

Minutes of the Board of Governors of the Federal Reserve System
on Monday, March 2, 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. Broida, Assistant Secretary
Mr. Young, Adviser to the Board and Director,
Division of International Finance
Mr. Noyes, Adviser to the Board
Mr. Fauver, Assistant to the Board
Mr. Mattras, General Assistant, Office of
the Secretary

Messrs. Brill, Holland, Koch, Garfield, Partee,
Williams, Dembitz, Axilrod, Gehman, Keir,
Sigel, Trueblood, and Wernick of the Division
of Research and Statistics

Messrs. Furth, Sammons, Katz, Wood, Baker, Gemmill,
Irvine, Maroni, Mills, and Swerling of the
Division of International Finance

Economic review. The Divisions of International Finance and
Research and Statistics presented a review of recent foreign and domestic
economic and financial developments.

All members of the staff then withdrew except Messrs. Sherman,
Kenyon, Fauver, and Mattras, and the following members of the staff
entered the room:

Mr. Hackley, General Counsel
Mr. Solomon, Director, Division of Examinations
Mr. Shay, Assistant General Counsel
Mr. Thompson, Assistant Director, Division of Examinations
Mr. McClintock, Supervisory Review Examiner, Division of
Examinations

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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 City Bank and Trust Company, Jackson, Michigan, approving the establishment of a branch at Jackson and Cortland Streets.	1
Letter to Security Bank and Trust Company of Owatonna, Owatonna, Minnesota, approving an extension of time to establish a branch directly across the street from the bank's main office.	2
Letter to the Federal Reserve Bank of Kansas City ratifying the waiver of a penalty incurred by First National Bank of Sterling, Sterling, Colorado, because of a deficiency in its required reserves.	3
Letter to the Federal Reserve Bank of Boston confirming the Board's opinion of November 7, 1963, with respect to the applicability of section 32 of the Banking Act of 1933 to service by Howard Whitmore, Jr., a vice president of John P. Chase, Inc., as a director of the Newton National Bank, Newton, Massachusetts.	4
Letter to Shelby Insurance, Inc., Shelby, Nebraska, granting a determination exempting it from all holding company affiliate requirements except those contained in section 23A of the Federal Reserve Act.	5
Letter to Houston Bank & Trust Company, Houston, Texas, approving an investment in bank premises and urging formulation of plans to add a substantial sum to capital funds.	6

In connection with Item No. 5, there arose a discussion with regard to the extent of chain banking. It was noted that information available to the Board was limited, and there was some feeling that the problem merited attention to determine if efforts should be made through

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the bank supervisory mechanism to compile comprehensive data. Governor Mitchell stated that he would distribute to the Board members some material that had been prepared for him by the Federal Reserve Banks of Chicago and Minneapolis. It was understood that the subject would then be discussed further at another meeting of the Board, with a view to considering what, if any, additional steps might be deemed warranted.

In connection with Item No. 6, Governor Robertson stated that although he would not oppose approval, he regarded the application as a borderline case in view of the Houston bank's inadequate capital and the character of its assets. He noted that the bank was considering an additional large building program in the future and stated that he would be inclined at the moment to oppose such a program unless a substantial amount of additional capital was provided.

Report on competitive factors (Norfolk-Buena Vista, Virginia).

A report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of The First National Bank of Buena Vista, Buena Vista, Virginia, into Virginia National Bank, Norfolk, Virginia, was approved unanimously for transmittal to the Comptroller.

The conclusion of the report read as follows:

There is no direct competition existing between Virginia National Bank and The First National Bank of Buena Vista. However, Virginia National, as the second largest bank in the State and the dominant institution in eastern and central Virginia, attracts correspondent business from a wide region and solicits accounts from large national and regional corporations that operate in the service areas of both banks.

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This proposal would increase the existing significant concentration of area deposits in Virginia National and expand its geographical coverage in the central section of the State. It would also expose the other banks in First National's service area to the competitive capabilities of a much larger institution, and further concentrate banking resources in Virginia.

Wells Fargo application (Item No. 7). Mr. Solomon noted that on February 25, 1964, the Board had ratified an action taken by the available members of the Board granting approval to Wells Fargo Bank, San Francisco, California, to establish a de novo branch in Covelo, California. The action was taken to insure the continuity of banking services in Covelo, which would otherwise be disrupted by the proposed closing of a nonmember bank. The owners of the Covelo bank had subsequently undertaken to increase the bank's capital, and the California Superintendent of Banks had decided to allow the Covelo bank to remain open, at least temporarily.

In view of this development, question was presented as to whether the Board would wish the application of Wells Fargo to appear in the Board's weekly release covering applications received and approved. The Division of Examinations felt that such announcement would result in undesirable speculation.

After discussion, the Board agreed unanimously to rescind its approval of the application of Wells Fargo Bank to establish the proposed branch in Covelo, with the understanding that notice of receipt of the application and its approval would not appear in the weekly release.

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Secretary's Note: A telegram was sent to the Federal Reserve Bank of San Francisco on March 3, 1964, informing the Bank that the Board had rescinded its approval of the application. A copy is attached as Item No. 7

The meeting then adjourned.

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

Outside activities

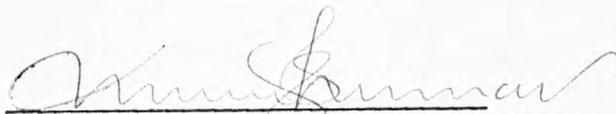
Yves Maroni, Senior Economist, Division of International Finance, to serve on the doctoral dissertation committee of a graduate student at The American University.

Walter Jordan, Jr., Messenger, Board Members' Offices, to do part-time custodial work.

Acceptance of resignation

Ann Price, Clerk-Typist, Division of Research and Statistics, at the close of business February 27, 1964.

Governor Shepardson also approved today on behalf of the Board the recommendation contained in a memorandum from the Division of International Finance dated February 26, 1964, that a consultant fee of \$75 be paid to Sir Roy Harrod, presently at the University of Pennsylvania, for a proposed one-day visit to Washington for consultation on international financial problems with members of the Board's staff; and that transportation expenses also be paid. This action authorizing the payment of the fee constituted approval of an over-expenditure in the necessary amount in the pertinent account of the 1964 budget of the Division of International Finance.


Secretary



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

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Item No. 1
3/2/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 2, 1964.

Board of Directors,
City Bank and Trust Company,
Jackson, Michigan.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by City Bank and Trust Company, Jackson, Michigan, of an in-town branch at the northeast corner of Jackson and Cortland Streets, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
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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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 2, 1964.



Board of Directors,
Security Bank and Trust Company of
Owatonna,
Owatonna, Minnesota.

Gentlemen:

The Board of Governors of the Federal Reserve System extends to September 19, 1964, the time within which Security Bank and Trust Company of Owatonna, Owatonna, Minnesota, may establish a branch directly across the street from the bank's main office.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.



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

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Item No. 3
3/2/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 2, 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 February 19, 1964, regarding a penalty of \$10.40 incurred by the First National Bank of Sterling, Sterling, Colorado, for the reserve period ended November 13, 1963, which was erroneously waived by the Denver Branch under paragraph C of the Board's instructions.

It is noted that (1) the penalty could have been waived under paragraph E had a penalty not been waived under that paragraph less than two years before; (2) the bank has a good record in the maintenance of its reserve account; and (3) your Bank is reluctant to assess such a small amount after this lapse of time.

In the circumstances, the Board ratifies the action taken by the Denver Branch in waiving the assessment of the penalty of \$10.40 for the reserve computation period ended November 13, 1963.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

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Item No. 4
3/2/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 2, 1964.

Mr. Laurence H. Stone, Secretary
and Associate General Counsel,
Federal Reserve Bank of Boston,
Boston, Massachusetts. 02106

Dear Mr. Stone:

This refers to your letter of January 15, 1964, enclosing a copy of a letter of January 13, 1964, from Mr. Howard Whitmore, Jr., business manager of John P. Chase, Inc., 75 Federal Street, Boston 10, Massachusetts ("Manager"). Mr. Whitmore requests that the Board reconsider its opinion, expressed in its letter of November 7, 1963, to you, that section 32 of the Banking Act of 1933 and the Board's Regulation R forbid Mr. Whitmore's interlocking service as an officer of Manager and as a director of the Newton National Bank, Newton, Massachusetts.

Following receipt of your letter of January 22, 1964, it appeared that presentment of Mr. Whitmore's request for reconsideration to the Board might not be necessary, as indicated in the Board's reply of February 14, 1964. Recently, however, you advised informally that, although Mr. Whitmore has resigned his position with the national bank, he still desires reconsideration of the matter with a view to possible re-election to the board of directors of the bank.

In his letter of January 13, 1964, Mr. Whitmore asked that his case be reviewed for several reasons. However, after a careful study of his letter, it does not appear that any of the points which he brings forward would require, or justify, that the Board alter the conclusion expressed in its previous letter.

The reasons why Mr. Whitmore believes that the prohibitions of section 32 and of Regulation R do not apply to his situation are set forth in five numbered paragraphs, of which the fifth merely expresses his conclusions. The first paragraph explains that Manager was not involved with mutual funds for almost twenty-five years after it began business as an investment advisory firm, and that less than half of its total annual income is derived from these sources. However,

these facts were before the Board when it reached its original conclusion in the matter. While the Board has in previous cases, as well as in the present one, considered the purpose for which an investment advisor was formed as one of the relevant factors under section 32, it has not regarded this purpose as determinative, placing more emphasis on the current function of the advisor. As to the proportion of income derived from the function in question, the Supreme Court of the United States, in Board of Governors v. Agnew, 329 U.S. 433 (1947), found that the word "primarily" in the statute was designed by Congress to indicate "the line between substantial and insubstantial." The Court specifically rejected the argument that a company less than fifty per cent of whose business was derived from underwriting could not be "primarily" engaged in section 32 business.

Mr. Whitmore's second point is that he is not himself "associated with policy making or management of mutual funds" or of the subsidiary of Manager which is engaged in distributing shares of such funds ("Distributor"). However, section 32 does not permit any distinction among officers, directors, or employees of firms engaged in the business there described: the prohibition of the section is absolute.

In his third and fourth paragraphs, Mr. Whitmore argues that there is in fact no danger of the type of abuse at which section 32 was directed, since "no mention of the two funds or the activities of Manager or Distributor are made to bank personnel or bank customers. Nor do I make sales to them or promote the funds in any way, nor are they clients of Manager". He asserts also that "the best interests of the member bank are being jeopardized by my disqualification for service as a director", since he is "trained and experienced in investment management." When this point of view has been presented to the Board in past cases, it has replied by citing the language of the Supreme Court in the Agnew case, mentioned above, that "Section 32 . . . is a preventive or prophylactic measure. The fact that respondents have been scrupulous in their relationships to the bank is therefore immaterial."

It would be appreciated if you would communicate the substance of this letter to Mr. Whitmore.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 2, 1964.

Mr. Roy Dinsdale, President,
Shelby Insurance, Inc.,
Shelby, Nebraska.

Dear Mr. Dinsdale:

This refers to the request contained in a letter dated January 31, 1964, submitted through the Federal Reserve Bank of Kansas City, for a determination by the Board of Governors of the Federal Reserve System as to the status of Shelby Insurance, Inc., Shelby, Nebraska, as a holding company affiliate.

From the information presented, the Board understands that Shelby Insurance, Inc., is engaged principally in the insurance business; that it holds a 30 per cent partnership interest in a grain company; that it is a holding company affiliate by reason of the fact that it owns or controls 220 (88 per cent) of the 250 outstanding shares of stock of The First National Bank of Shelby, Shelby, Nebraska; and 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 Shelby Insurance, Inc., 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 or controls.

Mr. Roy Dinsdale

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If, however, the facts should at any time indicate that Shelby Insurance, Inc., 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) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

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



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 2, 1964.

Board of Directors,
Houston Bank & Trust Company,
Houston, Texas.

Gentlemen:

The Board of Governors of the Federal Reserve System approves, under the provisions of Section 24A of the Federal Reserve Act, an investment in bank premises by Houston Bank & Trust Company, Houston, Texas, of \$150,520 for the construction of additional drive-in facilities.

The sale of common stock to provide \$318,750 of new capital funds is a desirable step; however, the funds thus realized are not sufficient to raise the bank's total capital structure to a level commensurate with the bank's present need. The Board, therefore, urges the directors to formulate plans so that a substantial sum may be added to capital funds.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

T E L E G R A M
LEASED WIRE SERVICEItem No. 7
3/2/64BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

March 3, 1964.

Galvin - San Francisco

Board has rescinded its approval, set forth in wire to you of February 24, 1964, of application of Wells Fargo Bank, San Francisco, California, to establish de novo branch at Covelo, California. Board is prepared to act promptly in the matter if such again appears needed.

(Signed) Merritt Sherman

Sherman