

It should be understood that the Board's views as herein expressed are offered for what assistance they may be to the Department in reaching its decision and that the Board defers to the Department's judgment in this matter based on its previous experience. Therefore, while the Board is not strongly inclined to pursue either course of conduct discussed, should the Department determine to proceed further along either line of appeal, the Board's legal staff will fully cooperate in rendering whatever assistance is required.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 6
9/16/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 16, 1960

CONFIDENTIAL (FR)

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

Dear Mr. Campbell:

In accordance with the request contained in your letter of September 8, 1960, the Board approves the reappointment of Harold Edwin Ikeler, Jr. as an assistant examiner for the Federal Reserve Bank of Philadelphia. Please advise us as to the date on which the reappointment is made effective.

It is noted that Mr. Ikeler is indebted to West Milton State Bank, West Milton, Pennsylvania, a nonmember bank, in the amount of $700. Accordingly, the Board's approval of Mr. Ikeler's reappointment is given with the understanding that he will not participate in any examination of West Milton State Bank until his indebtedness has been liquidated.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.