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. Mills
Gov. Robertson
Gov. Balderston
Gov. Shepardson
Gov. King
Gov. Mitchell
Minutes of the Board of Governors of the Federal Reserve System

on Monday, January 8, 1962. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Thomas, Adviser to the Board
Mr. Young, Adviser to the Board and Director, Division of International Finance
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Knipe, Consultant to the Chairman
Mr. Spencer, General Assistant, Office of the Secretary

Messrs. Furth, Hersey, Sammons, Katz, Wood, Irvine, Maroni, Gemmill, Gekker, Reynolds, and Mills of the Division of International Finance


At the conclusion of this presentation all members of the staff except Messrs. Sherman, Fauver, Noyes, Holland, and Spencer withdrew from the meeting and the following entered the room:

Mr. Kenyon, Assistant Secretary
Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Hexter, Assistant General Counsel
Mr. Hooff, Assistant General Counsel
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Thompson, Assistant Director, Division of Examinations

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

<table>
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<tr>
<th>Item No.</th>
<th>Description</th>
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<tr>
<td>1</td>
<td>Letter to Federation Bank and Trust Company, New York, New York, approving the establishment of a branch in the vicinity of Williamsbridge Road and Morris Park Avenue, Bronx County.</td>
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<td>2</td>
<td>Letter to Russiaville State Bank, Russiaville, Indiana, approving (1) its application for membership in the Federal Reserve System, and (2) an investment in bank premises.</td>
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<td>3</td>
<td>Letter to Oklahoma National Bank of Chickasha, Chickasha, Oklahoma, approving its application for fiduciary powers.</td>
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<td>4</td>
<td>Letter to The San Benito Bank &amp; Trust Company, San Benito, Texas, waiving the requirement of six months' notice of withdrawal from membership in the Federal Reserve System.</td>
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<tr>
<td>5</td>
<td>Letter to the Federal Reserve Bank of New York expressing the opinion that the Army and Air Force Exchange Service is not eligible to maintain a savings account with a member bank.</td>
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Letter to the Federal Deposit Insurance Corporation concerning attendance at the Seminar on Bank Competition to be held on January 22, 1962. (Similar letters also sent to the Comptroller of the Currency and the Department of Justice.)

Mr. Holland withdrew from the meeting at this point.

Amendment of Bank Holding Company Act. A memorandum dated January 3, 1962, from the Legal Division regarding amendment of the Bank Holding Company Act had been distributed.

As pointed out in the memorandum, the definition of "bank holding company" as contained in the Act covered only situations involving two or more banks. Since the Board had consistently maintained that the definition did not adequately reach the dangers at which the Holding Company Act was aimed, it had recommended in annual reports to Congress that references to "two or more banks" be replaced by "any bank" so that a corporation would become a "bank holding company" by acquiring 25 per cent of the stock of one bank. The memorandum further indicated, however, that it was believed by the Legal Division that an unqualified one-bank definition of "bank holding company" would give rise to a considerable administrative burden.
without commensurate benefits. Therefore, in connection with the preparation of drafts of bills amending the Holding Company Act which the Board might offer for enactment during the current session of Congress, as suggested at the meeting on December 21, 1961, the Legal Division now recommended that in lieu of the unconditional one-bank definition approach previously proposed, an amendment be made to the Act to permit a corporation to acquire 25 per cent or more of the stock of one bank without Board approval, although such corporation would be subject to the prohibitions of section 4 of the Act regarding retention of nonbanking interests and to the registration and reporting requirements of section 5. A draft of proposed amendment to section 3(a)(1) of the Act was included in the memorandum.

By way of introduction, Mr. Hexter made explanatory comments regarding the approach now proposed by the Legal Division. He then said that Mr. Solomon had pointed out that the proposed language was defective in one respect. This had reference to a situation where stock of one bank would be "trusteed" for the benefit of the shareholders of another bank. Such an arrangement would cause the latter bank to be a "bank holding company" with respect to only one subsidiary bank, but it would give rise to the possibility of centralized control of two banks. Therefore, a change in the language of the proposed amendment to cover that loophole was suggested.
In further comment, Mr. Hexter said that Mr. Thompson had pointed out that the "one-bank definition," if approved by the Congress, would suggest amendment of the provisions of the Bank Holding Company Act providing tax relief incident to divestment of nonbanking interests.

In the discussion that followed, Governor Mills indicated that he would favor the proposal but would suggest that the Legal Division test and retest the proposed language in order to make certain it left no loopholes and created no inequities. Also, he suggested that the Bureau of Internal Revenue and the Treasury Department be consulted promptly on the tax-relief question, with a view to expediting the passage of legislation.

In further discussion, Governors Robertson and Mitchell indicated that they would be inclined, at the moment, to prefer the type of definition previously contemplated, whereby a company would be required to obtain prior Board approval for the acquisition of 25 per cent or more of the stock of one bank, as opposed to an amendment whereby that step would not be necessary. Governor Mitchell indicated that the revised form of proposed amendment seemed to him an unnecessary complication. Governor Robertson expressed the view that the administrative burden in processing and acting upon applications that would be required to be filed under a definition such as previously envisaged should not be too severe. Since he did not feel there was any strong need to extend the requirement so as to call for prior approval of the acquisition of stock of one bank,
he would not oppose the revised draft amendment in the form now submitted. On the other hand, it would further complicate an already complex piece of legislation; also, business corporations acquiring one bank might find themselves subject to divestment requirements of the Holding Company Act inadvertently.

Comments by Mr. Hexter were to the effect that a business corporation would not stumble into a situation such as Governor Robertson had mentioned unless it was unaware of the Bank Holding Company Act; that it seemed doubtful whether legislation should subject to its requirements a situation not within the evil at which the statute was aimed; and that the proposed amendment, although it would introduce a slight additional complication to the language of the Act, should not be unduly troublesome to those relatively few persons who had reason to interpret legislation of this kind.

Additional discussion of this subject resulted in agreement being expressed with a suggestion that the legislative proposal be redrafted to cover the point raised by Mr. Solomon. It was understood the matter would then be brought back to the Board for further consideration.

In reply to a question concerning the procedure envisaged for the introduction of legislation amending the Bank Holding Company Act, it was stated that the consideration of the matter on December 21, 1961, had appeared to contemplate making available draft legislation incorporating all of the amendments that the Board had suggested in the past, but with
drafts on the so-called one-bank definition and three other matters made available separately in case it should seem desirable to press for action directed specifically toward those matters.

Messrs. Leavitt and Thompson then withdrew from the meeting.

Request for department store sales figures (Item No. 10). On December 28, 1961, consideration was given to a request made of the Federal Reserve Bank of Chicago by the Department of Justice for aggregate departmental sales figures, in dollars, for department stores in Milwaukee, Wisconsin. At the conclusion of the discussion, it was understood that Mr. Noyes would obtain certain additional information from the Chicago Bank in order that the Board might consider the matter further. A memorandum prepared by Mr. Noyes pursuant to that understanding had been distributed under date of January 5, 1962.

Mr. Noyes reviewed the circumstances surrounding the request for the benefit of those members not present at the meeting on December 28, following which he commented that a tabulation of the reporting sample by departments for the City of Milwaukee had been received from the Chicago Bank. The Bank had expressed the opinion that aggregate departmental sales data for Milwaukee, in combination with information the Justice Department might obtain from the two large stores involved in a proposed merger, would risk disclosure of the sales of other respondents. This was also Mr. Noyes' judgment. Mr. Noyes recommended, therefore, that the Board instruct the Bank to reply to the
Department of Justice that the release of dollar figures by departments would risk disclosure of individual store sales, which would be in violation of the understanding with reporting stores. Therefore, the request of the Justice Department must be declined.

Following a brief discussion, agreement was expressed with the recommendation made by Mr. Noyes. A copy of the telegram sent to the Federal Reserve Bank of Chicago concerning this matter is attached to these minutes as Item No. 10.

All members of the staff then withdrew and the Board went into executive session.

Appointment of Mr. Scanlon. The Secretary was informed later by the Chairman that during the executive session the Board approved the appointment of Charles J. Scanlon as President of the Federal Reserve Bank of Chicago, effective January 4, 1962, for the unexpired portion of the five-year term commencing March 1, 1961, and also approved the payment of salary to Mr. Scanlon at the rate of $50,000 per annum for the period January 4 through December 31, 1962. However, Chairman Martin was requested to pass on to Chairman Briggs a suggestion as to the possibility of adoption by the Chicago Bank of a range of salary for the President that would make it possible for the Bank to start Mr. Scanlon's salary as President at a lower rate than $50,000, with a view to moving the salary up later on. Accordingly, the salary fixed
by the Reserve Bank directors for Mr. Scanlon was approved with the understanding that Chairman Martin would pass on this suggestion to Chairman Briggs.

Secretary's Note: On the basis of advice received by Chairman Martin from Chairman Briggs after the aforementioned suggestion had been transmitted, the following telegram was sent to Mr. Briggs on January 9, 1962:

Board of Governors has approved appointment of Charles J. Scanlon as President of the Federal Reserve Bank of Chicago for unexpired portion of five-year term commencing March 1, 1961, such appointment effective January 4, 1962. Board also has approved payment of salary to Mr. Scanlon at rate of $50,000.00 per annum, effective for period January 4-December 31, 1962, as fixed by the directors of your Bank as reported in your telegram of this date.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board a memorandum dated December 29, 1961, from Mr. Kelleher, Director, Division of Administrative Services, containing certain recommendations concerning the price for, and complimentary distribution of, 15 sections of the supplement to "Banking and Monetary Statistics".
Board of Directors,  
Federation Bank and Trust Company,  
New York, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch in the vicinity of the intersection of Williamsbridge Road and Morris Park Avenue, Bronx County, New York, by Federation Bank and Trust Company, 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 Directors,
Russiaville State Bank,
Russiaville, Indiana.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the application of Russiaville State Bank, Russiaville, Indiana, for stock in the Federal Reserve Bank of Chicago, subject to the numbered conditions hereinafter set forth:

1. Such bank at all times shall conduct its business and exercise its powers with due regard to the safety of its depositors, and, except with the permission of the Board of Governors of the Federal Reserve System, such bank shall not cause or permit any change to be made in the general character of its business or in the scope of the corporate powers exercised by it at the time of admission to membership.

2. The net capital and surplus funds of such bank shall be adequate in relation to the character and condition of its assets and to its deposit liabilities and other corporate responsibilities.

In connection with the foregoing conditions of membership, particular attention is called to the provisions of the Board's Regulation H, regarding membership of State banking institutions in the Federal Reserve System, with especial reference to Section 7 thereof. A copy of the regulation is enclosed.

If at any time a change in or amendment to the bank's charter is made, the bank should advise the Federal Reserve Bank, furnishing copies of any documents involved, in order that it may be determined whether such change affects in any way the bank's status as a member of the Federal Reserve System.
Acceptance of the conditions of membership contained in this letter should be evidenced by a resolution adopted by the board of directors and spread upon its minutes, and a certified copy of such resolution should be filed with the Federal Reserve Bank. Arrangements will thereupon be made to accept payment for an appropriate amount of Federal Reserve Bank stock, to accept the deposit of the required reserve balance, and to issue the appropriate amount of Federal Reserve Bank stock to the bank.

The time within which admission to membership in the Federal Reserve System in the manner described may be accomplished is limited to 30 days from the date of this letter, unless the bank applies to the Board and obtains an extension of time. When the Board is advised that all of the requirements have been complied with and that the appropriate amount of Federal Reserve Bank stock has been issued to the bank, the Board will forward to the bank a formal certificate of membership in the Federal Reserve System.

Upon admission to membership the Board of Governors approves, under the provisions of Section 24A of the Federal Reserve Act, a total investment in bank premises by Russiaville State Bank of approximately $47,000.

The Board of Governors sincerely hopes that you will find membership in the System beneficial and your relations with the Reserve Bank pleasant. The officers of the Federal Reserve Bank will be glad to assist you in establishing your relationships with the Federal Reserve System and at any time to discuss with representatives of your bank means for making the services of the System most useful to you.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

Enclosure.
January 8, 1962

Board of Directors,
Oklahoma National Bank of Chickasha,
Chickasha, Oklahoma.

Gentlemen:

The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers and grants Oklahoma National Bank of Chickasha authority to act, when not in contravention of State or local law, as executor, administrator, and guardian of estates. The exercise of such rights shall be subject to the provisions of Section 11(k) of the Federal Reserve Act and Regulation F of the Board of Governors of the Federal Reserve System.

It is noted that application has been made to the Comptroller of the Currency for authority to change the title of your bank to Oklahoma National Bank & Trust Company of Chickasha. Upon receipt of advice from the Comptroller of the Currency that your bank has been authorized to change its title, a formal certificate will be forwarded indicating the fiduciary powers that your bank is authorized to exercise.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.
Board of Directors,
The San Benito Bank & Trust Company,
San Benito, Texas.

Gentlemen:

The Federal Reserve Bank of Dallas has forwarded to the Board of Governors your letter dated December 11, 1961, together with the accompanying resolution dated December 5, 1961, signifying your intention to withdraw from membership in the Federal Reserve System and requesting waiver of the six months' notice of such withdrawal.

In accordance with your request, the Board of Governors waives the requirement of six months' notice of withdrawal. Upon surrender to the Federal Reserve Bank of Dallas of the Federal Reserve Bank stock issued to your institution, such stock will be canceled and appropriate refund will be made thereon. Under the provisions of section 10(c) of the Board's Regulation H, your institution may accomplish termination of its membership at any time within eight months from the date the notice of intention to withdraw from membership was given.

It is requested that the certificate of membership be returned to the Federal Reserve Bank of Dallas.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.
Mr. Howard D. Crosse, Vice President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Crosse:

This refers to your letter of October 24, 1961, presenting the question whether Army and Air Force Exchange Service is eligible to maintain a savings account with a member bank.

From information submitted, including a brief by counsel to the member bank, the Board understands that the Exchange Service performs the following basic functions: (1) providing merchandise and services to military personnel and their dependents at the lowest possible price, and (2) providing funds for morale, welfare, religious, recreational, and educational programs and facilities for service personnel. It is further understood that periodically, as funds in excess of Exchange operating requirements are accumulated, payments are made to the agencies in the Army and Air Force that are responsible for financing these programs and services. It is noted that these funds exceed $7.5 million.

The answer to this question does not depend upon the source of these funds but whether the funds are deposited to the credit of an organization operated primarily for religious, philanthropic, charitable, educational, fraternal, or other similar purposes and not operated for profit, or in which the entire beneficial interest is held by such an organization.

The purpose of the Exchange Service is similar to that of a so-called "company store" in a remote area which supplies merchandise at cost to its employees and uses the limited profits for the welfare of company employees.

It is acknowledged that the primary function of the Exchange Service is to provide military personnel and their dependents with a convenient and readily accessible mercantile establishment where
they may purchase various items of merchandise at reasonable prices. On this basis, it is the Board's view that the Exchange Service may not be regarded as an organization operated primarily for religious, philanthropic, charitable, educational, fraternal, or other similar purposes regardless of whether or not it makes any profit on sales of merchandise. The subsequent use of limited profits for qualifying purposes does not alter this basic factor. Accordingly, funds deposited by the Exchange Service in a member bank do not constitute savings deposits within the meaning of the definition of that term as contained in Regulation Q.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.
January 8, 1962

REED - NEW YORK

KECEA

A. Financial General Corporation, New York, New York
   The Morris Plan Corporation, New York, New York
   North Virginia Shares, Inc., New York, New York

B. * The Shenandoah National Bank of Winchester, Winchester, Virginia

C. None

D. At any time prior to April 1, 1962, at the annual meeting of shareholders of such bank, or any adjournments thereof, to elect directors and act thereat upon such matters of a routine nature as are ordinarily acted upon at the annual meetings of such banks.

STOP Please furnish to the Richmond Reserve Bank copies of permits issued by your Bank.

(Signed) Elizabeth L. Carmichael
CARMICHAEL

* Should have read The Shenandoah Valley National Bank of Winchester.

**Definition of KECEA:**

The Board authorizes the issuance of a limited voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to the holding company affiliate named below after the letter "A", entitling such organization to vote the stock which it owns or controls of the bank(s) named below after the letter "B", subject to the condition(s) stated below after the letter "C". The permit authorized hereunder is limited to the period of time and the purposes stated after the letter "D". Please proceed in accordance with the instructions contained in the Board's letter of March 10, 1947, (S-964).
January 8, 1962

REED - NEW YORK

KECEA

A. Financial General Corporation, New York, New York
   The Morris Plan Corporation, New York, New York

B. American National Bank of Silver Spring, Silver Spring, Maryland

C. None

D. At any time prior to April 1, 1962, at the annual meeting of
   shareholders of such bank, or any adjournments thereof, to elect
   directors and act thereat upon such matters of a routine nature
   as are ordinarily acted upon at the annual meetings of such bank.
   STOP Simultaneously, a limited voting permit is being authorized
   through the Richmond Reserve Bank to Potomac Securities Corporation,
   Silver Spring, Maryland, for the same bank and purposes. Please
   forward to the Richmond Reserve Bank copies of the permits issued
   by your Bank.

(Signed) Elizabeth L. Carmichael
   CARMICHAEL

Definition of KECEA:

The Board authorizes the issuance of a limited voting permit,
under the provisions of section 5144 of the Revised Statutes
of the United States, to the holding company affiliate named
below after the letter "A", entitling such organization to
vote the stock which it owns or controls of the bank(s) named
below after the letter "B", subject to the condition(s) stated
below after the letter "C". The permit authorized hereunder
is limited to the period of time and the purposes stated after
the letter "D". Please proceed in accordance with the instruc-
tions contained in the Board's letter of March 10, 1947, (S-964).
January 8, 1962

DECKER - RICHMOND

KECEA
A. Potomac Securities Corporation, Silver Spring, Maryland
B. American National Bank of Silver Spring, Silver Spring, Maryland
C. None
D. At any time prior to April 1, 1962, at the annual meeting of shareholders of such bank, or any adjournments thereof, to elect directors and act thereat upon such matters of a routine nature as are ordinarily acted upon at the annual meetings of such bank.

STOP Simultaneously, limited voting permits are being authorized through the New York Reserve Bank to Financial General Corporation and The Morris Plan Corporation for the same bank and purposes. Please forward to the New York Reserve Bank copy of the permit issued by your Bank.

(Signed) Elizabeth L. Carmichael
CARMICHAEL

Definition of KECEA:
The Board authorizes the issuance of a limited voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to the holding company affiliate named below after the letter "A", entitling such organization to vote the stock which it owns or controls of the bank(s) named below after the letter "B", subject to the condition(s) stated below after the letter "C". The permit authorized hereunder is limited to the period of time and the purposes stated after the letter "D". Please proceed in accordance with the instructions contained in the Board's letter of March 10, 1947, (S-964).
The Honorable Erle Cocke, Sr., Chairman,
Federal Deposit Insurance Corporation,
National Press Building,
Washington 25, D. C.

Dear Erle:

The Board of Governors of the Federal Reserve System has arranged a one day meeting, on January 22, 1962, with a group of authorities in the fields of business and banking organization and the regulation of competition.

Included in the panel of discussants will be the following individuals:

David Alhadeff, Professor,
School of Business Administration,
University of California.

Ben W. Lewis, Chairman,
Department of Economics,
Oberlin College.

Edward S. Mason, Dean,
Graduate School of Public Administration,
Harvard University.

S. Chesterfield Oppenheim, Professor of Law,
Law School,
University of Michigan.

Eugene V. Rostow, Dean,
School of Law,
Yale University.

George J. Stigler, Professor of American Institutions,
Graduate School of Business,
University of Chicago.

The purpose of the meeting will be to explore the possibilities for adapting the results and methods of research in the field of business competition generally to the study of competitive relationships in the banking area. The primary focus of the meeting will be on the guidance which academic thought may be able to provide to the study of competition in banking rather than the development of a consensus concerning competitive standards in banking. Should the conferees demonstrate the existence of fruitful avenues for further inquiry, the discussions might extend to specific research
Projects, basic studies, or consultant groups, together with considerations of the requisite personnel for such efforts.

It occurs to the Board that you might be interested in having a representative of your agency attend this meeting in order to hear the expressions of the panel. Such attendance would be welcome. Similar invitations are being extended to the Comptroller of the Currency and the Department of Justice.

If you will advise us of the names of any person or persons from your office whom you may desire to have attend the meetings, appropriate details as to schedule and luncheon arrangements will be forwarded to them.

Sincerely yours,

Bill

Wm. McC. Martin, Jr.

Scheid - Chicago

In the light of information provided in your letter of January 4, Board feels your response to request from Department of Justice should be that to provide requested information would risk disclosure of sales of individual respondents in contravention of agreement under which they report information. You may also wish to explain to them that reports are on a voluntary basis and their continuance depends upon our strict adherence to the understanding with respect to confidentiality.

(signed) G. E. Noyes

NOYES