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Minutes for December 8, 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 Thursday, December 8, 1960. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Szymczak
Mr. Mills
Mr. Robertson
Mr. Shepardson
Mr. King 1/

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Rudy, Special Assistant, Legal Division
Mr. Furth, Associate Adviser, Division of International Finance
Mr. Conkling, Assistant Director, Division of Bank Operations
Mr. Nelson, Assistant Director, Division of Examinations
Mr. Goodman, Assistant Director, Division of Examinations
Mr. Landry, Assistant to the Secretary
Mr. Veenstra, Technical Assistant, Division of Bank Operations
Mr. Leavitt, Supervisory Review Examiner, Division of Examinations

Discount rates. The establishment without change by the Federal Reserve Bank of Philadelphia on December 1, 1960, of the rates on discounts and advances in its existing schedule was approved unanimously, with the understanding that appropriate advice would be sent to that Bank.

At the request of the Chairman, Mr. Furth then commented briefly on the reduction by the Bank of England of its bank rate from 5-1/2 per cent to 5 per cent.

1/ Withdrew from meeting at point indicated in minutes.

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:

	Item No.
Letter to the Federal Deposit Insurance Corporation regarding the application of Ida County State Bank, Ida Grove, Iowa, for continuation of deposit insurance after withdrawal from membership in the Federal Reserve System.	1
Letter to Bank of Idaho, Boise, Idaho, approving the establishment of a branch in Ada County.	2

Application to organize a national bank at Deming, New Mexico (Item No. 3). There had been circulated to the Board a memorandum from the Division of Examinations dated November 28, 1960, proposing an unfavorable recommendation to the Comptroller of the Currency with respect to an application to organize a national bank at Deming, New Mexico. The Federal Reserve Bank of Dallas also had suggested such a recommendation. When the file was in circulation, Governors Mills, Robertson, and King indicated that they questioned the proposed unfavorable recommendation.

Mr. Solomon reviewed the situation and said the essential point upon which the Division's recommendation had been based was that there was already a bank in the town of Deming, which had a population of about 6,700, and that it seemed questionable whether it would be wise to divide the limited amount of available banking business between two banks.

Mr. Nelson added the comment that although there was a good demand for loans in the Deming area, deposits did not appear to be available in any volume. The examiner from the Federal Reserve Bank of Dallas who investigated the application concluded that few deposits were leaving Deming for other locations and did not find evidence of enough potential growth in the area to cause him to feel that another bank would be justified. It was noted that the deposits of neighboring banks were also quite small.

Governor Mills said he had gained the impression from reviewing the file that the town of Deming, plus the surrounding area, offered reasonable opportunity for another bank and that the community had shown some growth in spite of the fact that a nearby military installation had been deactivated. On that basis, and because the organizers of the proposed new bank appeared to be exceptionally reliable persons, it appeared to him that a favorable recommendation could be justified.

Mr. Nelson then commented that efforts were being made to bring industries into the Deming area, that a few small concerns had come in, and that the released military property was being held out as a site for industrial development. However, the Dallas examiner felt that any further expansion of the community would have to rely primarily on the tourist trade.

Governor Robertson referred to his basic premise that competition should be provided wherever possible. The existence of banking competition, he pointed out, might help to bring new industries into the Deming area.

On that basis, and since the sponsors of the bank appeared to be able persons, he would favor giving them the opportunity to establish the bank.

Governor Shepardson said that he was familiar with the area and that he did not think there was much chance of developing sufficient business to support two banks. He believed in the theory of providing competition. However, in view of the sparsity of population, the nature of the land, and the lack of apparent potential for a great deal of development, he did not feel that it would be desirable to encourage the starting of a new bank.

Governor King said that this had seemed to be a marginal case, and therefore he had indicated some question about the recommendation. Upon further consideration, however, he would support the position of the Division of Examinations.

Governor Szymczak stated that he also would be inclined to go along with the Division and the Reserve Bank, and Chairman Martin said that this would be clearly his own view. From his knowledge of the area, he felt that the possibility of further substantial development was highly doubtful and that probably it would be the better part of wisdom not to go contrary to the recommendation of the Reserve Bank.

Thereupon, the views of Governors Mills and Robertson having been noted, the proposed letter to the Comptroller of the Currency recommending unfavorably on the application was approved. A copy is attached as Item No. 3.

Proposed revisions in report of earnings and dividends (Item No. 4).

Circulation had been completed of a memorandum from the Division of Bank Operations dated November 29, 1960, regarding revisions in the report of earnings and dividends contemplated for use by State member banks in 1961. Attached to the memorandum was a draft of letter that would inform all Federal Reserve Banks that copies of the reporting form were being sent to them, for use by State member banks in reporting earnings and dividends for the calendar year 1960, in the same format as used for reports covering the first half of 1960. However, the proposed letter would also refer to the revision of the reporting form for use in 1961 and to plans for announcing the changes to State member banks at an appropriate time. The nature of those changes, and negotiations pertaining thereto with the other Federal bank supervisory agencies, had been set forth in the Division's memorandum of July 15, 1960, which was considered at the Board meeting on July 22, 1960. The November 29 memorandum stated that although there was unanimous agreement at a July 1960 staff meeting of the three Federal bank supervisory agencies that the new form would be used in 1961, a complication had arisen in that representatives of the Federal Deposit Insurance Corporation later indicated that they would prefer to delay use of the new form until 1962. On the other hand, the Comptroller's representatives felt that the supervisory agencies had an obligation to put the new form into use in 1961, and in the opinion of the Division of Bank Operations it appeared desirable to

go along with the Comptroller. Because of the extensive nature of the revisions, it seemed to the Division that reporting banks should have advance notice so that any necessary changes could be made in their accounting procedures.

Mr. Conkling stated that according to an indication received recently by telephone from the Federal Deposit Insurance Corporation, it now appeared that the Corporation would go along with putting the new reporting form into use in 1961 despite earlier indications to the contrary. Accordingly, it seemed that the problem referred to in the memorandum had probably been resolved.

Unanimous approval was then given to the proposed letter to the Presidents of all Federal Reserve Banks, a copy of which is attached as Item No. 4.

Messrs. Conkling, Nelson, and Veenstra then withdrew from the meeting.

Proposal by BancOhio Corporation to liquidate Prairie Land Company (Item No. 5). Copies had been distributed of a memorandum from the Legal Division dated December 1, 1960, regarding conformance to section 4(a)(2) of the Bank Holding Company Act of a proposal by BancOhio Corporation, Columbus, Ohio, to liquidate Prairie Land Company. The memorandum indicated that BancOhio Corporation, a bank holding company, indirectly controlled 250 shares of the Prairie Land Company, a nonbanking interest prohibited by

section 4(a)(2) of the Bank Holding Company Act. The Board had granted several extensions of the period during which BancOhio could retain this interest; the current and final extension was to expire on May 9, 1961. BancOhio had now submitted a plan to liquidate Prairie Land Company and transfer that Company's real estate to a pension trust, administered by a subsidiary bank for the benefit of employees of BancOhio and its affiliates, as a contribution under section 404(a)(1) of the Internal Revenue Code of 1954, provided the transfer would meet the requirements of section 4(a)(2) of the Bank Holding Company Act and would not disqualify the trust under section 401(a) of the Internal Revenue Code. It was the view of the Legal Division that when Prairie Land Company had been liquidated and its real estate conveyed to the employees' retirement trust, the relationship between BancOhio and Prairie Land Company prohibited by section 4(a)(2) would be terminated.

Following a discussion, during which Mr. Rudy explained the reason for the language used in one part of the proposed reply to BancOhio Corporation, the letter was approved unanimously. A copy is attached as Item No. 5.

Application of Muscatine-Joliet Investment Corporation (Item No. 6). There had been distributed under date of December 5, 1960, a memorandum from the Division of Examinations recommending favorably on an application by Muscatine-Joliet Investment Corporation, Joliet, Illinois, for a determination

that it was not a holding company affiliate except for the purposes of section 23A of the Federal Reserve Act. Muscatine-Joliet owned a controlling interest in one bank, Muscatine Bank and Trust Company, Muscatine, Iowa, and had no other assets except cash. However, Muscatine-Joliet had indicated that it might from time to time purchase other bank stocks for investment purposes in amounts constituting less than a controlling interest. The Division's recommendation was based on the Board's policy of making favorable determinations as a normal matter in all one-bank cases, with the understanding that a determination would be declined in any extraordinary case in which such action should seem necessary. Since the stated intention of Muscatine-Joliet to acquire other bank stocks could result in its attaining a position whereby the Board might deem desirable a determination that the Corporation was engaged as a business in holding the stock of banks, the attached proposed draft of letter granting the determination would emphasize that the Board reserved the right to rescind the determination.

Governor Mills expressed the view that in this case it was prudent to emphasize in the letter to the applicant the right of the Board to rescind the determination. He noted that the present owners of Muscatine Bank and Trust Company appeared to have stripped it of a substantial amount of readily realizable assets, and in the circumstances he felt that the Division of Examinations would be justified in watching developments closely.

The letter to Muscatine-Joliet Investment Corporation granting the requested determination was then approved unanimously. A copy is attached as Item No. 6.

Messrs. Hexter and O'Connell, Assistant General Counsel, and Mr. Potter, Legal Assistant, entered the room at this point.

Limitations on loans by foreign banking subsidiaries (Items 7 through 9). Distribution had been made of a memorandum dated November 18, 1960, from Messrs. Solomon, Goodman, Furth, and Hexter regarding limitations on loans by foreign banking subsidiaries of American banks. The memorandum referred to ownership by The Chase Manhattan Bank, New York City, of a wholly-owned agreement corporation (Chase Manhattan Overseas Corporation) and by The First National City Bank of New York, New York City, of another wholly-owned agreement corporation (International Banking Corporation), and to the ownership in turn by each of those agreement corporations of the entire stock of a bank organized and operating in the Union of South Africa, namely, The Chase Manhattan Bank (South Africa) Ltd. and The First National City Bank of New York (South Africa) Ltd., respectively. The memorandum pointed out that agreement corporations, like Edge Act corporations, are subject to the provision of Regulation K which prescribes a general limit of 10 per cent of capital and surplus, with various exceptions, on the amount that a banking corporation (either Edge or agreement) may lend to one borrower. When Chase Manhattan Overseas Corporation and International Banking Corporation were authorized to acquire the stock of their South

African subsidiaries, in effect the Board imposed a requirement in each case that the parent's 10 per cent limit also applied to loans by the subsidiary. Therefore, since the capital and surplus of Chase Manhattan Overseas Corporation is $1,500,000 and that of International Banking Corporation is $7,000,000, their South African subsidiaries could not make "ordinary" loans in excess of $150,000 and $700,000, respectively (with various exceptions). Both Chase Manhattan and First National City were dissatisfied with this situation and requested that their subsidiaries be allowed to make any loans permissible under the laws of South Africa, and the Federal Reserve Bank of New York had supported both requests. Chase Manhattan had also requested that the existing limitations be suspended pending the Board's action on this question. In accordance with the discussion at the meeting on September 16, 1960, Chase Manhattan's letter had been answered informally by telephone, with an indication that a formal response would be forthcoming.

The memorandum of November 18, which had been prepared pursuant to the understanding at the meeting on September 16, presented recommendations of the staff as follows:

1. That limitations on the lending authority of foreign banking subsidiaries of Edge Act or agreement corporations be neither abolished nor temporarily suspended;

2. That any change in these limitations be handled, for the present at least, by amendment to the outstanding letter authorizations rather than by amendment to Regulation K;

3. That any relaxation of these limitations be restricted to loans granted by foreign subsidiaries in the country in which organized and operating and in the currency of that country;

4. That the limitations be applied only to those foreign banking subsidiaries that are under the control of an Edge Act or agreement corporation.

In addition, there were included in the memorandum differing recommendations of the Division of Examinations and the Legal Division. The former recommended that the limitation on the lending authority of the foreign banking subsidiaries of Chase Manhattan Overseas Corporation and International Banking Corporation be raised from 10 to 25 per cent of the paid-in capital and surplus of each of the latter institutions. On the other hand, the Legal Division recommended that the Board authorize the staff to explore with Chase Manhattan Overseas Corporation and International Banking Corporation the feasibility of basing loan limitations of foreign banking subsidiaries upon subscribed capital (and surplus) of those subsidiaries rather than paid-in capital (and surplus). Thus, the Legal Division suggested that the percentage limitations on the lending authority of foreign banking subsidiaries of Edge Act and agreement corporations not be based upon the capital and surplus of the parent Edge Act or agreement corporation.

Governor Robertson noted that in addition to the possible alternatives set forth in the memorandum, the possibility existed of removing all limitations on loans by foreign banking subsidiaries.

Staff views were then requested, and Mr. Solomon said his original inclination had been to feel that it would be logical to apply the loan limitation to the capital and surplus of the ultimate foreign subsidiary, rather than to the parent Edge or agreement corporation, on an analogy with domestic banking requirements. However, as his thinking on this question proceeded, he had come to a different conclusion. It might be said that the matter of primary concern, in respect to the South African banks, was to have good banks operated, to provide services to the South African community, and not to have the operations of the banks result in losses to the depositors. However, the South African Government also had an interest in those matters and presumably would watch the situation to a considerable degree. Historically, the Congress seemed to have been more interested in not having this type of operation result in loss to the parent company in this country; and from the point of view of protecting banks in this country against undue losses in South Africa there might be some point in tying the loan limitations to the amount that the statute says the parent corporation may put at risk.

A practical consideration, Mr. Solomon said, was to come up with a fairly workable loan limitation that would be defensible. If the limitation were increased to 25 per cent of the capital and surplus of the parent Edge or agreement corporation, that probably would give the South African banks reasonable latitude within which to operate. On the other hand, if one approached the problem through the capital and surplus

of the foreign banking subsidiary, it might be necessary to use a percentage of capital and surplus which would not constitute a meaningful limitation in order to arrive at a practical solution.

Mr. Solomon went on to say that it would not disturb him too greatly to accept the proposal of the corporations themselves and say that on an experimental basis the Board would not require conformance to a loan limitation at this time, thus leaving the situation open for observation. This would be reasonably consistent with the theory that experimentation is necessary in a field as novel and different as the one under discussion.

Mr. Goodman commented that he had tried to suggest over the years that the Board pursue a consistent policy whenever possible. He recalled that when the Edge Act was introduced one of the concepts was that the authority in section 25 of the Federal Reserve Act for agreement corporations would be so restrictive that banks could not do what they wished to do. It was thought that Edge Act corporations would be a little more liberal than agreement corporations. If the Board now made it possible for member banks operating agreement corporations to do something not permitted for Edge corporations, this might suggest an element of inconsistency.

Mr. Hexter commented that the fundamental question involved was the purpose of loan limitations. Such limitations are generally thought of as protecting depositors and endeavor to assure that the bank will

continue as a going institution and the shareholders will not have an insolvent bank on their hands. If so, it would seem that the loan limitation would almost have to be based on the capital and surplus of the lending institution. If, however, the Board was not so much concerned with the protection of the depositors in a foreign bank representing an American bank as it was with protecting the American bank from sustaining undue loss, then it seemed to him that the alternative was to remove the limitation altogether rather than adopt the suggestion of the Division of Examinations. The two parent American banks could lend on any occasion many times the total amount invested in the foreign enterprises in question; there could be no loss from these enterprises approaching their own 10 per cent limitation.

Mr. Hexter pointed out that to base the loan limitation on the paid-in capital and surplus of the foreign subsidiary bank would result, in one case, in quite a small loan limitation. Therefore, the Legal Division had suggested exploring the use of subscribed capital rather than paid-in capital. This would enable the parent institutions to back up their South African subsidiaries whenever necessary and would enable the subsidiaries to make larger loans. At the same time, it would protect the American banks from having to place funds unprofitably in the foreign banking subsidiaries if such funds were not needed, and it would protect them from the danger of expropriation.

Mr. Furth said that from the point of view of logic he felt the Legal Division was right. It would seem illogical to base a loan limitation of one company on the capital and surplus of another company. However, it seemed doubtful whether changes should be made simply because the present system was not logical; if the present plan was working satisfactorily, it would seem better not to change simply in order to provide a system that was completely logical. The change to 25 per cent suggested by the Division of Examinations apparently would meet all of the practical demands of the situation, and he was inclined to feel that the proposal reflected the preferable procedure.

Mr. Furth commented that it might be regarded as more logical to do away with the loan limitations altogether. This might not do any harm in the present cases, but on the other hand it could lead to consequences that would not be beneficial. In this connection, he called attention to the operations of Banca d'America e d'Italia in Italy as an indication that the problem went beyond the two South African cases. With regard to the subscribed capital approach, he noted that here again the adoption of such an approach might have ramifications that could not be foreseen today.

The members of the Board then stated their views, beginning with Governor Szymczak, who indicated that he would not be inclined to suspend

the loan limitations entirely until the Board could be sure that it was going in the right direction. He favored the proposal of the Division of Examinations.

Governor Mills said that as he analyzed the problem he could not discover that any formula had been proposed that, in limiting the lending authority of the two institutions, would provide sufficient latitude for them to engage competitively and constructively in the banking business in South Africa. If the proposed limitations were imposed on the banks, it was his belief that the banks might just as well close their doors and liquidate. According to that reasoning, his judgment would be that the limitations presently imposed should be suspended and that over an experimental period the two banks should be permitted at their discretion to set their own loan limits. It would seem a foregone conclusion, he said, that the resources they could employ in credit transactions were of necessity going to be confined to the deposits they were able to generate in South Africa. For a considerable time to come it seemed doubtful whether the magnitude of those deposits would reach such a level that even bad management could involve the banks in extensions of credit such as to expose the depositors to undue risk, even assuming, which was unlikely, that the parent organizations would not underwrite their guarantee, direct or indirect, to the depositors in the two banks. If the limitations were suspended, developments could be followed and

the problem could be reviewed at some later time. In the light of that experience, some formula might be devised that would have more logic and more latitude embodied in it than any of the proposals before the Board for consideration today.

Governor Robertson said that where there were three corporations, the first of which completely owned the second and the second of which completely owned the third, he could see no justification for tying the lending limits of the third to the second. If one were going that far, he felt it would be logical to go all the way to the first corporation. Therefore, he would discard the proposal of the Division of Examinations. The suggestion of the Legal Division seemed to him to have far more merit, since he felt that there were good reasons for applying the same prescription with respect to the safety of depositors that Congress had fixed for national banks in this country and that any deviation should be fully justified. If there were going to be limitations for the purposes Congress thought appropriate for banks in this country, they should be applied and not expanded. The suggestion of the Legal Division for exploration of the use of subscribed capital was, he thought, sound. Probably it would suffice to meet the needs of the cases under consideration, and it could be explored without deviating from Congressional policy. If it should be decided not to do that, however, he would favor turning to the proposition of Governor Mills and removing the loan limitations, thus

leaving solely to the decision of the institutions concerned the limits on loans made by the South African subsidiary banks. This would be the same situation as if the parent corporations were operating branch institutions. The moral obligation on the part of the parent corporation would, he suggested, be effective; the parent corporation could not permit one of its own subsidiary banks to go to the wall.

In summary, Governor Robertson said, he would not go along with the theory expressed by the Division of Examinations. He would be willing to go along with the suggestion of Governor Mills, but he would prefer to make no change until the use of subscribed capital had been explored.

Governor Shepardson said that, notwithstanding Mr. Furth's observations, if the Board was going to make any move he felt it should try to make a logical move. The case presented by the Legal Division appeared to represent the logical approach, and he would favor adoption of the Legal Division's recommendation. If the Board did not wish to act in that manner, however, he would favor suspending the loan limitations. Admittedly, this was an experimental field, and it might be left to the strong institutions that were interested to carry on the experimentation. The rules could then be considered further in the light of that experimentation.

Governor King indicated that he would favor suspending the loan limitations on a temporary basis, adding that he thought it was logical to do so under the circumstances. As Governor Robertson had pointed out, the parent bank would of necessity feel a moral obligation in respect to

the foreign banking subsidiary, and this would tend to offset the concern felt for the protection of depositors in the foreign bank. Governor King added that it was difficult to protect a bank from its own judgments; the parent banks under consideration had the power to make large loans through different means. In summary, he would favor experimentation, with the understanding that the matter would be left open for further consideration by the Board in the light of such experimentation.

Chairman Martin inquired whether it was felt that six months would be a reasonable period of experimentation, and both Governor Robertson and Governor Shepardson indicated that they would have in mind a longer period. It was the consensus that no definite period of experimentation should be specified.

The Chairman then stated that he would favor suspension and experimentation. He suggested that the Board was dealing with an uncharted area and that some experimentation was needed. It is nice to be logical, the Chairman commented, but he did not think it was always feasible to try to be completely logical.

Governor Shepardson commented that he would not take exception to the idea of experimentation if it were understood that the objective was to try to work out some change.

Governor Szymczak stated that he also would be willing to go along. He noted, however, that there were other problems involved in addition to

those relating to the South African subsidiaries. Bank of America, like Chase Manhattan and First National City, had made representations in the area under discussion.

Mr. Solomon expressed the view that the situation of Bank of America was probably the main problem when it came to consideration of suspension of the loan limitations. There was, of course, always the possibility that other interests would seek to enter the field. As to any new corporations, one might say that if the need should arise the Board could at that time consider applying some loan limitations and possibly making them applicable also to the existing institutions. He supposed one might make a case for waiving the loan limitations in the case of the South African banking subsidiaries of Chase Manhattan and First National City but not for Banca d'America e d'Italia, but he was not quite sure how such a decision could be supported. As a practical matter, however, the Italian bank was a strong, going concern and Bank of America had large capital, so the 10 per cent loan limitation probably would not pinch too much.

In further discussion of this phase of the matter, Governor Mills said he had thought that the Board was considering how to respond to two specific requests, and that Bank of America had entered the picture in sort of an amicus curiae capacity. He inquired why it was considered necessary to go further at this time than to respond to the two specific

requests, with notice to Bank of America of the replies sent to Chase Manhattan and First National City.

At this point Mr. Goodman referred to the situation of the Bank of Monrovia, a foreign banking subsidiary of International Banking Corporation, noting that certain excess loans of that bank prompted consideration originally of the question of the loan limitations.

Mr. Hexter said that if it were assumed for the moment that the immediate question was raised because of the position of the two South African banks, nevertheless before the Board took a position with respect to them it might wish to bear in mind that if another institution should find itself in an identical situation the Board could expect that institution to make a similar request. Therefore, the Board might want to look ahead.

Governor Mills then said that his philosophy on this point went back to the matter of experimentation. Such experimentation, he suggested, might be permitted to only the well-managed institutions. If a less responsible corporation were to make a similar request, he would favor imposing such restrictions as had to be imposed. After a period of experimentation by the South African banks, he pointed out, the Board would have an opportunity to appraise the developments that had occurred.

Mr. Furth inquired whether it was the thinking that relief from the loan limitations was to extend only to operations within the country involved and in the currency of that country.

Chairman Martin stated that he understood the Board was talking only about local currency operations, and there was no indication of dissent from the Chairman's statement.

The Chairman then said that personally he would like to see the suspension and experimentation applied to everybody. He would regard that as a step in the right direction.

Governor Shepardson referred further to the distinctions that might be drawn in this regard between Chase Manhattan, First National City, and Bank of America, his question being why the Board should not let Bank of America experiment also.

Mr. Solomon responded that he would guess that Banca d'America e d'Italia was much more of a domestic operation--much more closely tied to the domestic economy in Italy--than either of the two banks in South Africa. Conceivably, therefore, it might tend to get into a riskier type of operation.

There ensued additional discussion during the course of which reference was made to the provisions of section 10 of Regulation K.

Governor Robertson then expressed the view that the Board would be likely to get itself in trouble the moment it discriminated between banking institutions, following which Chairman Martin inquired whether it would not be agreeable to go ahead and suspend the pertinent portions of all of the outstanding letters of authorization, thus suspending the lending limitations applicable to all foreign banking subsidiaries of Edge and agreement corporations. This contemplated that no definite period of experimentation would

be specified, and that operations would be subject to observation and review by the Board.

There being no further comments, it was understood that the procedure suggested by the Chairman would be followed. Copies of letters sent to The Chase Manhattan Bank, The First National City Bank of New York, and Bank of America pursuant to this understanding are attached to these minutes as Items 7, 8, and 9, respectively.

Governor King withdrew from the meeting at this point, and Messrs. Hexter, Furth, Goodman, and Potter also withdrew.

Motion by Continental Bank and Trust Company for summary judgment (Item No. 10). On July 18, 1960, the Board issued an Order directing The Continental Bank and Trust Company, Salt Lake City, Utah, to effect an increase in its net capital and surplus funds in the amount and within the time specified in the Order. In September 1960 Continental entered a suit for declaratory judgment in the Federal District Court for the District of Columbia. Defense against this suit had, according to usual procedure, been placed in the hands of the Department of Justice, and the matter was still pending.

With reference to this matter, Mr. O'Connell reported that on December 5, 1960, Continental filed in the District Court a motion for summary judgment in its suit against the Board, accompanied by a lengthy supporting memorandum. This action by Continental changed the previous

time schedule in respect to the litigation, and a period of less than two weeks was available for the Justice Department for reply on behalf of the Board. Since the Justice Department apparently had not had an opportunity to work on the Board's defense in this matter, a pressing time problem therefore was presented. After outlining the steps that would have to be taken, and the time within which those steps would have to be accomplished, Mr. O'Connell indicated that it was the view of the Legal Division that the retention of outside counsel would be appropriate. He noted that this suggestion, made informally to the Justice Department, had been agreeable to it, but that the Department, in expressing agreement, had made certain stipulations, as follows:

1. The name of such outside counsel would not appear in the briefs prepared in this case;

2. Justice would retain its authority to decide the legal steps to be taken; and

3. Payment for the services of such outside counsel would be met by the Board.

It was the recommendation of the Legal Division, Mr. O'Connell said, that Mr. Bolling R. Powell, Jr., who had served as Special Counsel to the Board in connection with proceedings regarding the capital adequacy of The Continental Bank and Trust Company, be retained for the purposes indicated.

Mr. Hackley referred to the Board's letter of July 21, 1960, to Mr. Powell in which it was stated that without revoking the retainer agreement contained in the Board's letter of May 25, 1956, as amended effective

January 1, 1959, in accordance with the Board's letter of January 21, 1959, neither he nor his firm would be expected to perform any further services on the Board's behalf pursuant to that agreement unless and until the Board so requested. Mr. Hackley said that Mr. Powell was thoroughly familiar with the record in the Continental case and for this reason would be the logical choice to assist in the legal work referred to by Mr. O'Connell.

There followed a discussion of alternative steps that might be taken should Mr. Powell not be available for this assignment, at the conclusion of which Governor Mills suggested that the Board act promptly, through the Legal Division, to ascertain whether Mr. Powell's services would be available.

Governor Mills then inquired as to the possible effect of asking for an extension of time, by stipulation of counsel, to reply to the motion for summary judgment. It appeared to him that an unfavorable inference might be drawn, because of the Board's contention that there was urgent need for increasing the capitalization of the Continental Bank, if an extension of time was requested.

Mr. O'Connell replied in terms that the record would show that both the Justice Department and the Board's Legal Division had received very short notice of the motion for summary judgment.

Following further discussion, the Legal Division was authorized to ascertain if Mr. Powell was available for the indicated assignment,

with the understanding that in such event his services would be retained. It was also understood that Mr. Powell would be informed of the three conditions stated by the Justice Department with respect to his participation.

Secretary's Note: Pursuant to the foregoing action, the services of Mr. Powell were arranged for, according to the terms of the retainer agreement contained in the Board's letter of May 25, 1956, as amended January 1, 1959. A copy of the letter to Mr. Powell confirming the arrangement is attached as Item No. 10.

All of the members of the staff except Messrs. Sherman and Fauver then withdrew and the Board proceeded to a consideration of the appointment of directors of Reserve Banks and branches. No actions were taken, however, the matters under discussion being deferred pending the availability of additional information.

The meeting then adjourned.

Secretary's Notes: Governor Shepardson informed the Secretary that during an executive session on December 7, 1960, the Board approved a memorandum dated December 2, 1960, from Mr. Fauver, Assistant to the Board, recommending that the customary arrangements, including luncheon, be made in connection with visits to the Board's offices by representatives of various State banker associations during the first part of 1961.

Pursuant to the recommendation contained in a memorandum from Mr. Koch, Adviser, Division of Research and Statistics, Governor Shepardson today approved on behalf of the Board acceptance of the resignation of Joan D. Hosley, Statistical Assistant in that Division, effective December 5, 1960.

Secretary

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

Item No. 1
12/8/60

December 8, 1960

The Honorable Jesse P. Wolcott, Chairman,
Federal Deposit Insurance Corporation,
Washington 25, D. C.

Dear Mr. Wolcott:

Reference is made to your letter of November 29, 1960, concerning the desire of Ida County Bank, Ida Grove, 1/ Iowa, to continue as an insured bank following its withdrawal from membership in the Federal Reserve System.

While no specific programs have been urged upon the bank, its attention has been directed by the Federal Reserve Bank of Chicago to a sizable volume of classified loans and a disproportionate capital relationship reflected at the time of last examination on May 16, 1959.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

1/ Ida County State Bank, Ida Grove, Iowa.

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

Item No. 2
12/8/60

December 8, 1960

Board of Directors,
Bank of Idaho,
Boise, Idaho.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of San Francisco, the Board of Governors of the Federal Reserve System approves the establishment of a branch in the Collister Shopping Center in the vicinity of the intersection of Collister Drive and State Highway 44, Ada County, Idaho, by Bank of Idaho, provided the branch is established within six months from the date of this letter.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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

Item No. 3
12/8/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 8, 1960

Comptroller of the Currency,
Treasury Department,
Washington 25, D. C.

Attention Mr. G. W. Garwood,
Deputy Comptroller of the Currency.

Dear Mr. Comptroller:

Reference is made to a letter from your office dated July 6, 1960, enclosing copies of an application to organize a national bank at Deming, New Mexico, and requesting a recommendation as to whether or not the application should be approved.

A report of investigation of the application made by an examiner for the Federal Reserve Bank of Dallas indicates that the proposed capital structure of the bank would be adequate. However, the prospects for earnings are not very favorable in view of the limited volume of deposits available, and there does not appear to be sufficient need for another bank at this time. While the members of the proposed board of directors are reported to be successful business and professional men, it does not appear that satisfactory arrangements have been made for a strong executive to assure future good management of the bank. In view of all the circumstances, the Board of Governors does not feel justified in recommending approval of the application.

The Board's Division of Examinations will be glad to discuss any aspects of this case with representatives of your office if you so desire.

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
12/8/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

Dear Sir:

Under separate cover copies of form FR 107 are being sent to your Bank for use by State member banks in submitting their reports of earnings and dividends for the calendar year 1960. The form is the same as the one used in submitting reports for the first half of 1960.

Revised forms and instruction pamphlets relating to reports of earnings and dividends are being prepared for use in making reports for the first half of 1961. The major changes will be the inclusion of a new item for reporting supplementary and fringe benefits, a new item of net occupancy expense with a supporting schedule, and a revision of Section B. However, neither the Office of the Comptroller of the Currency nor the Federal Deposit Insurance Corporation will include any mention of these revisions in their letters transmitting forms for the calendar year 1960 because of the possibility of confusion, on the part of reporting banks, in their preparation of forms for 1960.

The Office of the Comptroller of the Currency contemplates an announcement to the national banks regarding these revisions shortly after the first of the year. The Board will transmit a similar announcement to the Reserve Banks sufficiently in advance so that information regarding the forms may be received by all member banks at about the same time.

Very truly yours,

(Signed) Merritt Sherman

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. 5
12/8/60

December 8, 1960

Mr. Derrol R. Johnson, President,
BancOhio Corporation,
51 North High Street,
Columbus 15, Ohio.

Dear Mr. Johnson:

This refers to your Corporation's letter of November 16, 1960, submitting a plan concerning Prairie Land Company and inquiring whether the proposal would meet the requirements of section 4(a)(2) of the Bank Holding Company Act of 1956. The transmittal letter points out that the proposal is subject to a determination by the Commissioner of Internal Revenue that the transfer will not disqualify the trust under section 401(a) of the Internal Revenue Code.

The Board understands that the following are the material facts: Prairie Land Company is a non-banking subsidiary of BancOhio Corporation, a bank holding company. Prairie Land Company will be liquidated, and its real property transferred to the "Retirement Trust for Employees of BancOhio Corporation and Affiliated Banks". The trustee for the retirement trust is The Ohio National Bank of Columbus, Columbus, Ohio, a banking subsidiary of BancOhio Corporation. The retirement trust is a qualified employee's pension plan under section 401(a) of the 1954 Internal Revenue Code.

It is the Board's opinion, based on the foregoing facts, that the liquidation of Prairie Land Company and the conveyance of its real property to the retirement trust will terminate the relationship between BancOhio Corporation and Prairie Land Company, prohibited by section 4(a)(2) of the Bank Holding Company Act of 1956.

It is requested that the Board be advised, through the Federal Reserve Bank of Cleveland, when liquidation of the Prairie Land Company has been completed and the real property transferred to the retirement trust.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 6
12/8/60

December 8, 1960

Mr. James L. Ruddy, Treasurer,
Muscatine-Joliet Investment Corporation,
50 W. Jefferson Street,
Joliet, Illinois.

Dear Mr. Ruddy:

This refers to your request, submitted through the Federal Reserve Bank of Chicago, for a determination by the Board of Governors of the Federal Reserve System as to the status of Muscatine-Joliet Investment Corporation as a holding company affiliate.

The Board understands that Muscatine-Joliet Investment Corporation was organized as a personal holding company for investment purposes; that its principal asset consists of stock of Muscatine Bank and Trust Company, Muscatine, Iowa; that it owns 65 per cent of the authorized and outstanding shares of stock of Muscatine Bank and Trust Company; and that Muscatine-Joliet Investment Corporation does not, directly or indirectly, own or control any stock of any other banking institution, or manage or control any banking institution other than Muscatine Bank and Trust Company.

In view of these facts, the Board has determined that Muscatine-Joliet Investment Corporation 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 within the meaning of section 2(c) of the Banking Act of 1933, as amended; and, accordingly, Muscatine-Joliet Investment Corporation is not deemed to be a holding company affiliate except for the purposes of section 23A of the Federal Reserve Act and does not need a voting permit from the Board of Governors in order to vote the bank stock which it owns.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

If, however, the facts should at any time differ from those set out above to an extent which would indicate that Muscatine-Joliet Investment Corporation might be deemed to be so engaged, this matter should again be submitted to the Board. Particularly, if investments in bank stocks other than Muscatine Bank and Trust Company are of such an extent and size, even though not constituting control, as to make it advisable for the Board to determine that Muscatine-Joliet Investment Corporation is engaged as a business in holding the stock of banks, the determination herein granted may be rescinded. 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. 7
12/8/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 13, 1960

Mr. John J. McCloy, Chairman,
Board of Directors,
The Chase Manhattan Bank,
18 Pine Street,
New York 15, New York.

Dear Mr. McCloy:

Reference is made to the subject of limitations on loans outside the United States by foreign banks that are controlled by Agreement Corporations or Edge Act Corporations. This matter was discussed in the Board's letter of August 24, 1960, relating to Mr. Cain's letter of February 3, 1960; Mr. Cain's letter of September 7, 1960; and your letter of September 24, 1960.

The Board's letter of January 5, 1959, granted consent to the then proposed investment by Chase Manhattan Overseas Corporation in the stock of The Chase Manhattan Bank (South Africa) Ltd., on condition, among others, "That Overseas Corporation shall not hold any stock in the South African bank . . . if the South African bank, except with the consent of the Board of Governors, . . . takes any action or undertakes any operation in the Union of South Africa or elsewhere which at that time is not permissible to Overseas Corporation without such consent;".

The Board has given further consideration to the views of your Bank, as well as those of other institutions with foreign subsidiary banking corporations, and has concluded that experimentation is warranted. Accordingly, subject to continuing observation and review, the Board suspends, until further notice, the provisions of subparagraph (1) of the sixth paragraph of the Board's letter of January 5, 1959, so far as they relate to restrictions on loans granted by the South African bank in the Union of South Africa in the currency of that country.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 8
12/8/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 13, 1960

Mr. James S. Rockefeller, Chairman,
The First National City Bank of New York,
55 Wall Street,
New York, New York.

Dear Mr. Rockefeller:

Reference is made to the subject of limitations on loans outside the United States by foreign banks that are controlled by Agreement Corporations or Edge Act Corporations. This matter was discussed in the Board's letter of August 24, 1960, and your letter of September 15, 1960.

The Board's letter of September 15, 1955 to Mr. J. MacN. Thompson, Secretary, International Banking Corporation (IBC) stated that the Board offered no objection to the proposed acquisition and holding by IBC of the capital stock of The Bank of Monrovia subject to various provisions. In addition, the Board proposed to amend the regulations in the agreement with IBC to make it entirely clear and specific that "without the prior consent of the Board, International Banking Corporation may not purchase or hold any stock in any other corporation; and that, without such prior consent, no corporation in which International Banking Corporation owns or holds any stock shall . . . take any action or undertake any operation which is not permissible to International Banking Corporation under its agreement . . ." The agreement as amended December 6, 1955 provided, among other things, in paragraph B.4. Ownership of Stock: ". . . In addition to any such conditions, you shall in no event, without further approval of the Board, continue to hold any such stock if such other corporation . . . takes any action or undertakes any operation which is not permissible to you under these regulations . . . ."

The Board's letter of July 9, 1958 to Mr. G. S. Moore, Vice President, International Banking Corporation, granted consent to the proposed purchase and holding of stock of The First National City Bank of New York (South Africa) Ltd. on condition, among others, "That International Banking Corporation shall not hold any stock in the South African bank . . . if the South African bank, except with the consent of the Board of Governors, . . . takes any action or undertakes any operation in the Union of South Africa or elsewhere which at that time is not permissible to International Banking Corporation without such consent;".

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

The Board has given further consideration to the views of your Bank, as well as those of other institutions with foreign subsidiary banking corporations, and has concluded that experimentation is warranted. Accordingly, subject to continuing observation and review, the Board suspends, until further notice, the above quoted excerpts from the provisions of paragraph B.4 of the Agreement with IBC and the Board's letter of July 5, 1958, so far as they relate to restrictions on loans granted by The Bank of Monrovia in the Republic of Liberia in the currency of that country and by The First National City Bank of New York (South Africa) Ltd. in the Union of South Africa in the currency of that country.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

*Board's letter of July 9, 1958.

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

Item No. 9
12/8/60

December 13, 1960.

Mr. Tom B. Coughran,
Executive Vice President,
Bank of America,
41 Broad Street,
New York 15, New York.

Dear Mr. Coughran:

Reference is made to the subject of limitations on loans outside the United States by foreign banks that are controlled by Agreement Corporations or Edge Act Corporations. This matter was discussed in the Board's letter of August 24, 1960 relating to your letter of March 30, 1960.

The Board's letter of September 12, 1957 granted consent to the proposed investment by Bank of America in the stock of Banca d'America e d'Italia on condition, among others, "That Bank of America, New York, shall not purchase or hold any stock in Banca d'America e d'Italia . . . if Banca d'America e d'Italia, except with the consent of the Board of Governors, . . . takes any action or undertakes any operation in Italy or elsewhere which at that time is not permissible to Bank of America, New York;".

The Board has given further consideration to the views of your Bank, as well as those of other institutions with foreign subsidiary banking corporations, and has concluded that experimentation is warranted. Accordingly, subject to continuing observation and review, the Board suspends, until further notice, the provisions of subparagraph (2) of the second paragraph of the Board's letter of September 12, 1957, so far as they relate to restrictions on loans granted by the Italian bank in the Republic of Italy in the currency of that country.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 10
12/8/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 14, 1960

Mr. Bolling R. Powell, Jr.,
Powell, Dorsey, Blum & White,
1741 K Street, N. W.,
Washington 6, D. C.

Dear Mr. Powell:

This is to confirm the advice given you orally by Mr. Hackley on December 8, 1960, that the Board wishes to retain your services in connection with the suit instituted by The Continental Bank and Trust Company, Salt Lake City, Utah, against the Board of Governors for a declaratory judgment and other relief, now pending in the District Court for the District of Columbia.

It is understood that all services performed by you or your firm in connection with this retainer will be subject to the terms set forth in the retainer agreement contained in the Board's letter of May 25, 1956, as amended effective January 1, 1959, in accordance with the Board's letter of January 21, 1959. It is further understood, as you were advised by Mr. Hackley, that all services performed by you or your firm in this matter will be subject to final approval by the Department of Justice.

Very truly yours,

Merritt Sherman,
Secretary.