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 Thursday, June 20, 1963. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Balderston, Vice Chairman
Mr. Mills
Mr. Shepardson
Mr. Mitchell
Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Fauver, Assistant to the Board
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Johnson, Director, Division of Personnel Administration
Mr. Hexter, Assistant General Counsel
Mr. O'Connell, Assistant General Counsel
Mr. Shay, Assistant General Counsel
Mr. Daniels, Assistant Director, Division of Bank Operations
Mr. Leavitt, Assistant Director, Division of Examinations
Mrs. Semia, Technical Assistant, Office of the Secretary
Mr. Bakke, Senior Attorney, Legal Division
Mr. McClintock, Supervisory 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:

Item No.

Letter to The Chase Manhattan Bank, New York, New York, approving the establishment of a limited purpose branch at 74-25 Grand Avenue, Maspeth, Queens County. 1
Letter to Rhode Island Hospital Trust Company, Providence, Rhode Island, approving the establishment of a branch in Middletown.

Letter to The Forest Hill State Bank, Forest Hill, Maryland, approving the establishment of a branch in Jarrettsville.

Letter to The Bank of Hartsville, Hartsville, South Carolina, approving the establishment of a branch at West Carolina Avenue and Cedar Lane.

Letter to United California Bank, Los Angeles, California, approving the establishment of a branch at Harbor Boulevard and Broadway, Anaheim, branch operations now conducted at 203 East Lincoln Avenue to be discontinued simultaneously with the establishment of the new branch.

Letter to County Trust Company, Tenafly, New Jersey, approving an extension of time to establish a branch at 2 West Clinton Avenue.

Letter to The Merchants and Planters Bank, Camden, Arkansas, approving an investment in bank premises.

Letter to Security National Bank of San Antonio, San Antonio, Texas, granting its request for permission to maintain reduced reserves.

Letter to the Federal Reserve Bank of Kansas City approving the appointment of Frank J. Martincik as Federal Reserve Agent's Representative at the Omaha Branch.

Letter to Senator James O. Eastland, Chairman of the Committee on the Judiciary, reporting on S. 1664, a bill "To provide for continuous improvement of the administrative procedure of Federal agencies by creating an Administrative Conference of the United States, and for other purposes."
Letter to the Chairman of the Conference of Presidents requesting a review of procedures of the Federal Reserve Banks in providing coin services to the public.

Letter to the Federal Reserve Bank of San Francisco approving the payment of salary to William M. Burke as Senior Economist, and to Gault W. Lynn as Director of Research at rates fixed by the Bank's Board of Directors.

Mr. Bakke then withdrew from the meeting.

Report on competitive factors (Baltimore-Aberdeen, Maryland).

There had been distributed a draft of report to the Federal Deposit Insurance Corporation on the competitive factors involved in the proposed merger of The First National Bank of Aberdeen, Aberdeen, Maryland, into The Equitable Trust Company, Baltimore, Maryland.

After discussion, the report was approved unanimously for transmission to the Federal Deposit Insurance Corporation. The conclusion of the report read as follows:

There is little if any existing competition between The Equitable Trust Company and The First National Bank of Aberdeen. However, with the recent opening of a branch of First National only 13 miles by a primary highway from an office of Equitable Trust, it would appear that potential for some competition does exist between them.

Consummation of the proposed merger would not significantly alter Equitable Trust's competitive position in the areas it now serves or alter its position relative to other large banks in the State; however, it would represent an extension of its trade area and might adversely affect the remaining banks in Harford County as they would be exposed to the direct competitive
capabilities of a much larger bank. Also, this proposal would represent the entry of the first out-of-county bank into Harford County and further concentrate banking resources in Maryland.


After a discussion during which several changes in the conclusion of the report were agreed upon, the report was approved unanimously for transmission to the Federal Deposit Insurance Corporation. The conclusion of the report, as approved, read as follows:

The Connecticut Bank and Trust Company and The Union Bank and Trust Company of New London are not competitive to a significant extent. The proposed merger would introduce into New London a second large bank to offer competition to the largest bank in the State, Hartford National Bank and Trust Company, which has an office there already. In New London operation of banks by the State's two largest banks might result in a keener competitive situation with possible adverse competitive effects on the remaining small bank in the area; however, that bank now competes with the State's largest bank and competitive effects should not be severely adverse.

Application for membership (Item No. 13). On June 11, 1963, the Board discussed, but deferred action on the application of Yellowstone Bank, Absarokee, Montana, for membership in the
Federal Reserve System. Although the Federal Reserve Bank of Minneapolis recommended approval of the application, the Division of Examinations recommended denial, for reasons set out in a distributed memorandum dated June 4, 1963, and elaborated upon by Mr. Leavitt at the June 11 meeting of the Board. There had now been distributed a memorandum dated June 19, 1963, from the Division of Examinations presenting statistical comparisons of the number of banking offices in communities and counties similar to the town of Absarokee and Stillwater County, Montana, in population and other characteristics.

In discussion at today's meeting, Mr. Solomon referred to the fact that at the time of the previous discussion it had been uncertain whether or not President Deming of the Minneapolis Reserve Bank, who was then on vacation, had participated in the development of the Reserve Bank's recommendation. Mr. Solomon had since talked with Mr. Deming, and had learned that the latter recommended approval of the application. Mr. Deming pointed out that the competing national bank in Absarokee was a member, and it seemed to him that it would be somewhat discriminatory to exclude the second bank from membership. He understood that Mr. Harris (principal organizer of Yellowstone Bank) and Mr. Towe (principal organizer of the national bank) were both essentially conservative bankers; and both were sufficiently affluent to contribute funds to bolster their respective banks if necessary. Mr. Deming also expressed the view that for the Federal Reserve to choose between the two banks by denying the Yellowstone Bank's application would be undesirable. In
summary, Mr. Deming's position seemed to be that even if the application was no more than marginal, it would be best to approve it and let competition determine the outcome.

Mr. Solomon remarked that some slight weight for approval might be found in the fact that Yellowstone Bank was already in operation rather than seeking to organize. After commenting on the statistics that had been compiled and distributed, he stated that the Division would still be inclined, on balance, to recommend disapproval, although recognizing approval would not be unsupportable.

Governor Mills stated that he would approve, although the application admittedly was marginal. The organizers of the two banks each operated other banks, and each had substantial means to protect the banks in Absarokee. In fact, they would be under great compulsion to protect the new banks identified with their names; if either bank should get into difficulty, its principal owner could hardly afford to let it default, thus throwing a serious shadow on his other banks. If it were found eventually that the two banks could not survive competitively, it seemed logical to suppose that at some point an agreement might be reached under which one bank would absorb the other. Although Governor Mills was not happy with the situation, he thought approval was justified.

Governor Shepardson expressed concurrence with Governor Mills' reasoning, adding that Stillwater County, though not heavily populated, was an area characterized by large ranches with banking needs. He had been told that Mr. Harris was one of the strong agricultural credit leaders
in the Montana area, had a large following among the ranchers, and had done much to develop agricultural programs. This suggested that Mr. Harris would continue to draw banking business from the ranchers around Absarokee regardless of the existence of the other bank in the town.

Governor Mitchell stated that he would approve. He thought this was a situation in which Mr. Deming's judgment ought to carry considerable weight.

Governor Balderston said that he would approve. The risk to the depositors would appear to be negligible, for the reasons Governor Mills had outlined.

Chairman Martin having indicated that he also would approve, the membership application of Yellowstone Bank was approved unanimously. A copy of the letter sent to the bank reflecting this decision is attached as Item No. 13.

Mercantile Trust Company (Item No. 14). At its meeting on June 11, 1963, the Board gave preliminary consideration to a question of the legality of certain proposed transactions involving Mercantile Trust Company, a State member bank of St. Louis, Missouri. The bank proposed that its wholly-owned subsidiary (Mississippi Valley Company) would absorb another corporation (Mercantile Mortgage Company) the assets of which included the capital stock of four corporations that apparently operated as insurance agencies. It was also proposed that Mississippi Valley Company purchase from the individual who controlled
Mercantile Mortgage Company three additional corporations, including a life insurance company, an acceptance corporation, and a loan company. The member bank planned to make a "capital contribution" of $4 million to Mississippi Valley Company. The Legal Division having found serious legal questions, the St. Louis Reserve Bank was so informed and was asked to request the member bank not to consummate the transactions until the Board had had an opportunity to study the matter adequately to determine whether or not the transactions would violate Federal law or conditions of System membership applicable to the member bank. Mercantile Trust Company subsequently revised its plan to provide for a contribution of $4,000,000 to the surplus rather than the capital of Mississippi Valley Company.

There had been distributed a draft of letter to Mercantile Trust Company that would take the position that a contribution by the bank to either the capital or the surplus of its wholly-owned subsidiary would violate the provision of section 5136, Revised Statutes, prohibiting purchase of corporate stock by member banks; that the proposed purchase by Mississippi Valley Company of the stock of the several corporations that were now subsidiaries of Mercantile Mortgage Company likewise would violate section 5136; and that the operation of the offices of Mercantile Mortgage Company where real estate loans were made, in Missouri and in other States, would violate section 9 of the Federal Reserve Act and section 5155 of the Revised Statutes, which in effect forbid a member State bank (a) to
operate branches outside the State in which its main office is located
or (b) to operate branches within that State except to the extent
expressly authorized by the law of the State and with the approval of the
Board. (For the purpose of those provisions of Federal law, the term
"branch" is defined to include any additional office or branch place
of business "at which deposits are received, or checks paid, or money
lent".) The reasoning on which these conclusions were based was set
out in the draft letter.

At the Board's request, Messrs. Hexter and Solomon reported
on a conference they had had with President Shuford of the St. Louis
Reserve Bank, Mr. K. R. Cravens, Chairman of the Board of Mercantile
Trust Company, and Mr. Robert Neill, Counsel for Mercantile Trust. The
meeting had been devoted largely to discussion of legal questions, Mr.
Neill presenting at some length his reasons for believing Mercantile
Trust's program would not violate any condition of membership or Federal
or State statute, and the System representatives presenting the possible
reasons for a contrary conclusion. Upon being asked if it would not be
possible to modify the program to remove the features to which there
might be legal objection, Mr. Cravens had replied that that would not
be possible before the consummation date, June 21, 1963. The contract
did not provide that the transactions would be dependent upon approval
by the Board; moreover, there was a substantial penalty clause. All of
the auditing and other preparation had been done on the assumption that
the transactions would be closed tomorrow, and failure to carry out that
intention would cause a great deal of difficulty and confusion. In
substance, it was contended that it would be necessary to go through
with the plan and then try to resolve any questions. Shortly after the
visitors had left, Mr. Neill returned, saying that in response to a
telephone inquiry he and Mr. Cravens had learned that loans were not
actually made at the field offices of Mercantile Mortgage Company but
at its head office. Mr. Neill was of the view that it could be reasoned
that money was not lent at the field offices and consequently those
offices would not come within the definition of "branch."

Governor Mills asked if, in view of the Board's taking the
Position that the proposed transactions would violate Federal law,
Mercantile Trust might not be relieved of any possible damages if it
failed to perform under its contract. Mr. Hexter replied that that
point had been discussed with Messrs. Cravens and Neill, the latter
contending, on the basis of a court decision that he cited, that the
bank would not be relieved of contractual liability.

Mr. Hexter noted that the draft letter did not touch upon
the question whether the proposed transactions would constitute a
change in the character of Mercantile Trust's business which, under its
conditions of membership, would require the Board's approval. Considering
the strength of Mercantile Trust, it seemed probable that the Board would
approve even if it should be determined that a change in the nature of
business was involved. Also, the bank had given assurances that the
proposed increase in its investments in affiliates would not exceed the
limitations prescribed in section 23A of the Federal Reserve Act. The letter therefore was confined to the questions relating to purchase of corporate stock and operation of branches and, as to the first question, followed the position the Board had taken previously, notably in the matter of Bankers Trust Company, New York, New York, earlier this year, to the effect that an acquisition of bank stock by a wholly-owned subsidiary was tantamount to such an acquisition by the parent bank, and, consequently, would be a violation of law. As for Mercantile Trust's contention that a contribution to surplus rather than capital was objectionable, the Board's Legal Division had explored that question twenty-five years ago, arriving at the conclusion that a contribution to surplus would violate the statute. As for the question of operating branches, if mortgage loans were in effect made through the offices of Mercantile Mortgage Company, Mercantile Trust would be indirectly operating branches at those offices. If a member bank, through a subsidiary, could establish offices anywhere it wished, it could easily circumvent the Federal law regarding branches.

There ensued a discussion of the range of out-of-head-office activities of banks, and positions the Board had taken in the past in regard to such functions. It was mentioned that the Office of the Comptroller of the Currency for many years had held that, if deposits were received at the business establishment of a director of a national bank, that establishment constituted a branch.
General concurrence having been expressed with the position taken in the draft letter, the discussion turned to courses of action open to the Board in the situation that appeared to be developing, namely, that Mercantile Trust would proceed with its program despite being informed that the Board regarded the transactions as involving violations of law. The sanctions that the Board could apply included expulsion from membership or, if the objectionable features of the plan were continued, removal of officers or directors of the member bank. It was noted that the member bank might counter by withdrawing from membership or by seeking to convert to a national bank charter. Probably a stronger possibility was that Mercantile Trust, having consummated the transactions, would attempt to meet the Board's objections through some device such as transferring the stock of its subsidiary to trustees for the benefit of its shareholders.

Inquiry was made as to the feasibility of turning the matter over to the Department of Justice for prosecution, but it was pointed out that administration of the provisions of the law relating to expulsion from membership and removal of officers and directors was vested in the Board. The possibility of enjoining Mercantile Trust from consummating the proposed transactions was also mentioned, but the legal staff cited several reasons why it appeared questionable whether an injunction could be obtained.

After further discussion, the letter to Mercantile Trust Company was approved unanimously. A copy is attached as Item No. 14.
It was understood that, in addition to sending the letter, its text
would be telephoned to the St. Louis Reserve Bank for transmittal to
Mercantile Trust Company today.

Mr. Daniels then withdrew from the meeting.

Deposits of trustees in bankruptcy. There had been distributed
a memorandum dated June 14, 1963, from the Legal Division in connection
with two questions raised by the Federal Reserve Bank of San Francisco
regarding deposits of trustees in bankruptcy as "savings deposits"
under Regulation Q, Payment of Interest on Deposits. The first question
was whether a recent amendment to the Bankruptcy Act authorizing trustees
in bankruptcy to deposit funds in interest-bearing savings deposits
affected the Board's authority under section 19 of the Federal Reserve
Act to define "savings deposits" in member banks, and, as provided in
Regulation Q, to limit such deposits to individuals and certain types
of non-profit organizations. The second question asked under what
circumstances a deposit of a trustee in bankruptcy might qualify for
a "savings deposit" under Regulation Q.

As to the first question, the Legal Division concluded that
the recent amendment to the Bankruptcy Act in no way affected the
Board's authority under section 19 or the definition of a "savings
deposit" contained in Regulation Q.

As to the second question, one of the requirements of the
definition of a "savings deposit" is that it must consist of funds
that are either (1) "deposited to the credit of one or more individ-
uals, or of a corporation, association, or other organization operated
primarily for religious, philanthropic, charitable, educational,
fraternal, or other similar purposes and not operated for profit,"
or (2) "in which the entire beneficial interest is held by one or
more individuals or by such a corporation, association, or other
organization."

Three different possibilities were suggested by the Legal
Division as to the test that should be applied in determining whether
a deposit by a trustee in bankruptcy might be considered a savings
deposit under that definition. First, it might be argued that, since
such a trustee is an "individual," a literal reading of the first part
of the definition would permit a deposit by him to be classified as a
savings deposit. Second, the question might be made dependent upon
the nature of the bankrupt, on the theory that the trustee stands in
the position of the bankrupt. Under this approach, if the bankrupt
was an individual, deposits by the trustee could be classified as
savings deposits, but if the bankrupt was a business corporation, such
deposits would not qualify as savings deposits. The third alternative
would be to hold that, since a trustee in bankruptcy holds the bank-
rupt's assets for the benefit of creditors, a deposit by a trustee might
qualify as a savings deposit only if the creditors would themselves
qualify for savings deposits. After discussing the merits and dis-
advantages of the three alternatives, the Legal Division recommended the
third, even though it was obvious that under it the deposits of trustees in bankruptcy could seldom be considered savings deposits. A draft of letter to the Federal Reserve Bank of San Francisco reflecting this recommendation was attached. It was suggested that the proposed letter be submitted to the Federal Deposit Insurance Corporation for an expression of its views, which could be done through informal consultation by the Legal Division with the legal staff of the Corporation; and that, if the Corporation concurred in the proposed position, the interpretation be sent to all Federal Reserve Banks and published in the Federal Register and Federal Reserve Bulletin.

A preliminary discussion disclosed divergent opinions among the members of the Board. One member (Governor Mills) concurred in the reasoning and recommendation of the Legal Division. Another member (Governor Mitchell) expressed the view, for reasons stated, that the proposed interpretation was unnecessarily severe. He suggested amending Regulation Q so that trustees in bankruptcy, and perhaps others such as liquidating agents and receivers, would be entitled to have savings deposits. Governor Balderston indicated initially an inclination toward the alternative of making the question dependent on the nature of the bankrupt. Later, however, he expressed himself favorably toward the approach suggested by Governor Mitchell, as did Governor Shepardson. Question was raised whether any such amendment should be considered within the context of the over-all study of Regulation Q recently decided on by the Board, but Governor Mitchell noted that the specific
question concerning trustees in bankruptcy seemed to require rather prompt attention.

At the conclusion of the discussion it was understood that the Legal Division would draft a possible amendment to Regulation Q, along the lines suggested by Governor Mitchell, for the Board's consideration in connection with the question of the eligibility of trustees in bankruptcy to hold savings deposits. It was also understood that the staff would obtain the views of the Federal Deposit Insurance Corporation.

The meeting then adjourned.

Secretary's Notes: The requirements contemplated by the Board's action on May 29, 1963, in approving the issuance of a preliminary permit to Marine Midland International Corporation, New York, New York, having been completed, a letter was sent today to that corporation transmitting a final permit to commence business.

Governor Shepardson today approved on behalf of the Board a memorandum dated June 19, 1963, from Mr. Daniels, Assistant Director, Division of Bank Operations, recommending that Dorothy Werner of that Division be designated as alternate witness in connection with the mutilation of facsimile signature plates used by officers of the Federal Reserve Banks in signing checks drawn by the Banks as fiscal agents of the United States, and that John Baird, currently serving as alternate, be designated as principal witness.
June 20, 1963

Board of Directors,
The Chase Manhattan Bank,
New York, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch at 74-25 Grand Avenue, Maspeth, Queens, New York, for the limited purpose of conducting operations of a coin processing center including the receipt of deposits and the payment of withdrawals, primarily in coin, by The Chase Manhattan Bank, 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 Directors,
Rhode Island Hospital Trust Company,
Providence, Rhode Island.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by Rhode Island Hospital Trust Company, Providence, Rhode Island, in a new shopping center on West Main Road, Middletown, Rhode Island, 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.)
June 20, 1963

Board of Directors,
The Forest Hill State Bank,
Forest Hill, Maryland.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by The Forest Hill State Bank on State Route 165 near the junction with State Route 23 in Jarrettsville, Maryland, 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 Directors,
The Bank of Hartsville,
Hartsville, South Carolina.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by The Bank of Hartsville, Hartsville, South Carolina, of a branch at the northeast corner of West Carolina Avenue and Cedar Lane, Hartsville, South 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.)
June 20, 1963

Board of Directors,
United California Bank,
Los Angeles, California.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by United California Bank at the northeast corner of Harbor Boulevard and Broadway, Anaheim, California, provided the branch is established within one year from the date of this letter, and provided further that branch operations now conducted at 203 East Lincoln Avenue, Anaheim, California, are discontinued simultaneously with the establishment of the above 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.)
Board of Directors,
County Trust Company,
Tenafly, New Jersey.

Gentlemen:

The Board of Governors of the Federal Reserve System extends to December 30, 1963, the time within which County Trust Company may establish a branch at 2 West Clinton Avenue, Tenafly, Bergen County, New Jersey.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.
June 20, 1963

Board of Directors,
The Merchants and Planters Bank,
Camden, Arkansas.

Gentlemen:

The Board of Governors of the Federal Reserve System approves, under the provisions of Section 24A of the Federal Reserve Act, an investment in bank premises in an amount not exceeding $400,000 by The Merchants and Planters Bank, Camden, Arkansas, for the purpose of purchasing land and constructing a new building.

It is understood that the necessary land has already been purchased at a cost of $94,000.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.
June 20, 1963

Board of Directors,
Security National Bank of San Antonio,
San Antonio, Texas.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Dallas, the Board of Governors, acting under the provisions of Section 19 of the Federal Reserve Act, grants permission to the Security National Bank of San Antonio to maintain the same reserves against deposits as are required to be maintained by nonreserve city banks, effective as of the date it opens for business.

Your attention is called to the fact that such permission is subject to revocation by the Board of Governors.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.
Mr. Homer A. Scott,
Federal Reserve Agent,
Federal Reserve Bank
of Kansas City,
Kansas City 6, Missouri.

Dear Mr. Scott:

As requested in Mr. Mathews' letter of June 7, 1963, the Board of Governors approves the appointment of Mr. Frank J. Martincik as Federal Reserve Agent's Representative at the Omaha Branch to succeed Mr. Carl C. Tollander.

This approval is given with the understanding that Mr. Martincik will be solely responsible to the Federal Reserve Agent and the Board of Governors for the proper performance of his duties, except that, during the absence or disability of the Federal Reserve Agent or a vacancy in that office, his responsibility will be to the Assistant Federal Reserve Agent and the Board of Governors.

When not engaged in the performance of his duties as Federal Reserve Agent's Representative, Mr. Martincik may, with the approval of the Federal Reserve Agent and the Vice President in charge of the Omaha Branch, perform such work for the Branch as will not be inconsistent with the duties as Federal Reserve Agent's Representative.

It will be appreciated if Mr. Martincik is fully informed of the importance of his responsibilities as a member of the staff of the Federal Reserve Agent and the need for maintenance of independence from the operations of the Bank in the discharge of these responsibilities.

Please have Mr. Martincik execute the usual Oath of Office which should then be forwarded to the Board of Governors along with notification of the effective date of his appointment.

Very truly yours,

(Signed) Merritt Sherman
Merritt Sherman,
Secretary.
The Honorable James O. Eastland,
Chairman,
Committee on the Judiciary,
United States Senate,
Washington 25, D. C.

Dear Mr. Chairman:

This is in reply to your request of June 10, 1963, for a report on S. 1664, a bill "To provide for continuous improvement of the administrative procedure of Federal agencies by creating an Administrative Conference of the United States, and for other purposes."

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 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.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.
Mr. Watrous H. Irons, Chairman,
Conference of Presidents,
Federal Reserve Bank of Dallas,
Station K,
Dallas 2, Texas.

Dear Mr. Irons:

With its letter of May 17, 1963, to the Presidents of the Federal Reserve Banks, the Board enclosed excerpts from its answers to inquiries about coin from Congressmen and others, and asked to be advised whether the practices followed by the various Reserve Banks differed substantially from the statements in the excerpts.

The replies to this letter indicated a feeling on the part of each Bank that its practices did not differ in any substantial degree from the statements that the Board had been making. However, supplemental information submitted with the replies and conversations with officials of various Banks indicate that considerable variation exists in the treatment of the public at the Reserve Banks. For example, one Bank advised that it would supply to individuals up to $10 in silver dollars, two rolls of cents, and one roll each of nickels, dimes, quarters, and halves, and that new coin is supplied if available. Another Bank indicated that its over-the-counter payments were confined to the extent possible to circulated coin. At still another Bank, it appears that little or no currency and coin service is made available through a window open to the public.

The existing coin shortages, coupled with the release by the Mint of increasing numbers of silver dollars with premium values, have resulted in focusing more attention on the coin handling procedures of the Reserve Banks. Variations in these procedures in different areas of the country are being brought to the attention of numismatic publications and are resulting in an increasing number of complaints.
To: Mr. Irons

Under these circumstances, the Board would appreciate your arranging to have the Conference of Presidents undertake a review of the matter to determine the extent of the variations in the services afforded by the Reserve Banks to the public and to assist, as far as practicable, in the elimination of inconsistencies in these services. It will be helpful if this review can be completed in time to permit consideration at the next meeting of the Conference.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.
CONFIDENTIAL (FR)

Mr. Eliot J. Swan, President,
Federal Reserve Bank of
San Francisco,
San Francisco 20, California.

Dear Mr. Swan:

The Board of Governors approves the payment of salary
to Mr. William M. Burke as Senior Economist of the Federal Reserve
Bank of San Francisco at the rate of $16,500 per annum, effective
upon his employment by the Bank on or about July 1 through
December 31, 1963.

The Board of Governors also approves the payment of
salary to Mr. Gault W. Lynn as Director of Research at the rate
of $15,000 per annum for the period July 1 through December 31, 1963.

The salary rates approved are those fixed by your Board
of Directors as reported in your letter of June 6, 1963.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.
The Board of Governors of the Federal Reserve System approves the application of Yellowstone Bank, Absarokee, Montana, Absarokee, Montana, for stock in the Federal Reserve Bank of Minneapolis, 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.

3. At the time of admission to membership, such bank shall have paid-in and unimpaired capital stock of not less than $50,000, and other capital funds of not less than 20 per cent of capital stock.

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 208.7 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 a certified copy of such resolution should be transmitted to 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.

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.
Mr. K. R. Cravens,
Chairman of the Board,
Mercantile Trust Company,
721 Locust Street,
St. Louis 1, Missouri.

Dear Mr. Cravens:

This refers to three legal questions presented by proposed transactions through which Mississippi Valley Company, a subsidiary of Mercantile Trust Company, would acquire the assets and business of Mercantile Mortgage Company and the stock of certain other corporations, as described in a letter of June 12, 1963, to Mercantile Trust Company from Thompson, Mitchell, Douglas & Neill.

Purchases of corporate stock. Two of the questions arise under section 9 of the Federal Reserve Act (12 U.S.C. 335) and section 5136 of the Revised Statutes (12 U.S.C. 24), which in effect forbid "the purchase by [a member State bank] for its own account of any shares of stock of any corporation", except as "permitted by law".

(a) The Board has re-examined its interpretations of this statutory provision in the light of the discussion in the June 12 letter of your Bank's Counsel. The view was there expressed that section 23A of the Federal Reserve Act (12 U.S.C. 371c) permits a member bank to purchase the stock of affiliates "within the limits therein prescribed if the corporate power with respect thereto existed under state law". However, it must be borne in mind that section 23A is a statute that limits and regulates a wide field of financial relationships involving member banks and their affiliates of all categories (see section 2 of the Banking Act of 1933, 12 U.S.C. 221a), including extensions of credit, investments in securities, and advances collateralized by securities of affiliates. Section 23A, therefore, is a restrictive statute and cannot be regarded as a grant of authority to purchase corporate stocks up to the limits prescribed, particularly in view of the specific provision on purchases of corporate stock that was enacted as a part of the same statute (Banking Act of 1933, sections 13, 16; 48 Statutes at Large 183, 185).
Mr. K. R. Cravens

The Board reaffirms its position that the purchase by Mercantile Trust Company of additional shares of stock in Mississippi Valley Company, its wholly-owned subsidiary, would contravene the statutory prohibition. Under the present plan, however, Mississippi Valley Company would not issue any additional shares of stock; its outstanding stock would continue to be in the amount of $25,000, and Mercantile Trust Company would increase the capital structure of its subsidiary by contributing $4,000,000 to its surplus, and it is contended by your Counsel that this fact makes the statutory prohibition inapplicable. The question, therefore, is whether that circumstance—that the $4,000,000 is to be paid into the subsidiary's surplus account rather than into its capital account—removes the transaction from the purview of the above-quoted provision of R. S. 5136.

As you know, in the interpretation of statutes the principal objective is the effectuation of the legislative purpose. With respect to corporations whose stock is held by a number of stockholders, the language of this statute ("the purchase...of any shares of stock"), even if literally construed, ordinarily would be fully effective to carry out the Congressional intent in this regard, since a contribution to the surplus of the corporation by a member bank would redound to the benefit of the shareholders generally (not the contributor exclusively) and therefore would be economically impractical. However, where the corporation in question is a wholly-owned subsidiary of the member bank, such a contribution would be practical, and its economic effect, for this purpose, would be identical with the economic effect of a purchase of additional shares of the subsidiary.

Therefore, if the suggested distinction were regarded as decisive, the purpose of the statutory provision could be nullified by a minor change in the form of the investment in the subsidiary corporation. In other words, a member bank that owned a subsidiary corporation would be at liberty to increase its investment in the capital structure of that subsidiary, even though that action, viewed realistically, would accomplish precisely what R. S. 5136 was intended to prevent.

Accordingly, the Board concludes that a contribution of $4,000,000 by Mercantile Trust Company to the surplus of its wholly-owned subsidiary would violate section 9 of the Federal Reserve Act and section 5136 of the Revised Statutes.

(b) Among the assets to be purchased by Mississippi Valley Company in these transactions are the stocks of a number of corporations. It is the position of the Board that the above-cited provisions of law
prohibit purchase of corporate stock by subsidiaries of a member bank as well as by the member bank itself. Here also, it appears that a contrary interpretation would permit the statutes to be nullified, and the legislative purpose frustrated, by the device of changing the form of the transaction without altering the substance at which the statutes are directed.

Operation of branches. Mercantile Mortgage Company, the corporation whose assets and business are to be acquired through the proposed series of transactions, maintains a number of offices, in Missouri and in other States. It is contemplated that Mississippi Valley Company, a wholly-owned subsidiary of Mercantile Trust Company, would continue to operate these offices. The question arises whether this would involve a violation of section 9 of the Federal Reserve Act (12 U.S.C. 321) and section 5155 of the Revised Statutes (12 U.S.C. 36), which in effect forbid a member State bank (a) to operate branches outside the State in which its main office is located or (b) to operate branches within that State except to the extent expressly authorized by the law of the State and with the approval of the Board of Governors.

For the purpose of these provisions of Federal law, the term "branch" is defined to include (although it is not limited to) any additional office or branch place of business "at which deposits are received, or checks paid, or money lent". (R. S. 5155(f); 12 U.S.C. 36) For the basic reasons outlined in the foregoing discussion relating to purchases of corporate stock, it is the position of the Board that any office of a wholly-owned subsidiary of a member bank at which loans are made constitutes a "branch" of the member bank within the purview of these provisions of Federal law. This position appears to be required in order to give to the laws in question their intended effect, since the contrary position would permit a bank to conduct operations, regardless of Federal and State laws and without supervisory approval or control, at any points it might choose both within and outside the State in which it was located. It is hardly necessary to point out that the statutes cited were enacted by Congress to prevent, rather than to permit, operations of a member bank's organization to be carried on at offices other than its main offices and legally authorized branches.

It is understood that the Missouri statute prohibiting the establishment of a "branch trust company" refers only to the receiving of deposits and the paying of checks, and that the State Commissioner of Finance has held that the proposed transactions would not violate that statute. With respect to offices of Mississippi Valley Company located within the City of St. Louis, clause (1) of subsection (c) of R. S. 5155 (12 U.S.C. 36) would govern the question whether such offices
(regarded as branches of Mercantile Trust Company) could be established and operated, with Federal supervisory approval. In the case of such offices located elsewhere in Missouri, clause (2) of subsection (c) would govern.

It is understood that Mercantile Trust Company is giving consideration to the possibility of restricting the operations conducted at what are presently offices of Mercantile Mortgage Company. If those operations were so restricted that none of the offices would constitute a "branch" of Mercantile Trust Company as defined in R.S. 5155(f), no question would arise under the Federal branch banking laws. Of course, the question whether such offices would constitute "branches" as defined by that provision of Federal law would depend upon the actual operations performed.

To summarize the foregoing discussion, it is the position of the Board that the plan in this case, as presented in the letter of your Counsel and other documents submitted to the Board, would result in violations of section 9 of the Federal Reserve Act and sections 5136 and 5155 of the United States Revised Statutes (12 U.S.C. 321, 335, 24, and 36).

Very truly yours,

Merritt Sherman,
Secretary.