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Minutes for January 10, 1964

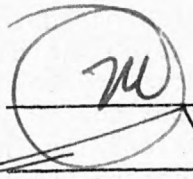
To: Members of the Board
From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

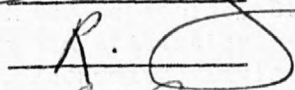
It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

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.

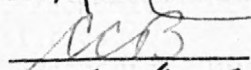
Chm. Martin



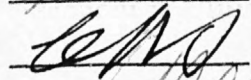
Gov. Mills



Gov. Robertson



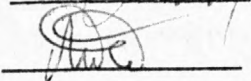
Gov. Balderston



Gov. Shepardson



Gov. Mitchell



Gov. Daane

Minutes of the Board of Governors of the Federal Reserve System
on Friday, January 10, 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. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Noyes, Adviser to the Board
Mr. Fauver, Assistant to the Board
Mr. Brill, Director, Division of Research and
Statistics
Mr. Solomon, Director, Division of Examinations
Mr. Holland, Associate Director, Division of
Research and Statistics
Mr. Koch, Associate Director, Division of
Research and Statistics
Mr. Garfield, Adviser, Division of Research
and Statistics
Mr. Partee, Adviser, Division of Research
and Statistics
Mr. Sammons, Adviser, Division of International
Finance
Mr. Katz, Associate Adviser, Division of
International Finance
Mr. Eckert, Chief, Banking Section, Division
of Research and Statistics
Mr. Yager, Chief, Government Finance Section,
Division of Research and Statistics
Mr. Axilrod, Senior Economist, Division of
Research and Statistics
Mr. Keir, Senior Economist, Division of
Research and Statistics
Mr. Bernard, Economist, Division of Research
and Statistics
Mr. Gemmill, Economist, Division of International
Finance

Money market review. Mr. Bernard, who distributed tables on the
current Treasury advance refunding and on the U. S. budget, commented on

1/ Withdrew from meeting at point indicated in minutes.

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the information presented in those tables and also discussed various recent developments in the Government securities market. Mr. Koch, who distributed a table on selected indicators of monetary policy, commented thereon and also reviewed credit developments generally. Mr. Gemmill discussed foreign exchange developments.

Other material distributed included a summary of monetary developments in the four weeks ended January 8, 1964.

During the course of the money market review, Chairman Martin was called from the meeting. At the conclusion of discussion of the staff reports, all of the members of the staff who had been present except Messrs. Sherman, Kenyon, Fauver, Brill, Solomon, and Koch withdrew from the meeting and the following persons entered the room:

Mr. Hackley, General Counsel
Mr. Johnson, Director, Division of Personnel Administration
Mr. Schwartz, Director, Division of Data Processing
Mr. Hexter, Assistant General Counsel
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Thompson, Assistant Director, Division of Examinations
Mr. Bass, Assistant Controller
Mr. Bakke, Senior Attorney, Legal Division
Mr. Kakalec, Assistant to the Controller

Discount rates. The establishment without change by the Federal Reserve Banks of Cleveland, Richmond, Atlanta, St. Louis, Minneapolis, Kansas City, and Dallas on January 9, 1964, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

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

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	<u>Item No.</u>
Letter to Century National Bank and Trust Company, New York, New York, granting its request for permission to maintain reduced reserves.	1
Letter to the Federal Reserve Bank of Kansas City waiving the assessment of a penalty incurred by The American National Bank of St. Joseph, Missouri, St. Joseph, Missouri, because of a deficiency in its required reserves.	2
Letter to Mr. Dale Ball, President, First National Bank of Fremont, Fremont, Nebraska, granting a determination exempting D B, Inc., Council Bluffs, Iowa, from all holding company affiliate requirements except those contained in section 23A of the Federal Reserve Act.	3
Letter to Associates Investment Company, South Bend, Indiana, granting a determination exempting it from all holding company affiliate requirements except those contained in section 23A of the Federal Reserve Act.	4
Letter to the Federal Reserve Bank of Boston approving the appointment of Joseph M. Ahern as Alternate Assistant Federal Reserve Agent.	5

Action on the foregoing items was by unanimous vote in each instance except that Governor Robertson dissented from the granting of the determinations with respect to D B, Inc., and Associates Investment Company. In Governor Robertson's opinion these applications involved circumstances such as to warrant exceptions to the Board's policy of normally granting favorable determinations in so-called one-bank holding company cases. One of the applications involved a bank officer (Mr. Dale Ball, President of the First National Bank of Fremont, Fremont, Nebraska) setting up a corporation that would control a bank in Iowa. Two banks would be put

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under the same leadership through the use of the corporation. The other case involved a more complicated situation. Associates Investment Company would become a holding company affiliate if it acquired a majority of the shares of First Bank and Trust Company of South Bend, South Bend, Indiana. It also controlled a minor percentage of the outstanding shares of each of two other banks; it and more than 200 wholly-owned subsidiaries were engaged in the consumer and commercial financing business; two of its subsidiaries were engaged in writing comprehensive, fire, theft, and collision insurance; one subsidiary was a legal reserve life insurance company; another subsidiary provided credit life, health, and accident insurance relating to instalment receivables; and First Bank and Trust Company controlled in a fiduciary capacity the majority of the shares of The First National Bank of Rochester, Rochester, Indiana. Governor Robertson recognized that previous determinations by the Board afforded precedent for a favorable recommendation in each case by the Division of Examinations. Nevertheless, he did not feel that the granting of the determinations in these cases was appropriate under the statute.

The other members of the Board concluded that the respective determinations could be granted within the scope of the Board's general policy in one-bank cases, which policy had recently been reaffirmed by a majority of the Board. A view was expressed that the solution lay in obtaining legislation that would repeal the holding company affiliate provisions of the Banking Act of 1933 and amend the Bank Holding Company Act

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of 1956 so as to apply to holding companies that control one bank as well as to those with two or more subsidiary banks.

Messrs. Thompson and Bakke then withdrew from the meeting.

Reports on competitive factors. A report to the Comptroller of the Currency on the competitive factors involved in the proposed consolidation of Western Pennsylvania National Bank, McKeesport, Pennsylvania, and Beaver County Trust Company, New Brighton, Pennsylvania, was approved unanimously for transmittal to the Comptroller. The conclusion therein read as follows:

Beaver County Trust Company, New Brighton, a single-unit institution, has primarily served its own community and the immediate surrounding area. Due to the distance between offices of Beaver County Trust Company and Western Pennsylvania National Bank, McKeesport, with intervening banking facilities, there appears to be little, if any, competition existing between the two banks.

Consummation of this proposal might have adverse competitive effects on the remaining small bank in New Brighton.

A report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of Farmers Bank of Holland, Incorporated, Holland, Virginia, into Seaboard Citizens National Bank, Norfolk, Virginia, was approved unanimously for transmittal to the Comptroller. The conclusion therein read as follows:

While a merger of Seaboard Citizens National Bank, Norfolk, Virginia, and Farmers Bank of Holland, Incorporated, Holland, Virginia, would eliminate the nominal amount of competition existing between them, it would not have significantly adverse competitive effects on other banks.

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A report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of First National Bank of Minoa, Minoa, New York, into Lincoln National Bank and Trust Company of Central New York, Syracuse, New York, was approved unanimously for transmittal to the Comptroller. The conclusion of the report, as transmitted, reflected certain suggestions by Governor Mitchell and read as follows:

The proposed merger of First National into Lincoln National would not significantly expand the size of Lincoln National, the fifth largest bank in Onondaga County, nor would it expand Lincoln National's operations into areas where it does not presently compete. The merger would eliminate the smallest bank, and one of two unit banks, in Onondaga County; it would eliminate an alternative banking source in the middle eastern portion of that county. The service area of First National is located almost wholly within the service area of Lincoln National, and the competition presently existing between the two institutions, although probably not intense, would be eliminated.

Because the proposed merger would eliminate one of two unit banks in the county, and because it would eliminate the competition presently existing between the two merging institutions, the competitive effects are viewed as adverse.

Amendments to Bank Holding Company Act. There had been distributed a memorandum from the Legal Division dated January 9, 1964, presenting a draft of material suggested for inclusion in the Board's Annual Report for 1963 regarding recommended amendments to the Bank Holding Company Act.

The draft material referred to the special report on the Act submitted by the Board to Congress on May 7, 1958, the amendments to the

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Bank Holding Company Act recommended therein, and the withdrawal of one previously suggested amendment in the Board's Annual Report for 1960. It expressed the view that the other amendments merited early Congressional consideration and legislative action. The draft material cited particularly four proposed amendments to the Holding Company Act and noted that the reasons for such amendments had been summarized in the Annual Report for 1962 and presented more fully in the 1958 special report.

The Legal Division's memorandum recalled that recently during a Board discussion question had been raised whether the Board should reinstate its earlier recommendation (withdrawn in the 1960 Annual Report) that the Holding Company Act be amended to cover mergers involving holding company subsidiary banks. The Division of Examinations and the Legal Division were, however, of the opinion that the withdrawal of the recommendation in 1960 was sound, in view of the existing structure of Federal bank supervision, and that reinstatement of the recommendation would not be advisable.

In discussion, Governor Robertson stated that he felt the Board had made a mistake in withdrawing, in the 1960 Annual Report, its recommendation that the Bank Holding Company Act be amended to cover mergers involving holding company subsidiary banks. He would favor reinstating that recommendation on the grounds that the Board had been overly optimistic as to how the Bank Merger Act would be administered and that holding company banking had reached the stage where all avenues of holding company

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expansion should be under the control of the agency vested with responsibility for administering the Bank Holding Company Act. In his opinion, control over all forms of holding company expansion, by merger or otherwise, should be placed in the Board, even if some duplication of the activities of other agencies was involved. He would use as illustration of the need for revising the statute the situation in Virginia where bank holding companies had not only acquired banking institutions through applications to the Board but also through mergers over which the Board had no control.

Governor Mitchell agreed with the position taken by Governor Robertson. Governors Mills and Shepardson expressed a different view, however, as to the desirability of reinstating the earlier recommendation at this time. Their comments were to the effect that while an argument could be made for having all of the facets of bank holding company operations and expansion under the supervision of a single agency, a reinstatement of the earlier recommendation in present circumstances might be misconstrued and could tend to complicate further the already complicated structure of Federal bank supervision.

Governor Mills suggested that the question whether to reinstate the withdrawn recommendation should be held over for determination when all members of the Board were present, and there was general agreement with this suggestion.

The discussion then proceeded to the question of presenting the Board's recommendations for amendments to the Bank Holding Company Act

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in such manner as would be most likely to encourage consideration of the recommendations by the Congress. Reference was made in this connection to the manner in which recommendations had been set forth in previous Annual Reports, and by letter to the Chairmen of the Banking and Currency Committees. It was recalled that the subject had also been discussed fairly recently by Chairman Martin with the Chairman of the House Committee.

It was the general view of the Board that the recommendations should be presented to the Congress in such way as would most persuasively argue for consideration of the amendments. Various suggestions were made as to the presentation of this material in the Annual Report and in correspondence with the Banking and Currency Committee Chairmen. The suggestions resulted in an understanding that the Legal Division would draft for the Board's consideration a revision of the material to be included in the Annual Report, that this material would include--for the Board's determination as to inclusion or exclusion--a recommendation to reinstate the withdrawn recommendation that the Bank Holding Company Act be amended to cover mergers involving bank holding company subsidiary banks, and that the Legal Division would also draft a letter that might be sent to the Banking and Currency Committees. It was understood that in preparing the revised material for Board consideration the Legal Division would consult with Governors Robertson and Mitchell.

Transfer of Economic Illustrating Unit. In a memorandum dated January 9, 1964, which had been distributed, Messrs. Noyes, Brill, and

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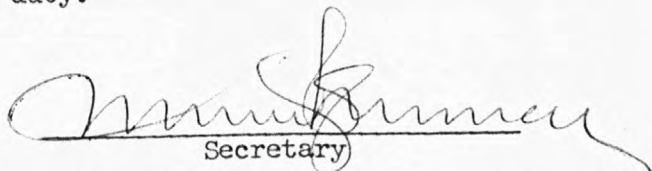
Schwartz recommended that responsibility for economic illustrating be transferred from the Division of Research and Statistics to the Division of Data Processing. Such action would involve transferring eight positions and, on the basis of the full 1964 calendar year, \$47,680 of the Research Division's budget to the Division of Data Processing. It was also recommended that the name of the operation be changed to Economic Graphics Section. The Board's Controller was reported to concur in the proposed transfer.

Following discussion, during which it was brought out that the proposal formalized in the memorandum had been considered previously by the Board in executive session, the recommendations in the memorandum were approved unanimously, effective January 1, 1964.

The meeting then adjourned.

Secretary's Notes: A letter was sent today to International Bank of Detroit, Detroit, Michigan, calling for a report of condition as of December 31, 1963. A copy of the letter sent to the Federal Reserve Bank of Chicago in this connection is attached as Item No. 6.

Pursuant to the recommendation contained in a memorandum from the Division of Research and Statistics, Governor Shepardson today approved on behalf of the Board the appointment of Julia G. Back as Library Assistant in that Division, with basic annual salary at the rate of \$3,880, effective the date of entrance upon duty.


Secretary

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

Item No. 1
1/10/64



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 10, 1964

Board of Directors,
Century National Bank
and Trust Company,
New York, New York.

Gentlemen:

With reference to your request submitted through the Federal Reserve Bank of New York, the Board of Governors, acting under the provisions of Section 19 of the Federal Reserve Act, grants permission to the Century National Bank and Trust Company 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.

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

Item No. 2
1/10/64



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 10, 1964

Mr. John T. Boysen, Vice President,
Federal Reserve Bank of Kansas City,
Kansas City, Missouri. 64106

Dear Mr. Boysen:

This refers to your letter of December 23, 1963, regarding a penalty of \$267.72, incurred by The American National Bank of St. Joseph, Missouri, St. Joseph, Missouri, for the biweekly computation period ended December 11, 1963.

It is noted that (1) the deficiency resulted from miscalculation in combining the reserve accounts in the confusion during the consolidation of the American National Bank and the Tootle-Enright National Bank, both of St. Joseph, Missouri; (2) both banks carried excess reserves for the first nine days of the reserve computation period in which the consolidation occurred; (3) the reserve account was brought back to the required level the day following the consolidation and has been maintained at that level ever since; and (4) both banks have good records for maintaining required reserves.

In the circumstances, the Board authorizes your Bank to waive the assessment of the penalty of \$267.72 for the period ended December 11, 1963.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Item No. 3
1/10/64BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 10, 1964

Mr. Dale Ball, President,
First National Bank of Fremont,
Fremont, Nebraska.

Dear Mr. Ball:

This refers to your letter of December 24, 1963, transmitting a request to the Federal Reserve Bank of Chicago for a determination by the Board of Governors of the Federal Reserve System as to the status of D B, Inc., Council Bluffs, Iowa ("Corporation"), as a holding company affiliate, if it acquires a majority of the outstanding shares of The City National Bank of Council Bluffs, Council Bluffs, Iowa ("Bank").

From the information presented, the Board understands that Corporation is a new Iowa corporation; that it contemplates acquiring 80 per cent or more of the outstanding shares of Bank; and that it will 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 will not be 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 will not be deemed to be a holding company affiliate except for the purposes of Section 23A of the Federal Reserve Act and will not need a voting permit from the Board of Governors to vote the stock of Bank which it may own or control.

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 a 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.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Mr. Dale Ball

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The foregoing determination shall be effective only if the holding company affiliate relationship between Corporation and Bank is established prior to March 1, 1964; if such relationship is established thereafter and a determination is desired, a request therefor should be resubmitted.

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
1/10/64



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 10, 1964

Mr. O. C. Carmichael, Jr.,
Chairman of the Board,
Associates Investment Company,
South Bend, Indiana.

Dear Mr. Carmichael:

This refers to the request dated December 6, 1963, submitted through the Federal Reserve Bank of Chicago, for a determination by the Board of Governors of the Federal Reserve System as to the status of Associates Investment Company, South Bend, Indiana ("Company"), as a holding company affiliate.

From the information presented, the Board understands that Company will become a holding company affiliate if and when it acquires a majority of the outstanding shares of First Bank and Trust Company of South Bend, South Bend, Indiana; that it will indirectly control a very minor percentage of the outstanding shares of each of two other banks; that it and more than 200 wholly owned subsidiaries are engaged in the consumer and commercial financing business; that two of its subsidiaries are engaged in writing comprehensive, fire, theft, and collision insurance; that one subsidiary is a legal reserve life insurance company; that another subsidiary provides credit life, health and accident insurance relating to instalment receivables; and that Bank controls in a fiduciary capacity 892 of the 1,500 outstanding shares of The First National Bank of Rochester, Rochester, Indiana.

In view of these facts the Board has determined that Company 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.

If, however, the facts should at any time indicate that Company might be deemed to be so engaged, this matter should again be submitted to the Board. The Board reserves the right to rescind

Mr. O. C. Carmichael, Jr.

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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.

It is understood that Company and/or any of its subsidiaries will not be, or will not become, indebted, directly or indirectly, to Bank from and after date of acquisition by Company of Bank's shares. It is further understood that as of December 3, 1963, Bank held \$1,895,573 of loans secured wholly or in part by shares of Company's common stock. Section 23A(3) of the Federal Reserve Act provides that no member bank may accept stock of an affiliate as collateral for loans in excess of 10 per cent of the bank's capital and surplus. The above-mentioned volume of loans secured by Company's stock is in excess of 10 per cent of Bank's capital and surplus. Although the transactions wherein Company's stock were accepted by Bank as collateral were effected at a time when Company was not an affiliate, and therefore the limitation imposed by section 23A(3) of the Federal Reserve Act is inapplicable to such loans as are outstanding at the time the proposed affiliate relationship is created, it is the view of the Board that, consonant with the spirit of that statutory provision, after the affiliate relationship is established steps should be taken by Bank to effect orderly curtailment of the loans in question in the ordinary course of business to bring the aggregate amount thereof down to or below 10 per cent of capital and surplus, and that once this is done further extensions of credit secured by Company's stock shall be governed by the requirements of section 23A(3) of the Federal Reserve Act.

The foregoing determination shall be effective only if the holding company affiliate relationship between Company and Bank is established prior to March 1, 1964; if such relationship is established thereafter and a determination is desired, a request therefor should be resubmitted.

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. 5
1/10/64



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 10, 1964

Mr. Erwin D. Canham,
Chairman and Federal Reserve Agent,
Federal Reserve Bank of Boston,
Boston, Massachusetts. 02106.

Dear Mr. Canham:

In accordance with the request contained in your letter of December 26, 1963, the Board of Governors approves the appointment of Mr. Joseph M. Ahern as Alternate Assistant Federal Reserve Agent, effective January 1, 1964, to succeed Mr. John J. Barrett.

This approval is given with the understanding that Mr. Ahern 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 Alternate Assistant Federal Reserve Agent, Mr. Ahern may, with the approval of the Federal Reserve Agent and the President, perform such work for the Bank as will not be inconsistent with his duties as Alternate Assistant Federal Reserve Agent.

It will be appreciated if Mr. Ahern 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. Ahern execute the usual Oath of Office which should be forwarded to the Board of Governors.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.



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

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Item No. 6
1/10/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 10, 1964.

Mr. Leland Ross,
Vice President,
Federal Reserve Bank of Chicago,
Chicago, Illinois 60690.

Dear Mr. Ross:

Supplementing my letter of January 3, 1964,
enclosed is a copy of a letter dated today addressed to
International Bank of Detroit calling for a report of
condition as of December 31, 1963.

Your letter of January 6 transmitted a letter
from International Bank of Detroit stating that it had
commenced operations on Friday, December 27, 1963.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

Enclosure