

Minutes for February 16, 1961

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

The block contains handwritten initials and signatures for each board member, written over horizontal lines. The initials are: Martin (M), Szymczak (S), Mills (M), Robertson (R-O), Balderston (CB), Shepardson (S), and King (K).

Minutes of the Board of Governors of the Federal Reserve System on Thursday, February 16, 1961. The Board met in the Board Room at 2:15 p.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Noyes, Director, Division of Research and Statistics
Mr. Solomon, Director, Division of Examinations
Mr. Hexter, Assistant General Counsel
Mr. Hooff, Assistant General Counsel
Mr. Robinson, Adviser, Division of Research and Statistics
Mr. Furth, Adviser, Division of International Finance
Mr. Sammons, Adviser, Division of International Finance
Mr. Nelson, Assistant Director, Division of Examinations
Mr. Goodman, Assistant Director, Division of Examinations
Mr. Leavitt, Supervisory Review Examiner, Division of Examinations
Mr. Potter, Legal Assistant

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

Item No.

Letter to Chemical Bank New York Trust Company, New York City, approving the establishment of a branch at 1966-68 Ralph Avenue, Borough of Brooklyn.

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Item No.

- Letter to Manufacturers Trust Company, New York City, approving the establishment of a branch at 717 Allerton Avenue, Borough of the Bronx. 2
- Letter to The First National City Bank of New York, New York City, approving an extension of time to establish a branch in the City of Colon, Republic of Panama. 3
- Letter to White Haven Savings Bank, White Haven, Pennsylvania, granting its request for permission to exercise certain fiduciary powers. 4
- Letter to the Comptroller of the Currency recommending unfavorably with respect to an application to organize a national bank at Minneapolis, Minnesota. 5
- Letter to the Comptroller of the Currency recommending favorably with respect to an application to organize a national bank at San Francisco, California, provided arrangements are made for management satisfactory to the Comptroller. 6

Application of Bank of America (Item No. 7). Bank of America, New York, New York, an Edge corporation, owned shares of Banque Africaine Internationale, Brussels, Belgium, Societe Congolaise de Banque, Leopoldville, Republic of the Congo, and Banque du Ruanda-Urundi, Usumbura, Ruanda-Urundi. Due to political developments in the Congo, it had been felt necessary to form a banking corporation in Switzerland which would own the shares of the three banks. Accordingly, legal requirements were being completed for the establishment of such a corporation, to be known as United Overseas Bank, with headquarters in Geneva. It was the intention to invite the shareholders of the three banks to exchange their holdings for shares of United Overseas Bank, and Bank of America proposed in that manner to acquire 20 per cent of

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the shares of United Overseas Bank. In addition, it was contemplated that shares of United Overseas Bank would be held by banks in Belgium, France, Germany, and Italy, with the Italian shareholdings owned by Banca d'America e d'Italia, Milan, an organization substantially owned by Bank of America. Bank of America had applied to the Board for permission to accomplish the steps necessary to effectuate its part in the plan, including the acquisition of shares by the Italian subsidiary. In a memorandum which had been distributed to the Board, the Division of Examinations recommended favorable action, provided the Board had no objection to part of the investment in United Overseas Bank being held directly by Bank of America and part being held indirectly through the Italian subsidiary.

Governor Mills stated that he would concur in the recommendation of the Division of Examinations. He went on to say, however, that this case illustrated the concern he had expressed on previous occasions with regard to an Edge corporation associating itself in an overseas venture with foreign institutions. In such cases, he noted, there is a definite exposure to political unsettlement, with the possibility of consequences adverse to the Edge corporation. In this particular instance, the purpose of the proposed arrangements was to hide the original identification with Belgian ownership, and beyond that the transaction seemed proper and correct from a technical standpoint. However, he pointed out, Bank of America, New York, is wholly owned by Bank of America National Trust and Savings Association, San Francisco,

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and Banca d'America e d'Italia is substantially owned by Bank of America, New York. Under the current proposal, the Italian banking subsidiary would hold shares in still another banking corporation. This suggested how a subsidiary banking corporation of an Edge corporation could, through investments on its own part, inject the parent corporation into a variety of activities, with resulting problems of supervision due to the complex financial relationships.

Mr. Goodman commented that the remarks of Governor Mills reflected the reasons underlying the qualified recommendation of the Division of Examinations. He added that it would have been his preference that the entire investment in United Overseas Bank be made directly by Bank of America. However, when this question was raised with a representative of the Bank of America organization, the reply was made that the plan contemplated a multi-national foreign banking investment and that the inclusion of some Italian bank was considered advisable. In the circumstances, the Bank of America interests had been successful in making a place for the Italian subsidiary bank.

In further discussion, reference was made to the question, raised at times in the past, as to whether foreign banking activities of the Bank of America organization should not be centered in the Edge corporation rather than divided between it and the parent national bank in San Francisco. It was pointed out, however, that in this particular instance, where an investment in shares rather than a branch operation

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was concerned, the investment would of necessity have to be made by the Edge corporation.

Governor Mills explained that although he recognized the question raised by a division of foreign banking activities between the Edge corporation and its parent bank, the concern that he had expressed went more to the fragmenting of investments by the Edge corporation; that is, indirect investments of the Edge corporation through intermediate foreign institutions.

Governor Balderston indicated that he shared the concern expressed by Governor Mills regarding the development of the practice of indirect investments. Using the present application as an illustration, he called attention to the supervisory problems that might be involved in the complex of financial relationships evolving from such investments. Due to the circumstances of the case now under consideration, he would favor Board approval of the proposed investments in this instance, but he felt that the concern of the Board regarding the general problem should be expressed to Edge corporations for their guidance in the future.

Mr. Furth reviewed circumstances of the case under consideration that in his opinion suggested approval of the proposed transactions. At the same time, however, he indicated that he concurred in the views expressed by Governors Mills and Balderston regarding the general principle of fragmenting of investments.

Governor Mills then suggested that Governor Szymczak be requested to express informally to representatives of the Bank of America organization on some appropriate occasion the concern of the Board in this regard,

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in order that Bank of America might have this in mind in considering future proposals.

It having been agreed that the matter would be handled in the manner suggested by Governor Mills, unanimous approval was given to the letter to Bank of America, New York, of which a copy is attached as Item No. 7.

Messrs. Hexter, Furth, Sammons, Goodman, and Potter then withdrew from the meeting.

Report on H. R. 1770, H. R. 1851, and H. R. 2471 (Item No. 8).

There had been distributed to the Board copies of a draft of letter to Chairman Dawson of the House Committee on Government Operations, prepared in response to requests for comment on bills H. R. 1770, H. R. 1851, and H. R. 2471, each of which would provide for retirement of the public debt by setting aside percentages of budget receipts for that purpose. The first two bills were virtually identical with H. R. 5203, introduced in the second session of the 86th Congress, which was reviewed in the Board's letter of June 8, 1960. A copy of that letter would be enclosed with the current reply.

After certain suggestions had been made with respect to the tone of the proposed letter, unanimous approval was given to a letter in the form attached as Item No. 8.

Messrs. Noyes and Robinson then withdrew from the meeting.

Report on competitive aspects (Canton-Madrid, New York). There had been distributed to the Board a draft of report to the Comptroller

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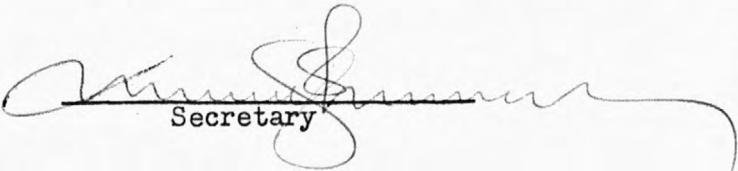
of the Currency on the competitive factors involved in the proposed merger of the Madrid Bank, Madrid, New York, with and into The St. Lawrence County National Bank of Canton, Canton, New York, under the charter and title of the latter. The conclusion read as follows:

The proposed merger would eliminate only a small amount of competition between the institutions. While the merger would enhance the charter bank's area of competition, it does not appear that banking competition would be materially affected.

There being no objection, the report was approved unanimously for transmittal to the Comptroller of the Currency.

The meeting then adjourned.

Secretary's Note: Pursuant to the recommendation contained in a memorandum from the Division of Research and Statistics, Governor Balderston, acting in the absence of Governor Shepardson, today approved on behalf of the Board the appointment of Phyllis J. Featherstone as Statistical Clerk in that Division, with basic annual salary at the rate of \$3,865, effective the date of entrance upon duty.



Secretary

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

Item No. 1
2/16/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 16, 1961

Board of Directors,
Chemical Bank New York Trust Company,
New York, New York.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of New York the Board of Governors of the Federal Reserve System approves the establishment of a branch by Chemical Bank New York Trust Company, New York, New York, at 1966-68 Ralph Avenue, Borough of Brooklyn, New York, New York, 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.



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

Item No. 2
2/16/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 16, 1961

Board of Directors,
Manufacturers Trust Company,
New York, New York.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors of the Federal Reserve System approves the establishment of a branch at 717 Allerton Avenue, Borough of the Bronx, New York, New York, by Manufacturers Trust Company, New York, New York, with the understanding that the operations of the branch will be limited to the functions of your Personal Loan Department. This approval is given 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.

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

Item No. 3
2/16/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 16, 1961

The First National City Bank of New York,
55 Wall Street,
New York 15, New York.

Gentlemen:

In view of the request contained in your letter of January 20, 1961, transmitted through the Federal Reserve Bank of New York, and on the basis of the information furnished, the Board of Governors extends to September 1, 1961, the time within which your Bank may establish a branch in the City of Colon, Republic of Panama, at the corner of Front and Ninth Streets, Colon, and close the branch of your Bank located at 1103 Roosevelt Avenue, Cristobal, Canal Zone, as approved by the Board on March 17, 1960.

The location of the proposed Colon branch may not be changed, after establishment, without the prior approval of the Board of Governors.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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

Item No. 4
2/16/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 16, 1961

Board of Directors,
White Haven Savings Bank,
White Haven, Pennsylvania.

Gentlemen:

This refers to your request for permission, under applicable provisions of your condition of membership numbered 1, to act in certain fiduciary capacities.

Following consideration of the information submitted, the Board of Governors of the Federal Reserve System grants permission to the White Haven Savings Bank to act as trustee of and registrar of bond issues of municipal corporations, municipal authorities, and other authorities organized under the laws of the Commonwealth of Pennsylvania, with the understanding that your bank will not accept fiduciary appointments of other kinds without first obtaining the permission of the Board.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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

Item No. 5
2/16/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 16, 1961



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

Attention Mr. C. C. Fleming,
Deputy Comptroller of the Currency.

Dear Mr. Comptroller:

Reference is made to a letter from your office dated September 13, 1960, enclosing copies of an application to organize a national bank at Minneapolis, Minnesota, and requesting a recommendation as to whether or not the application should be approved.

Information contained in a report of investigation of the application made by a representative of the Federal Reserve Bank of Minneapolis discloses that the proposed capital structure of the bank would be adequate and that modest earnings might be obtained after two years of operation. However, the proposed management of the bank does not appear satisfactory and it is indicated that the existing facilities provide adequate banking services for the area. Accordingly the Board of Governors does not feel justified in recommending favorable consideration of the application.

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

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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

Item No. 6
2/16/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 16, 1961

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

Attention Mr. H. S. Haggard,
Deputy Comptroller of the Currency.

Dear Mr. Comptroller:

Reference is made to a letter from your office dated October 18, 1960, enclosing copies of an application to organize a national bank at San Francisco, California, and requesting a recommendation as to whether or not the application should be approved.

A report of investigation of the application made by a representative of the Federal Reserve Bank of San Francisco indicates that the proposed capital structure of the bank would be adequate and that modest profitable operations could be attained in a reasonable time. While the need for the proposed bank is somewhat borderline and the added convenience to the public may be limited, it appears that the institution would provide some measure of competition for the existing banks for certain types of business. However, the bank would need competent and experienced management to assure successful operation and at the time of investigation satisfactory arrangements for such management had not been made. In the circumstances, the Board of Governors recommends favorable consideration of the application provided the arrangements are made for management satisfactory to your office.

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) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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

Item No. 7
2/16/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 16, 1961



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

Dear Mr. Coughran:

In accordance with the requests and on the basis of the information furnished in your letters of December 27, 1960, and January 11, 1961, transmitted through the Federal Reserve Bank of New York, the Board of Governors grants its consent to:

- (1) Bank of America to contribute one-third of organizational capital expense of United Overseas Bank ("UOB"), Geneva, Switzerland, and to receive capital shares of corresponding value, amounting to Swiss Francs 166,666 (approximately US\$38,750 equivalent);
- (2) Banca d'America e d'Italia ("BAI"), Milan, Italy, to purchase 10 per cent of outstanding shares each of —
Banque Africaine Internationale, Brussels, Belgium;
Societe Congolaise de Banque, Leopoldville, Republic of the Congo; and
Banque du Ruanda-Urundi, Usumbura, Ruanda-Urundi
for approximately US\$135,000; and
- (3) Bank of America and BAI to exchange shares of stock of the three banks for shares of UOB after its organization, and to hold such shares.

The Board's consent is granted upon condition that Bank of America and BAI shall dispose of their holdings of stock of UOB, as promptly as practicable, in the event that UOB should at any time

Mr. Tom B. Coughran

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(1) engage in issuing, underwriting, selling or distributing securities in the United States; (2) engage in the general business of buying or selling goods, wares, merchandise, or commodities in the United States or transact any business in the United States except such as is incidental to its international or foreign business; or (3) conduct its operations in a manner which, in the judgment of the Board of Governors of the Federal Reserve System, is inconsistent with Section 25(a) of the Federal Reserve Act or regulations thereunder.

Upon completion of the organization of UOB, it will be appreciated if you will furnish the Board of Governors, (1) copies of the articles of association and by-laws, (2) balance sheet, and (3) a list of officers and directors. Please advise the Board of Governors, through the Federal Reserve Bank of New York, when UOB is established and opened for business.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

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Item No. 8
2/16/61

OFFICE OF THE CHAIRMAN

February 17, 1961

The Honorable William L. Dawson,
Chairman,
Committee on Government Operations,
House of Representatives,
Washington 25, D. C.

Dear Mr. Chairman:

This is in response to your letter of January 16, 1961, requesting a review of bills H.R. 1770 and H.R. 1851, bills that would amend the Budget and Accounting Act, 1921, to provide for the retirement of the public debt by setting aside specified percentages of budget receipts for that purpose. These bills are identical in content except for the percentage rates of debt retirement specified. This is also in response to your letter of January 19, requesting a review of H.R. 2471. This bill, though not identical in language with the other two, is similar in economic and budgetary logic and the comments below apply to all three bills.

The first two bills are virtually identical with H.R. 5203 which was introduced into the 2nd Session of the 86th Congress, and which was reviewed in my letter of June 8, 1960. The comments in that letter, a copy of which is enclosed, would seem to be applicable to each of the three proposals regarding retirement of the public debt on which you have now asked for a report. The Board has found no reason to change the views that it expressed at that time, and, accordingly, it still doubts that the effects of such measures would be sufficiently beneficial to justify their enactment.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Enclosure.