

Minutes for May 6, 1963

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, May 6, 1963. 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. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Young, Adviser to the Board and Director,
Division of International Finance
Mr. Fauver, Assistant to the Board
Mrs. Semia, Technical Assistant, Office of the Secretary

Messrs. Noyes, Koch, Brill, Garfield, Holland, Williams, Dembitz, Solomon, Altmann, Broida, Eckert, Fisher, Partee, Weiner, Wernick, and Yager of the Division of Research and Statistics

Messrs. Furth, Hersey, Sammons, Emery, Gekker, Gemmill, Klein, Nettles, and Reynolds of the Division of International Finance

Economic review. The staff of the Division of International Finance commented on international financial conditions, with special reference to the U. S. balance of payments and developments in Canada, the United Kingdom, and European countries, after which the staff of the Division of Research and Statistics presented information relating to the domestic economy, particularly in regard to prices, production, labor markets, business spending plans, real estate and construction, consumer credit, and capital markets.

All members of the staff then withdrew except Messrs. Sherman, Kenyon, Young, Fauver, and Noyes, and Mrs. Semia, and the following entered the room:

5/6/63

-2-

Mr. Hackley, General Counsel
 Mr. Solomon, Director, Division of Examinations
 Mr. O'Connell, Assistant General Counsel
 Mr. Shay, Assistant General Counsel
 Mr. Hooff, Assistant General Counsel
 Mr. Leavitt, Assistant Director, Division of Examinations
 Mr. Thompson, Assistant Director, Division of Examinations
 Mr. Bakke, Senior Attorney, Legal Division
 Miss Hart, Senior Attorney, Legal Division
 Mr. Poundstone, Review Examiner, Division of Examinations

Circulated or distributed items. The following items, copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:

	<u>Item No.</u>
Letter to the Federal Deposit Insurance Corporation regarding a revised form for requesting copies of reports of examination and other information for inter-agency use.	1
Letter to The Manistee County Savings Bank, Manistee, Michigan, granting its request for permission to exercise fiduciary powers.	2
Letter to Hawthorne Bank of Wheaton, Wheaton, Illinois, granting its request for permission to exercise fiduciary powers.	3
Letter to The Farmers and Merchants Bank of Hill City, Hill City, Kansas, granting its request for permission to exercise fiduciary powers.	4
Letter to the Federal Reserve Bank of Dallas regarding the status as a holding company affiliate of The Sealy & Smith Foundation for The John Sealy Hospital, Galveston, Texas.	5
Letter to Bank of America National Trust and Savings Association, San Francisco, California, approving the establishment of a branch in Madrid, Spain.	6

5/6/63

-3-

	<u>Item No.</u>
Letter to The Fifth Third Union Trust Company, Cincinnati, Ohio, approving the establishment of a branch in Kenwood, Hamilton County.	7
Letter to Wachovia Bank and Trust Company, Winston-Salem, North Carolina, approving the establishment of a branch on U. S. Highway 70 at the intersection of Lynnstone Court in Asheville.	8
Letter to Wachovia Bank and Trust Company, Winston-Salem, North Carolina, approving the establishment of a branch on Corporation Parkway.	9
Letter to Bank of Las Vegas, Las Vegas, Nevada, approving the establishment of a branch near the intersection of Riviera Road and Las Vegas Boulevard, Clark County.	10
Letter to Bank of Las Vegas, Las Vegas, Nevada, approving the establishment of a branch near the intersection of East Fremont Street and East Charleston Boulevard, adjacent to Las Vegas.	11
Letter to Fidelity Bank, Beverly Hills, California, approving the establishment of a branch on Venice Boulevard, Los Angeles.	12
Letter to the Federal Reserve Bank of Richmond regarding a possible violation of section 6(a)(2) of the Bank Holding Company Act by The Bank of Virginia, Richmond, Virginia.	13
Letter to Mr. Harrison F. Houghton, Senior Economist, House Committee on Banking and Currency, furnishing unpublished information regarding shares of Baystate Corporation, Boston, Massachusetts, held directly or indirectly by The First National Bank of Boston, Boston, Massachusetts, in a fiduciary capacity.	14

5/6/63

-4-

Item No. 13, in the form approved by the Board, reflected minor editorial changes agreed upon during discussion.

Administrative Conference of the United States (Item No. 15).

There had been distributed a memorandum dated May 1, 1963, from the Legal Division in connection with a request from the Bureau of the Budget for the Board's views on a draft bill to establish a permanent Administrative Conference of the United States. In 1961 the President established, by Executive Order, an Administrative Conference of the United States, the purpose of which was to study the Federal administrative process and report to him not later than December 31, 1962, its recommendations for improvements. In response to a request from the Bureau of the Budget, the Board in a letter dated April 15, 1963, commented on the recommendations of the Conference.

The Executive Order also called upon the Conference to submit suggestions for appropriate means to be employed in the future for improving the processes of administrative agencies. In this connection, the Conference recommended that it be continued on a permanent basis to provide a forum in which the Federal agencies might cooperatively, continuously, and critically examine their administrative processes and related organizational problems. To implement that recommendation, the Bureau of the Budget had prepared draft legislation, on which the Board was now asked to comment.

5/6/63

-5-

The memorandum described the structure and authority provided for the Conference in the draft bill, the history and efficacy of similar efforts in the past, and the merits of the current proposal. The Legal Division concluded that the proposed legislation was sound in principle and warranted favorable consideration, except for two features of the draft bill which were believed to deserve adverse comment. Attached to the memorandum was a draft of reply to the Bureau of the Budget stating that the Board agreed in principle with the objectives sought to be accomplished by the bill and, except for the two provisions deemed objectionable, favored the proposed legislation.

After comments by Messrs. Hackley and Bakke based on the Legal Division's memorandum, Governor Mills expressed reservations as to the proposed legislation. He had an uncomfortable feeling that the Conference would develop into just another study group watching over the activities of Government supervisory agencies and handing down dictates as to procedures that would impede their independent thinking. Since the Congress had power to revamp any agency as it saw fit, Governor Mills wondered if there was any real need to subject Government agencies to the desiccating judgments of an outside body.

Mr. Hackley observed that proponents of the legislation argued that ad hoc investigations were likely to be made and forgotten, whereas a continuing study group like the Administrative Conference would provide a balanced viewpoint, taking into account not only the views of Government

5/6/63

-6-

agencies but also those of the parties being regulated. He noted that the recommendations made by the Conference would not be binding upon Federal agencies, to which Mr. Bakke added that under the terms of the bill the jurisdiction of the Conference would specifically stop short of policy matters and areas of agency judgment.

Governor Robertson commented that administrative law was a field that had developed significantly in the past 35 to 40 years; in his view there was a need to develop uniform procedures such as had been developed for judicial law and to bring into play the best thinking available.

In further discussion Chairman Martin suggested omitting the last paragraph of the draft, which reiterated that the Board favored the proposed legislation and wished to express its support thereof.

Governor Mills indicated that he would favor this suggestion, adding that he realized that his concern looked rather far into the future. It was based on his observations as to the gradual assumption of power on the part of newly-created agencies that at the outset were intended to fill relatively minor positions within the Governmental establishment.

The letter was then approved unanimously with the understanding that the last paragraph of the draft would be omitted. A copy of the letter in the form in which it was sent to the Bureau of the Budget is attached as Item No. 15.

Mr. Bakke then withdrew from the meeting and Mr. Cardon, Legislative Counsel, entered the room.

5/6/63

-7-

Federal Deposit and Savings Insurance Board (Item No. 16). At its meeting on May 3, 1963, the Board discussed the fact that testimony was to be given by several of its members before the Subcommittee on Bank Supervision and Insurance of the House Banking and Currency Committee on May 8 at hearings on two pending bills. It was agreed that a position might be taken by the Board as a whole, in the form of a letter to the Subcommittee, in regard to H.R. 729, a bill to establish a Federal Deposit and Savings Insurance Board, leaving the Board members free to restrict their individual comments at the hearing to H.R. 5874, a bill to establish a Federal Banking Commission. Accordingly, there had been distributed a draft of letter to Congressman Multer, Chairman of the Subcommittee, in which a view adverse to H.R. 729 was expressed.

During discussion it was suggested that the last paragraph of the draft letter, concerning the effect of a particular section of the bill, be deleted, thus leaving the Board in the posture of opposing the proposed legislation in entirety.

The letter was then approved unanimously with the understanding that the last paragraph of the draft would be omitted. A copy of the letter in the form in which it was sent to Chairman Multer is attached as Item No. 16.

Messrs. Young, Cardon, and Noyes, and Miss Hart then withdrew from the meeting .

Interpretation of banking laws and regulations (Item No. 17). On April 30, 1963, the Board approved a draft of letter to the Comptroller

5/6/63

-8-

of the Currency regarding the Board's right to interpret provisions of the national banking laws and regulations of the Comptroller in their application to State member banks. The draft also discussed and reaffirmed the Board's ruling that deposits of Associated Hospital Service would not qualify as savings deposits under Regulation Q, Payment of Interest on Deposits.

There had now been distributed a memorandum dated May 2, 1963, in which Mr. Hackley observed that a provision of section 2 of the Federal Reserve Act that had not been mentioned in the draft letter appeared to have a bearing on the right of the Board to interpret its own regulations and to enforce them in the case of a national bank. Section 2 provides that, if a national bank fails to comply with any of the provisions of the Federal Reserve Act, its franchises under the National Bank Act "shall be thereby forfeited." It further provides that any such noncompliance by a national bank shall be determined by a court of the United States in a suit brought for that purpose "under direction of the Board of Governors of the Federal Reserve System, by the Comptroller of the Currency." This provision seemed to evidence the intent of Congress that, if it appeared to the Board that a national bank had violated the Federal Reserve Act, the Board might direct the Comptroller to institute court proceedings to determine whether there had been such a violation.

The memorandum also pointed out that Regulation D, Reserves of Member Banks, provides that, if a member bank continues to disregard

5/6/63

-9-

reserve requirements, the Reserve Bank of the district shall recommend whether the Board should, "in the case of a national bank, direct the Comptroller of the Currency to bring suit to forfeit the charter of such national bank pursuant to section 2 of the Federal Reserve Act."

The draft of letter approved on April 30 stated that the Board must necessarily interpret any provisions of Federal banking laws and regulations that were applicable to State member banks; and the implication was that the Comptroller must do the same with respect to provisions of law and regulations applicable to national banks. The draft also stated that an agency's interpretations of its own regulations should be given "persuasive weight unless they seem clearly erroneous." It was not believed that the provisions of section 2 of the Federal Reserve Act were inconsistent with these statements. However, it did appear that the section 2 provisions presented an additional important consideration with respect to interpretations of the Federal Reserve Act insofar as they applied to national banks. Attached to the memorandum were alternative revisions of the April 30 draft letter.

After discussion, the letter was approved unanimously in a revised form incorporating the second alternative suggested by Mr. Hackley. A copy of the letter in the form in which it was sent to the Comptroller of the Currency is attached as Item No. 17.

Date of hearing. Mr. Sherman reported that the mandatory hearing under section 4(c)(6) of the Bank Holding Company Act that the Board had

5/6/63

-10-

ordered on April 29, 1963, to be held in Minneapolis on May 15, 1963, in the matter of The Otto Bremer Company was being continued to June 13, 1963, by Hearing Examiner Schneider.

All members of the staff then withdrew except Messrs. Sherman, Kenyon, and Fauver.

Director appointment. After discussion, it was agreed to ascertain through the Chairman of the Federal Reserve Bank of Boston whether Mr. Fred C. Tanner, President and General Manager of Federal Products Corporation, Providence, Rhode Island, would accept appointment, if tendered, as Class C director of the Bank for the unexpired portion of the term ending December 31, 1965, to succeed Mr. Wilbur H. Norton, deceased; with the understanding that the appointment would be made if it were ascertained that Mr. Tanner was available.

The meeting then adjourned.

Secretary's Notes: Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson today approved on behalf of the Board the following actions relating to the Board's staff:

Salary increases, effective May 12, 1963

Loree D. Bernard, Statistical Clerk, Division of Research and Statistics, from \$4,110 to \$4,250 per annum.

J. Cortland G. Peret, Economist, Division of Research and Statistics, from \$11,150 to \$11,515 per annum.

James R. Smith, Review Examiner, Division of Examinations, from \$8,045 to \$8,310 per annum.

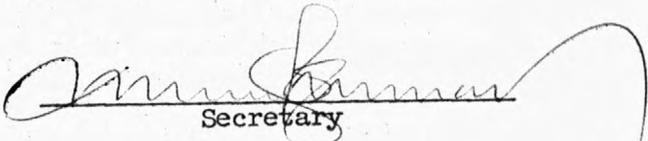
Ann W. Raybold, Employment Technician, Division of Personnel Administration, from \$5,205 to \$5,375 per annum.

5/6/63

Transfer

Daisy L. Condon, from the position of Secretary in the Division of Bank Operations to the position of Secretary in the Division of Data Processing, with no change in basic annual salary at the rate of \$5,715, effective the date of assuming her new duties.

Governor Shepardson also approved today on behalf of the Board a memorandum dated May 2, 1963, from Mr. Johnson, Director of the Division of Personnel Administration, noting that the appointment of Dale K. Osborne as Economist in the Division of Data Processing, approved by the Board on March 28, 1963, was with the understanding that the Board would pay his moving expenses, transportation and per diem for him, and transportation for his family to Washington, D. C. This action did not infer a general relaxation of the Board's policy of not paying such expenses except in the case of a person transferring from a Federal Reserve Bank to the Board.


Secretary

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

Item No. 1
5/6/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 6, 1963

Federal Deposit Insurance Corporation,
National Press Building,
Washington 25, D. C.

Gentlemen:

Referring to Mr. Edward H. DeHority's letter of April 15, 1963, and to Mr. John F. Lord's letter of April 19, 1963, there is enclosed a copy of Form FR 272 which has been revised to include a statement similar to that included in your Form DE-5. These forms are receipts submitted in requesting copies of Reports of Examination and other information for inter-agency use.

As indicated in Mr. Lord's letter, it is understood and agreed that while it is intended that the language of the statement prevent the disclosure or publication of the actual Report or any pages thereof, or the identification of the source of any information obtained therefrom, it is not intended to prohibit:

The use of any information, without disclosure of source, in proceedings affecting the particular subject bank.

The use of any information for publication, so combined with other information from two or more banks other than the subject bank so as to prevent identification of the subject bank.

In addition, the Board will be happy to consider any specific request for the use of an Examination Report, any portion thereof, or information furnished therefrom, where prior consent is requested on behalf of the Federal Deposit Insurance Corporation.

Very truly yours,
(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosure



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

Date _____

Please furnish us the latest report of:

(Date of Report)

Examinations (Including Trust Department) _____

Condition _____

Income and Dividends _____

of the following bank:

We agree that the above report of examination and other information furnished us shall remain the property of the Federal Deposit Insurance Corporation and under no circumstances will any official of the Board of Governors of the Federal Reserve System disclose or make public in any manner such report or any portion thereof or other information so furnished.

Records Section

BOARD USE

FDIC USE

Examiner:
Report Received:
Report Returned:
Requisition Returned:

Return Acknowledged:
By:
Date:

Item No. 2
5/6/63

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 6, 1963

Board of Directors,
The Manistee County Savings Bank,
Manistee, Michigan.

Gentlemen:

This refers to your request for permission, under applicable provisions of your condition of membership numbered 1, to exercise fiduciary powers.

Following consideration of the information submitted, the Board of Governors of the Federal Reserve System grants The Manistee County Savings Bank permission to exercise any and all fiduciary powers now or hereafter conferred upon such bank by or pursuant to the laws of the State of Michigan.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

Item No. 3
5/6/63

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



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 6, 1963

Board of Directors,
Hawthorne Bank of Wheaton,
Wheaton, Illinois.

Gentlemen:

This refers to your request for permission,
under applicable provisions of your condition of member-
ship numbered 1, to exercise fiduciary powers.

Following consideration of the information sub-
mitted, the Board of Governors of the Federal Reserve System
grants Hawthorne Bank of Wheaton permission to exercise
any and all fiduciary powers now or hereafter conferred upon
such bank by or pursuant to the laws of the State of Illinois.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

Item No. 4
5/6/63

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 6, 1963

Board of Directors,
The Farmers and Merchants Bank of Hill City,
Hill City, Kansas.

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 Farmers and Merchants Bank of Hill City, to act as executor, administrator, and guardian of estates, 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
5/6/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



May 6, 1963

Mr. Thomas R. Sullivan, Vice President,
Federal Reserve Bank of Dallas,
Dallas 2, Texas.

Dear Mr. Sullivan:

This refers to your letter of April 29, 1963, requesting that you be advised whether there is any change in the status of The Sealy & Smith Foundation for The John Sealy Hospital ("Foundation") as a holding company affiliate and its right to vote the stock it owns of First Hutchings-Sealy National Bank of Galveston.

At the time of the April 26, 1940, determination that Foundation was not a holding company affiliate (except for the purposes of Section 23A of the Federal Reserve Act) with respect to the First National Bank of Galveston, Foundation owned 52 per cent of the outstanding shares of that bank and approximately 16 per cent of the outstanding shares of Hutchings-Sealy National Bank of Galveston. In 1958 the aforementioned two banks consolidated under the charter of The First National Bank of Galveston and under the title of First Hutchings-Sealy National Bank of Galveston.

On the basis of information currently submitted, it appears that there has been no substantial change in the factual situation. Consequently, since the Board's previous determination was made with respect to the surviving bank in the aforementioned consolidation, it is the opinion of the Board that no redetermination is necessary and the 1940 determination remains in force and in effect.

Please advise Foundation accordingly. Since correspondence submitted by First Hutchings-Sealy National Bank indicates the current request was initiated as a result of an examination, the bank might also appreciate similar advice in order to be in a position to apprise the examiners as to the status of the determination.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.



1492
Item No. 6
5/6/63

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 6, 1963

Bank of America National Trust
and Savings Association,
San Francisco 20, California.

Gentlemen:

The Board of Governors of the Federal Reserve System authorizes Bank of America National Trust and Savings Association, San Francisco, California, pursuant to the provisions of Section 25 of the Federal Reserve Act, to establish a branch in the City of Madrid, Spain; and to operate and maintain such branch subject to the provisions of such Section.

Unless the branch is actually established and opened for business on or before May 1, 1964, all rights granted hereby shall be deemed to have been abandoned and the authority hereby granted will automatically terminate on that date.

Please advise the Board of Governors, in writing, through the Federal Reserve Bank of San Francisco, when the branch is opened for business, furnishing information as to the exact location of the branch.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

Item No. 7
5/6/63

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



May 6, 1963

Board of Directors,
The Fifth Third Union Trust Company,
Cincinnati, Ohio.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by The Fifth Third Union Trust Company in the Kenwood Plaza Shopping Center located at the intersection of Kenwood and Montgomery Roads in an unincorporated area known as Kenwood, Hamilton County, Ohio, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

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

Item No. 8
5/6/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



May 6, 1963

Board of Directors,
Wachovia Bank and Trust Company,
Winston-Salem, North Carolina.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by Wachovia Bank and Trust Company on U. S. Highway 70 at the intersection of Lynnstone Court in Asheville, North Carolina, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

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

Item No. 9
5/6/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



May 6, 1963

Board of Directors,
Wachovia Bank and Trust Company,
Winston-Salem, North Carolina.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by Wachovia Bank and Trust Company on Corporation Parkway near the intersection of Buchanan Street in Winston-Salem, North Carolina, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

1496

Item No. 10

5/6/63

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



May 6, 1963

Board of Directors,
Bank of Las Vegas,
Las Vegas, Nevada.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by Bank of Las Vegas in the vicinity of the intersection of Riviera Road and Las Vegas Boulevard in an unincorporated section of Clark County, Nevada, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

Item No. 11 ¹⁴⁹⁷
5/6/63



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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 6, 1963

Board of Directors,
Bank of Las Vegas,
Las Vegas, Nevada.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by Bank of Las Vegas in the vicinity of the intersection of East Fremont Street and East Charleston Boulevard in an area adjacent to the city limits of Las Vegas, Nevada, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

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

Item No. 12
5/6/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



May 6, 1963

Board of Directors,
Fidelity Bank,
Beverly Hills, California.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by Fidelity Bank, Beverly Hills, California, on Venice Boulevard between Wasatch and Centinela Boulevards, Los Angeles, California, 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.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

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

Item No. 13
5/6/63



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 7, 1963

Mr. W. S. Farmer, General Counsel,
Federal Reserve Bank of Richmond,
Richmond 13, Virginia.

Dear Mr. Farmer:

This refers to your letter to the Board of December 11, 1962, asking for an interpretation under section 6(a)(2) of the Bank Holding Company Act of 1956 ("the Act") on behalf of The Bank of Virginia ("Bank"), and to your subsequent letters in this connection dated December 27, 1962, and February 6, 1963, addressed to Mr. Thomas J. O'Connell of the Board's staff.

In your letter of December 11, you advised that Bank had outstanding certain loans secured by stock in The Bank of Henrico ("Henrico") and The Bank of Occoquan ("Occoquan"), which stock was to be exchanged on December 21, 1962, for stock in Virginia Commonwealth Corporation ("Commonwealth"), a bank holding company to be formed in accordance with an Order of the Board of October 25, 1962, of which Bank would also become a subsidiary at the same time and in the same manner.

Section 6(a)(2) of the Act forbids a bank "to accept the capital stock . . . of a bank holding company of which it is a subsidiary . . . as collateral security for advances made to any person or company . . ." and you had previously advised Bank, after informal discussions with members of the Board's Legal Staff, that the proposed exchange would constitute a violation of this provision. Bank accordingly made an effort to place the loans elsewhere before December 21, but by December 11 concluded that it would not be successful in disposing of all of them, and for this reason asked you to obtain the Board's views on the applicability of the section in question under the circumstances described.

It was impracticable to obtain the Board's views within the time indicated, and consideration of the matter was postponed pending further efforts by Bank to correct the situation. Two of the loans, however, still remain outstanding, secured by stock of Commonwealth.

Mr. W. S. Farmer

-2-

The Board has considered the question raised by Bank, whether the saving proviso of section 6(a)(2), which permits "any bank" to "accept such capital stock, bonds, debentures, or any other obligations as security for debts previously contracted" with the further qualification that "such collateral shall not be held for a period of over two years" applies to the transactions in question. However, the common understanding among bankers of the phrase "debts previously contracted" is that it refers to debts that have been contracted before taking additional security, and it is the opinion of the Board that the language of the proviso would not exempt capital stock of the parent holding company which was accepted in lieu of the original collateral for a loan. To hold otherwise would be to open an avenue for possible evasion of the purpose of section 6(a)(2), which was to prevent the possibility that a holding company might take undue advantage of the resources of its subsidiary banks. This result would follow because, under a permissive rule, promoters might finance at least a part of the cost of forming such a company by buying up bank stocks with the proceeds of loans for which the stock was pledged as security, with a view to substituting stock of the holding company for the original security after the company had been formed.

The Board concludes, therefore, that a violation of section 6(a)(2) of the Act occurred when Bank accepted stock of Commonwealth in exchange for stock of Henrico which Bank then held as collateral for the loans in question. Commonwealth should be advised that the Board considers 90 days from receipt by that Corporation of your letter as a reasonable period of time within which to effect bona fide removal from Bank of the stock of Commonwealth now held as collateral for the loans in question. It should be pointed out to officials of Bank that any willful violation of the Act is subject to criminal penalties, and that action, if any, to enforce these provisions would be instituted by the United States Department of Justice.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.



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

1501
Item No. 14
5/6/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 6, 1963.

Mr. Harrison F. Houghton,
Senior Economist,
Committee on Banking and Currency,
House of Representatives,
Washington 25, D. C.

Dear Mr. Houghton:

This refers to your oral inquiry to Mr. Thompson concerning the percentage of outstanding shares of Baystate Corporation, Boston, Massachusetts, owned directly by The First National Bank of Boston ("First National"), and your request for details concerning those shares which were held directly or indirectly by that bank in a fiduciary capacity, as referred to in the Board's recent Statement on the application of Norfolk County Trust Company for approval of consolidation with Wellesley Trust Company.

Baystate Corporation's published annual report for the year 1962 shows that at December 31 of that year there were 823,840 of its shares issued, that 61,220 shares were held as treasury stock, and that there were 762,620 shares outstanding. As First National Bank owns 102,510 shares, such holding represents 13.4 per cent of Baystate Corporation's 762,620 outstanding shares. Baystate Corporation is organized under the laws of the Commonwealth of Massachusetts and it appears that Massachusetts corporations cannot vote any shares of their stock held as treasury stock.

With respect to the request for details of direct and indirect holdings of First National in a fiduciary capacity, the Board's Statement on the Norfolk County case combined the fiduciary holdings of First National and Old Colony Trust Company (the stock of Old Colony is trustee for the benefit of shareholders of First National); such holdings aggregate 17,152, or 2.2 per cent of Baystate's outstanding shares. The data available to the Board was as of a different date than for the survey conducted at Congressman Patman's request; consequently, there are certain differences between the holdings shown below and those included in the survey. The fiduciary holdings to which the Board referred are as follows:

Mr. Harrison F. Houghton

-2-

Shares of
Baystate
Corporation

First National Bank of Boston as fiduciary - n/o Neb & Company, nominee	<u>7,142</u>
Old Colony Trust Company as fiduciary - Old Colony Trust Company Co-Trustee (Apparently shown in your data - DH NITE MONO - 27 - as nominee: Tarr & Co.)	3,339
Nominees:	
Bob and Company	800
Clem & Company	200
Don & Company	1,720
Gus & Company	500
Ham & Company	800
Low & Company	<u>2,653</u>
 Total - Old Colony Trust Company	 <u>10,012</u>
 Total fiduciary holdings	 <u>17,154</u>
 Per cent of Baystate's outstanding shares	 2.2

The legal ownership of securities held as trustee, or in similar fiduciary capacities, whether or not registered in nominee names, is reposed in the holder or holders of the fiduciary appointment and all incidents of legal ownership, including the power to exercise voting rights with respect to shares so held are similarly reposed, subject, however, to such restrictions on voting rights and other matters which may be imposed by provisions of applicable trust instruments. Whether and to what extent Baystate's shares held under fiduciary appointments may be voted by First National or by Old Colony in their respective fiduciary capacities can be determined only by reference to the provisions of the instruments creating and governing the separate fiduciary appointments. Of course, in voting any shares held under fiduciary appointments, the actions taken must be compatible with the best interests of the beneficiaries of such appointments and not designed to serve the interest of the fiduciary itself.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 15
5/6/63



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 6, 1963

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

Dear Mr. Hughes:

This is in response to your request for the views of the Board of Governors of the Federal Reserve System with respect to the draft bill to create an Administrative Conference of the United States.

The Board has reviewed the bill in question and agrees in principle with the objectives sought to be accomplished.

However, two features of the bill are, in the view of the Board, objectionable.

First, the provision that the membership of the Administrative Conference shall be preponderantly Federal personnel could very well tend to defeat the objective declared in section 4(b)(6) of the bill; namely, to assure "adequate representation of the viewpoints of private citizens and the utilization of diverse experience". It is the Board's understanding that the Administrative Conference of 1961-1962, created by Executive Order 10934, consisted of approximately equal representation between Government and non-Government personnel. It is believed that serious consideration should be given to a similar structure for the permanent Administrative Conference. Completely apart from the fact that a greater degree of balance and objectivity would probably flow from such a division of representation, public acceptance of and confidence in the Conference would no doubt be enhanced were it not to have even the superficial appearance of "Government domination".

The second objectionable feature of the bill is the provision that in addition to appointees from the Federal agencies, the heads of the agencies shall also be members of the Conference. It is not believed

Mr. Phillip S. Hughes

-2-

that such individuals could realistically be expected to find the time, regardless of the degree of their interest, to devote continuing and thoughtful attention to the affairs of the Conference, and that their statutory authority to designate alternates would be invoked with regularity. This would tend to defeat the purpose of having the agency heads as members in the first place. It is believed that the interests of the agencies could adequately be represented by the appointees provided for in section 4(b)(4) of the bill, and that in the interests of keeping the membership of the Conference to a manageable number, the agency heads should be omitted as members. It may be noted in passing that this suggestion, if adopted, would make a major contribution toward the accomplishment of the suggestion made above regarding the balance between Government and non-Government members.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 16
5/6/63

OFFICE OF THE CHAIRMAN

May 6, 1963.

The Honorable Abraham J. Multer,
Chairman, Subcommittee on Bank Supervision
and Insurance,
Committee on Banking and Currency,
House of Representatives,
Washington 25, D. C.

Dear Mr. Chairman:

This is in response to your request of April 16, 1963,
for the Board's comments on H.R. 729, a bill to establish the
Federal Deposit and Savings Insurance Board.

The Board does not believe that it would be desirable,
as contemplated by this bill, to consolidate the management of
the Federal Deposit Insurance Corporation and the Federal Savings
and Loan Insurance Corporation under a single agency.

To combine under a single Board the responsibility for
management of the two insuring corporations would lead to commin-
gling of responsibilities which would blur the distinction between
bank deposits and savings and loan share accounts. In our judgment,
this would be detrimental to the sound growth of both banks and
savings and loan associations.

There are important and, in our judgment, desirable
differences between banks and savings and loan associations. The
separate existence of these two types of financial institutions,
with Federal Insurance plans tailored to their particular needs,
offers the public a choice which we feel they should continue to have.

Furthermore, the supervision and examination of banks and
savings and loan associations should take into account the significant
differences in the nature of their respective liabilities and the
assets that it is appropriate for them to hold in the light of these
differences.

Sincerely yours,

A handwritten signature in cursive script that reads "Wm. McC. Martin, Jr." with a stylized flourish at the end.

Wm. McC. Martin, Jr.

Item No. 17
5/6/63BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

OFFICE OF THE CHAIRMAN

May 6, 1963.



The Honorable James J. Saxon,
Comptroller of the Currency,
Treasury Department,
Washington 25, D. C.

Dear Jim:

This refers to your letter of March 11, 1963, asking whether you are correct in your understanding "that the Board of Governors of the Federal Reserve System reserves to itself the right to interpret all sections of the National Banking Laws and regulations issued by the Comptroller of the Currency in their application to state member banks as it reserves the right to interpret Section 5136 of the Revised Statutes by virtue of the twentieth paragraph of Section 9 of the Federal Reserve Act, as it applies to state member banks."

Your understanding in this respect is substantially correct, but some clarification of the Board's position appears desirable.

It may be misleading to say that the Board "reserves to itself the right" to interpret provisions of the national banking laws and the regulations of the Comptroller insofar as they apply to State member banks. Rather, the Board believes that, in order to discharge effectively its supervisory functions with respect to State member banks, the Board must, when occasion demands, necessarily interpret any provisions of Federal banking laws and regulations that are applicable to such banks.

Obviously, it is desirable that Federal laws and regulations applicable to both national banks and State member banks be interpreted, as far as possible, in the same manner as to both categories of banks. Over the years, this objective has generally been achieved through consultation between the Comptroller and the Board.

With particular reference to interpretation of regulations, it seems clear that, where Congress has empowered a Governmental agency to issue regulations to implement particular provisions of law, interpretations of such regulations by the issuing agency should be given persuasive weight unless they seem clearly erroneous. The Board has always followed this approach with respect to interpretations by your Office of your regulations regarding investment

The Honorable James J. Saxon -2-

securities, issued pursuant to provisions of section 5136 of the Revised Statutes that are made applicable to State member banks by section 9 of the Federal Reserve Act.

Your letter refers only to the question whether the Board reserves the "right" to interpret sections of the "National Banking Laws and regulations issued by the Comptroller of the Currency in their application to State member banks". It does not refer to interpretation of provisions of the Federal Reserve Act and regulations issued thereunder by the Board in their application to national banks. In this respect, an additional consideration is presented by certain provisions of the law.

Section 2 of the Federal Reserve Act requires national banks, as members of the Federal Reserve System, to comply with applicable provisions of the Federal Reserve Act. It provides further that, if a national bank fails to comply with such provisions of the Act, all of its rights, privileges, and franchises under the National Bank Act "shall be thereby forfeited", and that any such noncompliance shall be determined by a court of the United States in a suit brought for that purpose "under direction of the Board of Governors of the Federal Reserve System, by the Comptroller of the Currency". (12 U.S.C. 501a)

In this connection, the Board has noted that, in a letter to a national bank dated March 4, 1963, you stated that it is the opinion of your Office that, under the provisions of 12 U.S.C. 461 (the first paragraph of section 19 of the Federal Reserve Act) and under regulations of the Board thereunder (Regulation Q), an organization known as "Associated Hospital Service" is "eligible to maintain a savings deposit in a National Bank". Your letter referred to a published interpretation of the Board (1960 Federal Reserve Bulletin, p. 1124), in which the Board had expressed the opposite opinion.

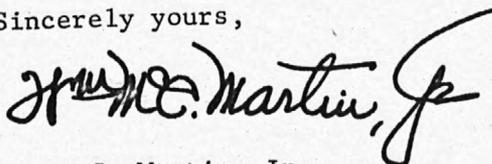
As you know, section 19 of the Federal Reserve Act prohibits member banks from paying interest, directly or indirectly, on any demand deposit (12 U.S.C. 371a) and requires the Board of Governors to limit the rate of interest that may be paid by member banks on time and savings deposits (12 U.S.C. 371b). For these purposes, the first paragraph of section 19 (12 U.S.C. 461) expressly authorizes the Board to define certain terms, including the terms "demand deposits" and "savings deposits", to determine what shall be deemed to be a payment of interest, and to prescribe regulations to effectuate the purposes of section 19. The Board's Regulation Q, issued pursuant to this authority, defines "savings deposits" as including deposits of nonprofit organizations "operated primarily for * * * charitable * * * purposes".

The Honorable James J. Saxon -3-

While your letter of March 4, 1963, did not set forth the reason for the opinion there expressed, it stated that Associated Hospital Service is a non-profit corporation "organized under a statute which describes it to be a charitable and benevolent institution"; and it is assumed that, for this reason alone, your Office concluded that this institution is operated primarily for charitable purposes.

As was pointed out in the Board's 1960 interpretation, although the State statute under which it was organized declares such organizations to be "charitable and benevolent institutions", it appears that Associated Hospital Service is not actually "operated" for charitable purposes. In fact, it makes available a plan for hospital insurance and medical and surgical benefits under which payments by subscribers are based upon disbursements by the Association and are computed on an actuarial basis, and the plan clearly involves no "charitable" elements. The Board, therefore, continues to be of the opinion that a deposit of this organization does not fall within the definition of a "savings deposit" set forth in section 217.1(e) of Regulation Q. Accordingly, unless such a deposit came within the definition of a time deposit in Regulation Q, it would constitute a demand deposit, and the payment of interest thereon by a national bank would violate the prohibition of section 19 of the Federal Reserve Act against the payment of interest on demand deposits by member banks. Such a violation, as a matter of law, would warrant the institution of proceedings under section 2 of the Act to determine whether the bank's franchises should be forfeited.

Sincerely yours,



Wm. McC. Martin, Jr.