

Minutes for February 19, 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

AM

Gov. Mills

[Signature]

Gov. Robertson

CRG

Gov. Balderston

[Signature]

Gov. Shepardson

[Signature]

Gov. Mitchell

[Signature]

Gov. Daane

[Signature]

Minutes of the Board of Governors of the Federal Reserve System
on Wednesday, February 19, 1964. The Board met in the Board Room at
10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Young, Adviser to the Board and Director,
Division of International Finance
Mr. Cardon, Legislative Counsel
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Brill, Director, Division of Research
and Statistics
Mr. Solomon, Director, Division of Examinations
Mr. Johnson, Director, Division of Personnel
Administration
Mr. Connell, Controller
Mr. O'Connell, Assistant General Counsel
Mr. Shay, Assistant General Counsel
Mr. Holland, Associate Director, Division of
Research and Statistics
Mr. Sammons, Adviser, Division of International
Finance
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. Thompson, Assistant Director, Division of
Examinations
Mr. Bass, Assistant Controller
Mr. Spencer, General Assistant, Office of the
Secretary
Mr. Young, Senior Attorney, Legal Division

2/19/64

-2-

Mr. Egertson, Supervisory Review Examiner,
 Division of Examinations
 Mr. McClintock, Supervisory Review Examiner,
 Division of Examinations
 Mr. Sanford, Review Examiner, Division of
 Examinations
 Mr. Kakalec, Assistant to the Controller,
 Office of the Controller

Discount rates. The establishment without change by the Federal Reserve Bank of Boston on February 17, 1964, of the rates on discounts and advances in its existing schedule was approved unanimously, with the understanding that appropriate advice would be sent to that Bank.

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

	<u>Item No.</u>
Letter to Shenandoah County Bank and Trust Company, Woodstock, Virginia, approving the establishment of a branch at 468 North Main Street.	1
Letter to First State Bank of Greenville, Greenville, Michigan, approving the establishment of a branch in Eureka Township.	2
Letter to United California Bank, Los Angeles, California, approving the establishment of a branch in Buena Park.	3
Letter to The National Bank of Commerce of Dallas, Dallas, Texas, granting its request for permission to maintain reduced reserves.	4
Letter to the Center for Latin American Monetary Studies advising of the attendance of a member of the staff of the Federal Reserve Bank of New York at the Twelfth Technical Training Program to be held in Mexico City.	5

2/19/64

-3-

Item No.

6

Letter to the Bureau of the Budget stating that the Board had no proposals for State legislation to suggest for consideration by the Committee of State Officials on Suggested State Legislation of the Council of State Governments.

Messrs. Conkling and Egertson then withdrew from the meeting.

Application of Bordentown Banking Company. There had been distributed a memorandum from the Division of Examinations dated February 14, 1964, and supporting papers with respect to the application of Bordentown Banking Company, Bordentown, New Jersey, for permission to merge with The First National Bank and Trust Company of Roebing, Roebing, New Jersey. The Division's recommendation was favorable.

At the Board's request, Mr. McClintock made a statement regarding the facts of the case and the reasons underlying the recommendation of the Division of Examinations, his comments being based substantially on the information presented in the February 14 memorandum.

The application was then approved unanimously, with the understanding that an order and statement reflecting this decision would be prepared by the Legal Division for the Board's consideration. It was also understood that the letter conveying notice of approval to Bordentown Banking Company would contain reference to the need for an increase in the bank's capital funds.

Messrs. Shay, Young (Legal Division), McClintock, and Sanford then withdrew from the meeting.

2/19/64

-4-

First Wisconsin Bankshares Corporation (Item No. 7). There had been distributed a memorandum from the Legal Division dated February 17, 1964, discussing the request of First Wisconsin Bankshares Corporation, Milwaukee, Wisconsin, a registered bank holding company, for an interpretation under section 4(c)(1) of the Bank Holding Company Act with respect to First Wisconsin Company, a nonbanking subsidiary. The memorandum pointed out that the Board, by order of August 17, 1959, ruled that Bankshares could retain ownership and control of the voting shares of First Wisconsin Company under section 4(c)(6) of the Act. The Board's order reflected a finding, among others, that all of the activities of First Wisconsin Company were of an insurance nature. The interpretation now desired by Bankshares would hold that certain business activities proposed to be engaged in by First Wisconsin Company would qualify for exemption under section 4(c)(1) of the Act; further, that it was within the intent and meaning of the Act for a subsidiary of a bank holding company, the shares of which the Board had by order determined to be eligible for retention under section 4(c)(6) of the Act, to perform services of the kind exempt under section 4(c)(1).

From the available information, it appeared that Bankshares proposed to expand the activities of First Wisconsin Company to encompass solicitation and servicing of retail installment loans that would be made directly by Bankshares' subsidiary banks throughout the State of Wisconsin. It was the view of the Legal Division that such activities,

2/19/64

-5-

as described by Bankshares, could properly be determined to constitute the business of furnishing services to or performing services for Bankshares' subsidiary banks within the meaning of section 4(c)(1), that engagement by First Wisconsin Company in these activities was compatible with the exemption earlier granted, and that if the installment loan activities were found to qualify for exemption, the Board need not rescind its section 4(c)(6) determination. There was submitted with the Legal Division memorandum a draft of letter that would reflect such a determination.

In discussion, Governor Mills said he agreed in a legal sense with the interpretation by the Legal Division concerning the questions presented in this case involving sections 4(c)(1) and 4(c)(6) of the Bank Holding Company Act. He was bothered to a degree, however, about certain fundamentals that were not touched upon in the presentation. He thought the course recommended by the Legal Division would be consistent with actions that the Board had taken in the past in two cases, including the Shawmut-Devonshire case, involving the use of companies that were hardly at arms length as a promotive force for supplying installment loan paper to the holding company's subsidiary banks. Unless the Board wanted to review those earlier decisions, it would appear in order to act favorably on the current proposal. At the same time, the proposal appeared to be couched in rather broad and non-specific terms. It was difficult to determine whether First Wisconsin Company was to be

2/19/64

-6-

a principal or an agent. Apparently it would accumulate the installment loan paper and service it; and presumably the paper itself would be held off the premises of the particular subsidiary bank. If this was the case, First Wisconsin Company would become practically a principal rather than an agent of the subsidiary bank.

Mr. O'Connell replied that representatives of the holding company, at a conference with members of the Board's staff, had indicated that new employees would be brought into First Wisconsin Company to perform services in respect to the solicitation and servicing of the installment loan paper because in their judgment the subsidiary banks did not have personnel competent to handle full-scale consumer installment loan programs. If the new employees were brought into the subsidiary banks, they would have to be given all of the rights and benefits of the regular employees of those banks. In one case, at least, the new man would have to be paid a higher rate of compensation than the chief operating officer of the subsidiary bank. The holding company intended to avoid such difficulties by having the installment loan program carried on by independent employees who would be stationed in the subsidiary banks being serviced. The installment loan paper would be solicited within the primary service area of the particular bank, and there would be no physical removal of the paper from the bank.

Governor Mills observed that these were statements made by the parties promoting the proposal. As he understood the circumstances, they

2/19/64

-7-

seemed to run close to those involved in the case of certain installment loan activities of First Bank Stock Corporation, where the Board required divestment, except that in the earlier case the paper was solicited outside the communities where the subsidiary banks were located. In any event, however, he felt that the Board had committed itself by the decisions to which he had referred earlier and that it would be difficult for the Board to reverse itself at this late date.

Governor Mitchell commented that from the policy standpoint the current proposal appeared to reflect a desirable development, thinking in terms of providing more competition in the extension of consumer credit and a more effective use of this type of financing for the benefit of individuals in the communities concerned. Thus, it could be said that it was a move in the right direction. This holding company had maintained, if he recalled correctly, more or less a hands-off policy toward its subsidiary banks; and holding companies operated just for the sake of holding stock and not for the sake of improving the quality of operations of their subsidiary banks were not desirable.

Governor Robertson said he had been going to ask why the holding company proposed to do this through First Wisconsin Company rather than the subsidiary banks, but this had already been explained in part by Mr. O'Connell. The holding company would be placing men, for the conduct of the installment loan program, over and above the regular banking structure. He did not know whether this was good or bad. If he were in the position

2/19/64

-8-

of the holding company, he would hesitate to handle the program in this manner instead of through the subsidiary banks directly, but he saw nothing wrong with the Legal Division's recommendation.

Mr. O'Connell added to his previous comments by saying that the holding company representatives had expressed reluctance to clothe the new employees who were to handle the installment loan program with the rights and benefits of regular bank employees only to find that the program was not going to work out. If it proved unsuccessful and a new employee was satisfactory, he could be brought in later as a regular employee of the bank.

Following further discussion, approval was given to a letter to First Wisconsin Bankshares Corporation in the form attached as Item No. 7, for transmittal through the Federal Reserve Bank of Chicago.

Mr. Thompson then withdrew from the meeting.

Budget performance report for 1963. There had been distributed to the members of the Board a report dated February 7, 1964, from the Office of the Controller reviewing the performance under the Board's budget for the calendar year 1963.

The 1963 budget was \$7,885,700; expenses totaled \$7,486,800, resulting in an underexpenditure of \$398,900. Expenses for personal services were \$198,800 less than budgeted, due primarily to the number of budget vacancies prevailing throughout the year. Expenses for non-personal services were under the budget by \$200,100, due principally to

2/19/64

-9-

the fact that expenditures for contractual professional services, furniture and equipment, traveling expenses, rentals, and other miscellaneous expenses were lower than had been budgeted.

The budget report contained an itemization of overexpenditures in certain account classifications in various Divisions totaling \$99,712. While all major overexpenditures had been approved by the Board prior to the end of 1963, several overexpenditures, totaling \$4,116, had not been submitted for approval prior to December 31, 1963. In the opinion of the Controller these expenditures were reasonably unavoidable, and it was recommended that acceptance of the budget performance report be considered as approval of the remaining overexpenditures.

At the request of the Board, Mr. Connell commented on the budget performance report and referred, among other things, to the 64 job vacancies at year end, of which 17 were stenographic-recruit and summer research positions normally vacant at the end of the year.

In discussion following Mr. Connell's comments, Governor Mills observed that various expenditures were approved during each budget period that were not contemplated when the budget was prepared. It would be more in line with appropriate budgetary procedures, he thought, if such expenditures could be better controlled.

Discussion then turned to a question raised by Governor Mills with regard to fees paid to individuals acting in a consultant capacity. He observed that these fees appeared to be growing in amount.

2/19/64

-10-

Mr. Brill noted that a large share of the payments had to do with studies being conducted by the Division of Research and Statistics. There were a number of people with expert knowledge in particular fields whose ability was important to the Research Division. While such persons were not available for full-time employment with the Board, they were sometimes willing to work on a consultant basis.

Mr. Brill then responded to a question from Governor Mills with regard to the surveys of consumer finances, commenting on the part of the work that had been assumed by the Census Bureau and that being done by the Board with the aid of consultants. He indicated that a report on this work should be available to the Board in the relatively near future.

Governor Mitchell made reference to the job vacancy rate and asked whether consideration had been given to possibilities of reducing the number of vacancies listed on a divisional basis so as to minimize the gap between budget planning and performance.

Governor Shepardson noted that a significant move had been made, following discussion of this problem in past years, in the direction of reducing the number of vacancies. The thought was that as and when competent persons were located for particular jobs, positions could be re-established on showing of need.

After further discussion, the overexpenditures in certain account classifications of various Divisions totaling \$4,116 that had not been submitted to the Board prior to December 31, 1963, were approved unanimously.

2/19/64

-11-

Report of audit (Item No. 8). There had been distributed copies of a report by Haskins & Sells dated January 28, 1964, covering its examination of the financial statements of the Board of Governors for the year ended December 31, 1963, together with a report by that firm on the scope of its examination. There also had been distributed a memorandum from the Office of the Controller dated February 10, 1964, relating to the audit report.

In discussion, question was raised whether a representative of Haskins & Sells should be invited to discuss with the Board the audit of the Board's accounts. This had not been the practice, it was observed, and there appeared to be no particular need for discussion.

In this connection, however, Governor Shepardson noted that Haskins & Sells had submitted a report on its 1963 review of procedures followed in examining the Federal Reserve Banks. It contained a number of suggestions to which the Board would want to give careful consideration, and a memorandum of comment was now being prepared by the Division of Examinations. After the Division's memorandum was distributed, the Board might want to request Haskins & Sells to come in and discuss its report.

The audit report was then accepted, it being understood that copies would be transmitted to Senator Robertson and Congressman Patman, Chairmen of the Senate and House Banking and Currency Committees, respectively. A copy of the transmittal letter to Chairman Robertson is attached as Item No. 8.

2/19/64

-12-

Hearings on H. R. 9548 and H. R. 9822. Mr. Cardon reported that Chairman Multer of the Subcommittee on Bank Supervision and Insurance of the House Committee on Banking and Currency had announced on February 12, 1964, that his Subcommittee would hold hearings on February 25, 1964, on two bills: H. R. 9548, which would prohibit banks from performing certain nonbanking services, and H. R. 9822, which would prohibit banks from engaging in the personal property leasing business. Chairman Multer had requested that a representative of the Board testify on the two bills.

In discussion the view was expressed that the timing of the hearings did not afford sufficient opportunity to develop positions on the two bills, which involved complex problems, and that the Subcommittee should be informed to such effect by Mr. Cardon. It was also understood that staff material exploring the subject matter of the two bills would be prepared and distributed as promptly as feasible so that the Board might begin to consider what comments on the bills would be appropriate if the request for testimony or a report should be pursued.

Secretary's Note: It was subsequently agreed with the Subcommittee that the Board would report by letter on the two bills within about two weeks from the date of the hearings.

All members of the staff except Messrs. Sherman, Kenyon, Hackley, Solomon, Johnson, O'Connell, Holland, Kiley, Smith, and Spencer then withdrew from the meeting.

Examination of Kansas City Reserve Bank. There had been circulated to the Board the report of examination of the Federal Reserve

2/19/64

-13-

Bank of Kansas City made by the Board's examining staff as of October 29, 1963. The usual accompanying memoranda also had been circulated, and a summary memorandum from the Division of Examinations dated February 13, 1964, had been distributed.

At the Board's request, Mr. Smith reviewed the information obtained through the examination. During the course of this review, he made reference to the frequent use of Reserve Bank credit facilities by nine country banks in the Tenth District, the reasons for which were described in the report of examination and the memorandum of February 13. He also noted that one reserve city bank and three country banks were frequently deficient in required reserves during 1962 or 1963 to the date of examination.

Turning to the topic of bank premises, Mr. Smith called attention to the inadequacy of the Denver Branch facilities. While the Board of Directors on September 12, 1963, had authorized the officers of the Reserve Bank to begin negotiations to acquire property across the street from the present Branch quarters as the site for a new building, to date no definite proposal had been received by the Board of Governors.

In a discussion that followed Mr. Smith's review, Mr. Johnson commented on the personnel situation at the Denver Branch, as observed during a recent visit to the Branch. The Branch's quarters were crowded, particularly in the Transit Department, and the Branch had been experiencing a high rate of turnover of personnel as compared with local commercial banks and other Reserve Bank offices. He felt this problem might be

2/19/64

-14-

attributed in considerable measure to the overcrowded working conditions, although certain management problems also existed, and the possibility of a new building offered no solution for the immediate future. One alternative might be to rent quarters for check collection operations until a new building was constructed.

Following Mr. Johnson's remarks, members of the Board indicated that they felt the situation reported at the Denver Branch warranted close attention. Accordingly, it was understood that Governor Shepardson would discuss the possibility of renting additional space with President Clay of the Kansas City Reserve Bank. It was also understood that thereafter the Board would plan to discuss the general personnel situation at the Denver Branch with President Clay, perhaps when he was in Washington on March 24, 1964, to attend a meeting of the Federal Open Market Committee.

Examining services. Mr. Solomon commented that the whole purpose of the examinations of the Federal Reserve Banks and the reports concerning them was to serve the Board as effectively as possible. There was the question, of course, as to what was considered to serve the Board best in the way of examination reports, confidential memoranda from the Chief Federal Reserve Examiner, memoranda concerning the respective examination reports distributed by the Washington staff of the Division of Examinations, and oral presentations to the Board. The Division would be grateful for any comments in this regard and for an opportunity to discuss what would be most helpful to the members of the Board.

2/19/64

-15-

Governor Mills said it seemed to him that an area deserving review was the extent to which the examining staff should go beyond the fundamental verification procedures. He conceived of the staff as performing almost the function of a management consultant. In this respect, there was the question whether the Board should not be apprised from time to time, although not necessarily through the examination reports, concerning the areas of expenditures not specifically reviewed by the Board from year to year through the budget process. In his opinion the Board should be kept in touch with discretionary expenditures, or trends in expenditures, of the types broadly covered by the Board's outstanding S-letters to the Reserve Banks that seemed to be going beyond the intent of the Board, or which should be reviewed by the Board in order to determine whether it was sympathetic to them or whether it believed there should be some checks or restrictions.

Mr. Solomon commented that views of this sort would be most helpful to the Division in trying to serve the Board, and Chairman Martin suggested that everyone review the reports in terms of what Mr. Solomon had said.

Discretionary expenditures. Mr. Solomon went on to note, in connection with the Kansas City examination, that a contribution of \$400 had been made by that Bank to the Kansas City Crime Commission. This was an example, Mr. Solomon said, of an item where there was a question whether to include comments on the expenditure in the examination

2/19/64

-16-

report. A decision had been made in this instance not to comment on the matter in the report but to bring it to the attention of the Board orally, because it was understood that such a contribution had been referred to when the Bank's budget was submitted to the Board in 1962. President Clay was of the impression that this matter had been discussed with the Board's budget committee and satisfactorily explained. Mr. Solomon went on to say that while such a contribution was undoubtedly for a worthy project, there was the question whether it was an appropriate expenditure for a Reserve Bank.

In the discussion that followed, several questions were asked about the work of the Crime Commission and reasons that might justify a contribution by the Reserve Bank. Some reservations were expressed about approaching the Kansas City Bank on this question until the Board's files could be checked for any pertinent background information over a period of years. It was then agreed that such a check would be made into the files, including the records of the budget committee, prior to further consideration of the matter.

It was also understood that the Division of Bank Operations would proceed with the preparation, for the Board's consideration, of a proposal to require periodic reports from the Reserve Banks on various categories of discretionary expenditures, including membership dues and contributions.

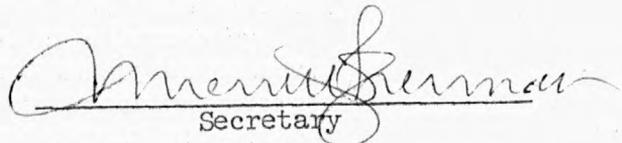
The meeting then adjourned.

2/19/64

-17-

Secretary's Notes: Pursuant to the recommendation contained in a memorandum from the Board's General Counsel, Governor Shepardson approved on behalf of the Board on February 18, 1964, the appointment of David Robinson, Jr., as Attorney in the Legal Division, with basic annual salary at the rate of \$5,795, effective the date of entrance upon duty.

Pursuant to the recommendation contained in a memorandum from the Divisions of Bank Operations and Data Processing dated February 6, 1964, Governor Shepardson today approved on behalf of the Board the appointment of Evert Nowak on a temporary contractual basis at the rate of \$4.00 per hour for up to 50 hours of programming in 1964 for the refinement of an existing computer program for compiling earnings data for all insured commercial banks.


Secretary

Item No. 1
2/19/64

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 19, 1964

Board of Directors,
Shenandoah County Bank and Trust Company,
Woodstock, Virginia.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by Shenandoah County Bank and Trust Company, Woodstock, Virginia, at 468 North Main Street, Woodstock, Virginia, provided the branch is established within six months from the date of this letter.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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

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

Item No. 2
2/19/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 19, 1964

Board of Directors,
First State Bank of Greenville,
Greenville, Michigan.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by First State Bank of Greenville, Greenville, Michigan, of a branch at or approximate to the corner of Lafayette and Van Deine Streets, Eureka Township, Montcalm County, Michigan, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 3
2/19/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 19, 1964



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, Los Angeles, California, on La Palma Avenue between Stanton Avenue and Dale Street, Buena Park, California, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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

Item No. 4
2/19/64

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 19, 1964

Board of Directors,
The National Bank of
Commerce of Dallas,
Dallas, Texas.

Gentlemen:

With reference 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 National Bank of Commerce of Dallas to maintain the same reserves against deposits as are required to be maintained by nonreserve city banks, effective with the first biweekly reserve computation period beginning after the date of this letter.

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. 5
2/19/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 19, 1964

AIR MAIL

Mr. Fernando Rivera,
Assistant Director,
Centro de Estudios Monetarios
Latinoamericanos,
San Juan de Letran No. 2 - Piso 32,
Mexico 1, D. F.

Dear Mr. Rivera:

The Board of Governors has approved the attendance of Mr. Scott E. Pardee, Economist in the Foreign Research Division of the Federal Reserve Bank of New York, at the Twelfth Technical Training Program of the Center for Latin American Monetary Studies from May 4 to August 28, 1964. The Reserve Bank will forward directly to you the Carta de Presentación and relevant material.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 6
2/19/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 19, 1964

Mr. William D. Carey,
Executive Assistant Director,
Bureau of the Budget,
Washington, D. C. 20503

Dear Mr. Carey:

This refers to your letter of January 29, 1964, inquiring whether the Board has any proposals for State legislation which it would desire to present through the Bureau of the Budget for consideration by the Committee of State Officials on Suggested State Legislation of the Council of State Governments.

There do not appear to be any proposals for State legislation which the Board would wish to suggest at this time.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 7
2/19/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 19, 1964.



First Wisconsin Bankshares Corporation,
725 North Water Street,
Milwaukee 2, Wisconsin.

Attention Mr. Carl M. Flora, Vice President.

Gentlemen:

This acknowledges your letter of February 5, 1964, transmitted through the Federal Reserve Bank of Chicago, requesting on behalf of First Wisconsin Bankshares' ("Bankshares") non-banking subsidiary, First Wisconsin Company ("Company"), the following twofold determination by the Board:

- (1) that proposed solicitation and servicing of installment loan paper by Company solely on behalf of Bankshares' bank subsidiaries would constitute "the business of furnishing services to or performing services for such holding company and banks" within the intent and meaning of section 4(c)(1) of the Act, and
- (2) that it is within the intent and meaning of the Act for a subsidiary of a bank holding company, the shares of which the Board has by order determined to be eligible for retention under section 4(c)(6) of the Act, to perform services of the kind exempt under section 4(c)(1) of the Act.

As understood from your letter, the following are the salient facts regarding Company's proposed installment loan activities: Company proposes to employ experienced installment loan experts who will be given the responsibility of expanding the installment loan activities of all of Bankshares' banking subsidiaries, with particular emphasis on its smaller banks situated outside of the greater Milwaukee area. The installment loans thus generated will be made solely by Bankshares' banks, the mechanics of the transactions to be generally supervised by Company's employees. Company will make no loans or purchases of paper,

First Wisconsin Bankshares Corporation

-2-

nor will it discount or advance money for time sales obligations. Employees' salaries and operating expenses incident to the proposed program will be paid by Company. Company will not receive any income from the installment loan activities, it being planned that any such income will be realized by the subsidiary banks that constitute the source of funds for loans made. The expenses of the proposed installment loan program will be borne by Company through income realized from its insurance activities. In the event such income is insufficient to meet expenses, any deficiency will be met by funds provided by Bankshares. In order to recover all or a portion of any expenses of the proposed installment loan program defrayed by Bankshares, it is proposed that the administrative service fee which Bankshares assesses against its banks will be increased as to those banks participating in this program.

Regarding your inquiry as to whether Company's proposed installment loan activities would qualify for the exemption permitted by section 4(c)(1), the Board reads your description of the scope and nature of the activities proposed as paralleling those of "Corporation Y", the bank holding company subsidiary the activities of which were the subject of the Board's opinion cited in your letter and published in the 1958 Federal Reserve Bulletin at page 431. As the Board stated, the legislative history of the Bank Holding Company Act and the context in which the term "services" is used in section 4(c)(1) seem to suggest that the term was in general intended to refer to servicing operations which a bank could carry on itself, but which the bank or its holding company chooses to have done through another organization. Company's proposed loan activities, generally described in your letter, would presumably include investigation of the credit standings of prospective borrowers, inspection of documents executed incident to installment loans and their transmission to Bankshares' respective banks, and collection of delinquent paper or delinquent installments on loans made. Inasmuch as these activities could be undertaken by the banks making the installment loans, their undertaking by Company appears permissible as a performance of "services" of the type permitted under section 4(c)(1) of the Act. The Board's determination in this regard is made subject to the understanding that any substantial variance in the nature of the installment loan activities undertaken by Company from that upon which the Board's determination is expressly premised, will be brought to the Board's attention as a basis for possible redetermination.

Incident to your request for a determination under section 4(c)(1), you further request a determination that, assuming that Company may perform the described section 4(c)(1) services, it may at the same time continue its engagement in the insurance business

which the Board earlier determined to be exempt under section 4(c)(6). Otherwise stated, Bankshares urges a determination that Company's section 4(c)(6) insurance activities and its proposed section 4(c)(1) installment loan activities are mutually complementary within the intent and meaning of the sections involved.

On the basis of previous decisions of the Board, it seems clear that if Bankshares were for the first time requesting a favorable determination under section 4(c)(6) in respect to Company's insurance business and, during the course of a hearing involving that request, evidence of the nature now before the Board as to Company's proposed installment loan activities were to be adduced, the Board would read the pertinent sections of the Act as mutually complementary and rule that a company otherwise qualified for exemption consideration under section 4(c)(6) is not disqualified therefrom because it is also engaged in an added activity which, had it stood alone, would have entitled Company to an exemption under section 4(c)(1). The fact that Bankshares has retained shares of Company pursuant to a section 4(c)(6) exemption determined in 1959, and now for the first time requests a section 4(c)(1) determination in respect to added activities, does not, in the Board's judgment, require a different result than would otherwise have obtained.

Accordingly, the Board having hereinbefore found that Company's proposed installment loan activity, standing alone, would entitle Company to exemption under section 4(c)(1), it is the Board's opinion that Company's performance of such services simultaneous with its conduct of insurance activities, neither affects its exemption under section 4(c)(1) nor renders inapplicable the Board's August 17, 1959 determination as to Company under section 4(c)(6).

You are advised that there continues in effect the admonition expressed by the Board incident to its original section 4(c)(6) determination in respect to Company, namely, that should there occur any change in the facts originally disclosed by the record of hearing as to make the reasons for the Board's conclusion no longer applicable, the statutory exemption relating to Company's insurance activity would cease to obtain.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 8
2/19/64

OFFICE OF THE CHAIRMAN

February 19, 1964



The Honorable A. Willis Robertson,
Chairman,
Committee on Banking and Currency,
United States Senate,
Washington 25, D. C.

Dear Mr. Chairman:

In accordance with the practice followed for the past several years, there are enclosed copies of the reports made by the firm of public accountants that audited the accounts of the Board of Governors of the Federal Reserve System for the year ended December 31, 1963. These include (1) Financial Statements and Accountants' Opinion and (2) Report on Scope of Examination of Financial Statements.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Enclosures