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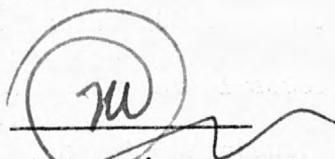
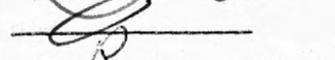
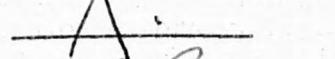
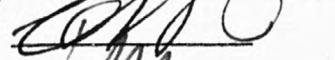
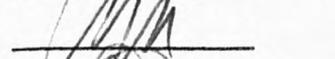
Minutes for January 8, 1964

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. Mitchell |  |
| Gov. Daane |  |

Minutes of the Board of Governors of the Federal Reserve System on Wednesday, January 8, 1964. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman 1/
Mr. Balderston, Vice Chairman
Mr. Mills
Mr. Robertson
Mr. Shepardson
Mr. Mitchell
Mr. Daane

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Noyes, Adviser to the Board
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Solomon, Director, Division of Examinations
Mr. Hexter, Assistant General Counsel
Mr. Hooff, Assistant General Counsel
Mr. Conkling, Assistant Director, Division of Bank Operations
Mr. Kiley, Assistant Director, Division of Bank Operations
Mr. Goodman, Assistant Director, Division of Examinations
Mr. Smith, Assistant Director, Division of Examinations
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Thompson, Assistant Director, Division of Examinations
Mr. Spencer, General Assistant, Office of the Secretary
Mr. Bakke, Senior Attorney, Legal Division
Mr. Young, Senior Attorney, Legal Division
Mr. Eckert, Chief, Banking Section, Division of Research and Statistics
Mr. Lyon, Review Examiner, Division of Examinations

1/ Withdrew from meeting and re-entered as indicated in minutes.

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Discount rates. The establishment without change by the Federal Reserve Bank of Boston on January 6, 1964, of the rates on discounts and advances in its existing schedule was approved unani-
mously, with the understanding that appropriate advice would be sent to that Bank.

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 Bank of America National Trust and Savings Association, San Francisco, California, granting permission to establish a branch in Managua, Nicaragua. | 1 |
| Telegram to the Federal Reserve Agent at Richmond authorizing the issuance of a general voting permit to United Virginia Bankshares Incorporated, Richmond, Virginia, covering its stock in First and Citizens National Bank of Alexandria, Alexandria, Virginia; First National Trust and Savings Bank of Lynchburg, Lynchburg, Virginia; State-Planters Bank of Commerce and Trusts, Richmond, Virginia; and The Vienna Trust Company, Vienna, Virginia. | 2 |

American Financial Corporation (Item No. 3). At the meeting of the Board on January 6, 1964, there was preliminary discussion of a request by American Financial Corporation, Cincinnati, Ohio, for a determination exempting it from all holding company affiliate requirements except those contained in section 23A of the Federal Reserve Act, and the matter was held over for further consideration.

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In a distributed memorandum from the Division of Examinations dated December 31, 1963, it had been suggested that approval of the request would appear to be in accord with the Board's policy of making a favorable determination as a normal matter in all so-called one-bank cases except in extraordinary circumstances. In this case, it was felt that ownership and control of certain savings and loan associations and other non-banking subsidiaries did not constitute extraordinary circumstances such as to warrant denial of the request.

Attached to the memorandum was a draft of letter stating that the Board understood that American Financial Corporation was engaged in the business of holding all the permanent stock of two, and all of the withdrawable shares of one, building and loan associations; all of the outstanding stock of a general insurance agency; and substantially all of the capital stock of a life, health, and accident insurance company. In addition, the corporation engaged in various other activities including the leasing of machinery and plant equipment, store and office furniture; it owned and managed a medium-sized shopping center, and was developing a large shopping center. American Financial Corporation was a holding company affiliate by the reason of the fact that it owned 2,450 of the 2,500 outstanding shares of stock of The Athens National Bank, Athens, Ohio, and the corporation did not directly or indirectly own or control any stock of or manage or control any other banking institution. The draft letter would state further that

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in view of these facts the Board had determined that American Financial Corporation was not engaged directly or indirectly as a business in holding the stock of or managing or controlling banks, banking associations, savings banks, or trust companies within the meaning of section 2(c) of the Banking Act of 1933; accordingly, the corporation was not deemed to be a holding company affiliate except for the purposes of section 23A of the Federal Reserve Act, and it did not need a voting permit from the Board of Governors in order to vote the bank stock that it owned.

At the request of the Board Mr. Bakke commented on the request, with emphasis on distinctions that could be drawn between commercial banks and savings and loan associations.

Following Mr. Bakke's comments, there was a lengthy discussion that included a review of the general position that the Board had adopted of granting favorable determinations, except in extraordinary circumstances, when the applicant holding company affiliate owned or controlled the stock of only one bank. It was generally agreed that the facts in this case suggested once again the desirability of a change in the Bank Holding Company Act in order to include one-bank situations within the holding company definition.

Governor Robertson observed that Board policy in so-called one-bank cases provided for exceptions in cases where there were extraordinary circumstances. In this case the circumstances warranted making

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an exception, in his opinion, because several financial institutions of a bank-like character were tied together in the holding company set-up. These subsidiaries were all engaged in the business of getting money from the public and lending it out. Therefore, he would oppose approving this request.

After further discussion, however, it was the majority view that the facts in the instant case were not such as to warrant deviating from the one-bank policy. Accordingly, the letter to American Financial Corporation granting the requested determination was approved, Governor Robertson dissenting. A copy of the letter is attached as Item No. 3.

Messrs. Goodman, Thompson, and Lyon then withdrew from the meeting.

Fees for special counsel at Boston (Item No. 4). At the meeting of the Board on January 6, 1964, there was preliminary discussion of the proposed employment by the Federal Reserve Bank of Boston of special counsel in connection with certain administrative and legal proceedings relating to an application by that Bank for abatement of the real estate taxes assessed by the City of Boston for the calendar year 1963. The Reserve Bank requested Board authorization for an expenditure not to exceed the sum of \$15,000 for legal fees and proposed that this sum be regarded as a limitation beyond which payment would not be made to special counsel without further approval of the Board of Governors.

During the discussion on January 6, certain questions were raised with respect to the proposed retention of special counsel,

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wherefore it was decided to discuss aspects of the matter with President Ellis of the Boston Reserve Bank. Subsequently, on January 7, the Board discussed this subject with President Ellis.

Members of the Board now indicated that their questions on the Bank's request had been resolved satisfactorily. Accordingly, a letter to the Boston Reserve Bank authorizing it to pay fees to special counsel was approved unanimously in the form attached as Item No. 4.

Mr. Bakke then withdrew from the meeting.

Loans to executive officers (Item No. 5). - There had been distributed a memorandum from the Legal Division dated January 6, 1964, with regard to a question concerning Regulation O, Loans to Executive Officers of Member Banks, and section 22(g) of the Federal Reserve Act.

The memorandum stated that a letter from the Detroit Branch of the Federal Reserve Bank of Chicago, enclosing a letter from counsel for the National Bank of Detroit, raised a question whether the indebtedness to the National Bank of Detroit of executive officers resulting from that bank's purchase of a department store's retail customer accounts must be approved by the directors of the bank in order to fall within the exception to the prohibition contained in section 22(g) of the Federal Reserve Act against loans to executive officers. The exception permits an executive officer to become indebted to his bank if the amount does not exceed \$2,500 and if the transaction has received the prior approval of a majority of the bank's board of directors. The

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letter of December 23, 1963, from counsel for the National Bank of Detroit stated that the bank proposed to purchase from a Detroit department store all of its outstanding customers' ordinary monthly charge accounts as of the end of the current fiscal year. Among the accounts that were being purchased were those of certain officers of the bank.

It was recommended in the memorandum that the Board take the position that compliance with the law would be achieved by the adoption by the directors of the member bank of a blanket resolution approving extensions of credit and indebtedness up to \$2,500, that resulted from the purchase of department store accounts which included accounts of its executive officers. A draft of letter to the Detroit Branch of the Federal Reserve Bank of Chicago reflecting this position was attached to the memorandum.

Since such bank-department store arrangements might be widespread, the memorandum suggested that the proposed letter, if approved by the Board, be sent to all Federal Reserve Banks for guidance. However, it was believed that it need not be published in the Federal Register and the Federal Reserve Bulletin. The Board, it was suggested, might wish to consider a possible amendment to Regulation O that would expressly exclude from the definitions of "extension of credit" and "indebtedness" the acquisition by a member bank in good faith of charge or time credit accounts opened by any of its executive officers with any store or merchant up to some specified amount, such as \$500.

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At the request of the Board, Mr. Hackley commented on the recommendations made by the Legal Division, basing his remarks upon the information presented in the memorandum of January 6. He stated that if Regulation O should be amended as suggested in the memorandum, he would now recommend, upon further thought, that the limitation of \$500 be removed.

The ensuing discussion centered around the question of how this matter might be most appropriately handled, especially in the light of the recent interpretation issued by the Comptroller of the Currency with respect to loans to executive officers of national banks. Mr. Hackley suggested that if the Board was disposed to consider amending Regulation O, the proposed letter to the Detroit Branch include a paragraph indicating that in the light of its statutory authority to define the term "indebtedness" for the purposes of section 22(g), the Board was considering an amendment to Regulation O that would expressly exclude from the meaning of that term the indebtedness of any executive officer arising from a transaction such as described by the National Bank of Detroit.

It was generally agreed in discussion that there was a need, in present circumstances, for over-all review of Regulation O before going ahead with a particular amendment. The sending of the proposed letter to the Detroit Branch was then approved unanimously, with the understanding, however, that the letter would include an additional paragraph such as that suggested during the discussion. A copy of the letter, as sent, is attached as Item No. 5. It was also

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understood that the Legal Division would undertake a general review of Regulation O along the lines suggested at this meeting.

Chairman Martin, who had withdrawn from the meeting during discussion of the foregoing matter, re-entered at this point.

Capital notes and debentures. There had been distributed a memorandum from Mr. Hackley dated January 3, 1964, discussing the question whether capital notes or debentures issued by banks, that are subordinated to deposit liabilities, may be considered as part of a bank's capital stock, capital, or surplus, for the purpose of various provisions of the Federal Reserve Act that impose requirements or limitations upon member banks.

The memorandum pointed out that in an interpretation dated December 17, 1963, the Comptroller of the Currency ruled that capital notes or debentures issued by a national bank, which are expressly subordinated to the prior payment in full of all deposit liabilities, may be included as part of the bank's capital stock and surplus in computing the limit on loans to individual borrowers prescribed by section 5200 of the Revised Statutes. That section provides, with certain exceptions, that loans by a national bank to any one borrower may not exceed 10 per cent of such bank's capital stock actually paid in and unimpaired, and 10 per cent of its unimpaired "surplus fund."

The memorandum went on to point out that the Comptroller of the Currency's ruling did not say explicitly whether capital notes and debentures were regarded as capital stock or as surplus funds within

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the meaning of section 5200; it said only that they might be included as part of the aggregate amount of "unimpaired capital stock and unimpaired surplus funds." Except for a limitation on loans secured by stock or bond collateral, the Federal Reserve Act contained no limitations on loans by State member banks to a single borrower like those applicable to national banks under section 5200 of the Revised Statutes. Limitations of that kind were imposed on State banks by the laws of most States and any competitive advantages that national banks might enjoy as a result of the Comptroller's ruling would depend upon State statutes and interpretations of such statutes by the State authorities.

The Comptroller's ruling raised certain questions as to the interpretation of a number of provisions of the Federal Reserve Act that impose limitations on State member banks--and in certain instances on all member banks--that are related to the "capital stock" or "capital" of such banks. The Legal Division's memorandum set forth the relevant provisions of the Federal Reserve Act and also discussed certain historical background relating to the use of capital notes or debentures by banks. In conclusion, the memorandum stated that it was believed that there was no alternative, as a legal matter, to the conclusion that capital notes and debentures may not be regarded as a part of capital or capital stock for purposes of any provisions or limitations in the Federal Reserve Act that use those terms. If the inclusion of notes and debentures as part of capital was considered to be desirable

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as a matter of policy, that objective should be accomplished by explicit amendment to the law rather than by interpretation.

The memorandum noted that in view of the Comptroller's recent interpretation with regard to the use of capital notes and debentures, the Board would probably receive inquiries regarding the Board's position. Accordingly, it was recommended that the Board issue a statement to the effect that the proceeds of notes and debentures could not legally be included in capital, capital stock, or surplus for the purposes of certain provisions of the Federal Reserve Act. It was also recommended that, if such a statement was approved by the Board, it be issued not only as a press release but also as a formal interpretation that would be published in the Federal Register and the Federal Reserve Bulletin. A suggested draft of such a statement was attached to the memorandum of January 3; a revised draft had been distributed under date of January 8, 1964.

At the Board's invitation, Mr. Hackley commented in supplementation of the information presented in the memorandum of January 3.

In discussion, Governor Mitchell suggested that the proposed statement include two sections: first, an interpretation of the law and then some indication of the policy views of the Board with respect to the use of capital notes and debentures by banks. He also proposed certain editorial changes in the draft statement.

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There ensued a lengthy discussion that focused primarily on the question whether any statement that might be issued should express, as Governor Mitchell had suggested, policy views on the use of capital notes and debentures as well as legal considerations involved. At the conclusion of the discussion, it was understood that the staff would prepare for consideration a revised draft of statement dealing with both aspects.

Messrs. Noyes, Molony, Hexter, Hooff, Conkling, Kiley, Leavitt, Young, and Eckert then withdrew from the meeting.

Examination of Minneapolis Reserve Bank. There had been circulated to the Board the report and the usual related papers with respect to the examination of the Federal Reserve Bank of Minneapolis by the Board's examining staff as of September 3, 1963. In addition, a summary memorandum prepared by the Division of Examinations under date of December 11, 1963, had been distributed.

At the request of the Board, Mr. Smith commented on information disclosed by the examination, and it was agreed that there were no matters appearing to warrant action on the part of the Board.

In relation to the examination of the Minneapolis Reserve Bank, there had also been distributed a memorandum dated December 18, 1963, illustrating the types of matters typically reviewed by the Board's examiners with the management of a Reserve Bank but not considered of such importance as to warrant inclusion in a report of examination.

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Mr. Smith commented on the matters discussed in the memorandum, including their disposition.

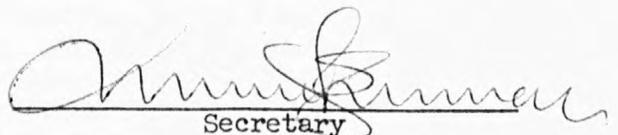
All members of the staff except Messrs. Sherman, Kenyon, and Fauver then withdrew from the meeting.

Director appointment. It was noted that it had not yet been ascertained whether Dr. John A. Hunter, President of Louisiana State University, Baton Rouge, Louisiana, would accept appointment, if tendered, as Class C director of the Federal Reserve Bank of Atlanta for the unexpired portion of the three-year term ending December 31, 1966. It was understood that if it should be ascertained that Dr. Hunter could not accept, inquiry would be made as to the availability of Dr. Andrew D. Holt, President of the University of Tennessee, Knoxville, Tennessee, currently serving as a Board-appointed director of the Nashville Branch.

Secretary's Note: It was subsequently ascertained that Dr. Hunter would accept the appointment if tendered, and the appointment was made.

The meeting then adjourned.

Secretary's Note: Pursuant to the recommendation contained in a memorandum from the Division of International Finance, Governor Shepardson approved on behalf of the Board on January 7, 1964, acceptance of the resignation of Richard H. Kaufman, Economist in that Division, effective January 31, 1964.


Secretary



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

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Item No. 1
1/8/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 8, 1964.

Bank of America National Trust
and Savings Association,
300 Montgomery Street,
San Francisco, California.

Gentlemen:

The Board of Governors of the Federal Reserve System grants its permission to 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 Managua, Nicaragua, and to operate and maintain such branch subject to the provisions of such Section and of Regulation M.

Unless the branch is actually established and opened for business on or before January 1, 1965, all rights granted hereby shall be deemed to have been abandoned and the authority hereby granted will automatically terminate on that date.

Please inform the Board of Governors, 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. The Board should also be promptly informed of any future change in location of the branch within the City of Managua.

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.)

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TELEGRAM
LEASED WIRE SERVICE

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

January 8, 1964

HYDE -- RICHMOND

KEBJE

- A. United Virginia Bankshares Incorporated, Richmond, Virginia.
- B. First and Citizens National Bank of Alexandria,
Alexandria, Virginia;
First National Trust and Savings Bank of Lynchburg,
Lynchburg, Virginia;
State-Planters Bank of Commerce and Trusts,
Richmond, Virginia; and
The Vienna Trust Company, Vienna, Virginia.
- C. Prior to issuance of permit authorized herein, Applicant shall execute and deliver to you, in duplicate, an agreement in form accompanying Board's letter S-964 (F.R.L.S. #7190).

(Signed) Elizabeth L. Carmichael

CARMICHAEL

Definition of KEBJE

The Board authorizes the issuance of a general voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to the holding company affiliate named below after the letter "A", entitling such organization to vote the stock which it owns or controls of the bank(s) named below after the letter "B" at all meetings of shareholders of such bank(s), subject to the condition(s) stated below after the letter "C". The period within which a permit may be issued pursuant to this authorization is limited to thirty days from the date of this telegram unless an extension of time is granted by the Board. Please proceed in accordance with the instructions contained in the Board's letter of March 10, 1947, (S-964).

Item No. 3
1/8/64

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 8, 1964

Mr. John L. Muething,
Keating, Muething & Klekamp,
Attorneys at Law,
3701 Carew Tower,
Cincinnati 2, Ohio.

Dear Mr. Muething:

This refers to the request contained in your letter of December 10, 1963, submitted through the Federal Reserve Bank of Cleveland, for a determination by the Board of Governors of the Federal Reserve System as to the status of American Financial Corporation, Cincinnati, Ohio ("Corporation"), as a holding company affiliate.

From the information presented, the Board understands that Corporation is engaged in the business of holding all of the permanent stock of two and all of the withdrawable shares of one, building and loan associations; all of the outstanding stock of a general insurance agency; and substantially all of the capital stock of a life, health and accident insurance company. In addition to the foregoing, Corporation engages in various other activities including the leasing of machinery and plant equipment, store and office furniture; owns and manages a medium-size shopping center; and is developing a very large shopping center. The Corporation further engages in some general contract work principally in the erection of commercial structures in the small retailing field. Corporation is a holding company affiliate by reason of the fact that it owns 2,450 of the 2,500 outstanding shares of stock of The Athens National Bank, Athens, Ohio; that it does not, directly or indirectly, own or control any stock of, or manage or control any other banking institution.

In view of these facts the Board has determined that Corporation is not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling banks, banking associations, savings banks, or trust companies within the meaning of section 2(c) of the Banking Act of 1933 (12 U.S.C. 221a); and accordingly, it is not deemed to be a holding company affiliate except for the purposes of section 23A of the Federal Reserve Act and does not need a voting permit from the Board of Governors in order to vote the bank stock which it owns.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Mr. John L. Muething

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If, however, the facts should at any time indicate that Corporation might be deemed to be so engaged, this matter should again be submitted to the Board. The Board reserves the right to rescind this determination and make further determination of this matter at any time on the basis of the then existing facts, including additional acquisitions of bank stocks, even though not constituting control.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

Item No. 4
1/8/64



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 9, 1964

Mr. George H. Ellis, President,
Federal Reserve Bank of Boston,
Boston, Massachusetts. 02106

Dear Mr. Ellis:

In response to your letter of December 30, 1963, you are advised that the Board has approved your request for authorization of legal fees not to exceed the sum of \$15,000 to the firm of Ropes & Gray in connection with administrative and legal proceedings relating to an application by your Bank for abatement of real estate taxes assessed by the City of Boston for calendar year 1963.

It is assumed that employment of special counsel in this matter has been or will be authorized by your Board of Directors.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

Item No. 5
1/8/64



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 10, 1964.

Mr. Gordon W. Lamphere,
Assistant General Counsel,
Detroit Branch of the
Federal Reserve Bank of Chicago,
Detroit, Michigan. 48231

Dear Mr. Lamphere:

This refers to your letter of December 23, 1963, enclosing copies of a letter from Counsel for the National Bank of Detroit requesting a ruling as to whether, under section 22(g) of the Federal Reserve Act and the Board's Regulation O, it is necessary for the board of directors of the bank to approve indebtedness to the bank on the part of its executive officers represented by retail customers' accounts purchased by the bank from a large department store.

As an exception to the prohibition contained in section 22(g) against loans by member banks to their executive officers, the section provides that a member bank may extend credit to an executive officer, and that such an officer may "become indebted" to the bank, in an amount not exceeding \$2,500, with the "prior approval of a majority of the entire board of directors" of the member bank.

While it is doubtful that Congress contemplated coverage of indebtednesses of executive officers arising in the manner described, it is the Board's view that the literal language of the statute requires approval of such indebtednesses by the board of directors of the member bank in order to avoid a violation of the statute.

However, the Board believes that compliance with the law would be achieved by the adoption by the board of directors of a resolution generally approving any extensions of credit to, and indebtedness owed to it by, any of its executive officers arising from the general purchase by the bank of retail customers' accounts from a designated store or stores, provided, of course, that such indebtedness of any officer, together with all other indebtedness owing by him to the bank, did not exceed \$2,500.

Mr. Gordon W. Lamphere

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In the light of its statutory authority to define the term "indebtedness" for purposes of section 22(g), the Board is considering an amendment to Regulation O that will expressly exclude from the meaning of that term the indebtedness of any executive officer arising in the manner above described.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.