Minutes for April 17, 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 a meeting of the available members of the Board of Governors of the Federal Reserve System on Friday, April 17, 1964. The meeting was held in the Board Room at 10:00 a.m.

PRESENT: Mr. Balderston, Vice Chairman
Mr. Mills
Mr. Robertson

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. Hackley, General Counsel
Mr. Holland, Associate Director, Division of Research and Statistics
Mr. Koch, Associate Director, Division of Research and Statistics
Mr. Partee, Adviser, Division of Research and Statistics
Mr. Furth, Adviser, Division of International Finance
Mr. Katz, Associate Adviser, Division of International Finance
Mr. Axilrod, Chief, Government Finance Section, Division of Research and Statistics
Mr. Eckert, Chief, Banking Section, Division of Research and Statistics
Mr. Bernard, Economist, Division of Research and Statistics
Mr. Baker, Economist, Division of International Finance
Mr. Gemmill, Economist, Division of International Finance

Money market review. Mr. Bernard reviewed the Government securities market, Mr. Holland commented on monetary and banking developments, Mr. Baker summarized foreign exchange market developments, and Mr. Katz commented on a recent meeting of Working Party 3 of the Economic Policy Committee of the Organization for Economic Cooperation and Development.

Papers distributed included a summary of monetary developments during the four weeks ended April 15, 1964, and a tabulation of changes in outstanding negotiable certificates of deposit issued by weekly reporting member banks, the banks being grouped by deposit size classes.

Following the review, all of the members of the staff who had been present except Messrs. Sherman, Kenyon, and Hackley withdrew and the following entered the room:

Mr. Solomon, Director, Division of Examinations
Mr. O'Connell, Assistant General Counsel
Mr. Thompson, Assistant Director, Division of Examinations
Mr. Via, Senior Attorney, Legal Division
Mr. Egertson, Supervisory Review Examiner, Division of Examinations
Mr. McClintock, Supervisory Review Examiner, Division of Examinations

The following actions were taken subject to ratification at the next meeting of the Board at which a quorum was present:

Discount rates. The establishment without change by the Federal Reserve Banks of New York, Philadelphia, Minneapolis, and San Francisco on April 16, 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 respective item numbers indicated, were approved unanimously:

	Item No.
Letter to The Steel City National Bank of Chicago, Chicago, Illinois, regarding the eligibility of State of Israel bonds as an investment for the bank.	1
Letter to Deposit Guaranty Bank & Trust Company, Jackson, Mississippi, approving an investment in bank premises.	2
Letter to the Federal Reserve Bank of Dallas regarding the ownership of certain bank stocks by Lincoln Liberty Life Insurance Company, Houston, Texas, by virtue of which the company became a bank holding company under the Bank Holding Company Act.	3
Letter to the Federal Reserve Bank of Chicago taking the position that the Board was without authority to grant the request of First Wisconsin Bankshares Corporation, Milwaukee, Wisconsin, for a determination under section 4(c)(6) of the Bank Holding Company Act without the holding of a hearing on the matter.	4

Report on competitive factors (Portland-Bath, Maine). There had been distributed a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed consolidation of Canal National Bank, Portland, Maine, and The Bath National Bank, Bath, Maine. The conclusion of the draft report stated that the proposed consolidation would eliminate limited competition and that the competitive effects of the proposal would not be adverse.

Governor Mills inquired whether there was not too much complacency about developments in the commercial banking structure of the State of Maine. This proposal represented another in a series of steps taken by the larger banks toward the concentration of banking resources, and it

involved penetration into a new area by Canal National Bank. No reference was made to this trend in the conclusion of the draft report.

Speaking more broadly, Governor Mills said that some State bank supervisors undoubtedly would favor the proposal emanating from the Federal Reserve Bank of New York whereby bank merger applications would ordinarily be processed at the regional level, and only submitted to the Board for decision in unusual circumstances. Personally, he saw danger in such an approach. There were at least a few Reserve Banks, including Boston, that seemed unduly sensitive to local situations and did not take into account the national point of view. He could not recall that these Reserve Banks had taken an adverse position on any bank merger application reviewed by them. In his opinion, therefore, the responsibility for these matters must rest with the Board, which must take a detached, arms-length view and hold to it strongly. There had been borderline cases recently involving banks and bank holding companies in Massachusetts. In the State of Maine, the present proposal and some of its predecessors were of the same kind. He did not think that the Boston Reserve Bank was completely objective in its reasoning; it apparently had failed to record even a doubt about these proposals.

As to the instant case, Governor Mills suggested that the report might be expanded to indicate recognition of the trend that was taking place in the State of Maine. He would leave the exact wording to the Division of Examinations.

Governor Robertson commented that consummation of the proposal would eliminate the only commercial bank headquartered in Bath. First National Bank of Portland was operating a branch there, and other large banks had branches nearby. As Governor Mills had said, there was a trend going on in the State of Maine, whether good or bad. It appeared probable that Canal National was soliciting accounts in the Bath service area; certainly it was competing throughout the State just like the other large Portland and Augusta banks. On the basis of the available facts, the Division of Examinations probably was justified in concluding that the present competition between the two consolidating banks was quite limited. On the other hand, potential competition would of course be eliminated. He was inclined to agree with Governor Mills that the report might be expanded.

In light of these comments, it was agreed to refer the draft report back to the Division of Examinations for further study and resubmission to the Board.

Report on competitive factors (Brooklyn, New York). There had been distributed a draft of report to the Federal Deposit Insurance Corporation on the competitive factors involved in the proposed merger of The Greater New York Savings Bank, Brooklyn, New York, into The City Savings Bank of Brooklyn, Brooklyn, New York. The conclusion of the draft report stated that the proposed merger would eliminate a nominal amount of competition existing between the two institutions, but that in view of the number and

variety of other financial institutions offering convenient alternatives for savings depositors the proposal would have little adverse effect on competition.

Governor Robertson said he had difficulty with this case because of the nature of the banks involved, which were savings banks. People who deposited funds in such banks tended to divide their accounts in order to keep within the bounds of the insurance protection. Though the merging banks served well-defined local areas, it seemed to him the factor he had mentioned meant that there was probably competition between them. An extension of the reasoning expressed in the draft report could well lead to approval of the consolidation of almost all of the savings banks in the New York City area, for there would still be plenty of competition for deposits from the commercial banks and other financial institutions. This case involved savings banks of substantial size. He wondered to what extent they could be differentiated, for purpose of considering a proposed merger, from commercial banks of similar size.

Mr. Solomon replied that although the facilities and services of commercial and savings banks overlapped to some extent, he thought the savings banks were in general somewhat different in character, particularly in New York, where the powers of savings banks were not as broad as in States like Massachusetts.

Governor Mills commented that Governor Robertson's reasoning on the insurance coverage in a way worked in both directions. It might reduce

the competitive capacity of merged banks and generate competition from more remote savings banks.

Governor Robertson commented that depositors would have one less alternative, to which Mr. Solomon replied that the alternatives were still large in number. If interested in dividing up their accounts, depositors could even bank by mail, for there were savings banks in a number of States.

Governor Robertson then noted that another part of the picture related to the investment of funds by the savings banks, and Mr. Solomon observed that the market for real estate mortgages was very wide. New York banks invested their funds all over the country.

Governor Balderston suggested the possibility of changing the conclusion to indicate simply that the number and variety of financial institutions offering convenient alternatives for savings depositors was large; he was not sure what the effect of the proposed merger really would be from the standpoint of competition.

Governor Robertson suggested that the proposal be looked at not only from the standpoint of the availability of convenient alternative facilities to depositors but also to borrowers. He added that the situation in New York City with regard to the number of facilities was unique; it stood in contrast with the situation in smaller cities. The report should be regarded in that particular setting, and from the point of view of the effect on competition both sides of the picture--borrowers as well as depositors--should be taken into account.

Unanimous approval then was given to the transmission of the report to the Federal Deposit Insurance Corporation in a form in which the conclusion read as follows:

> The proposed merger would eliminate a nominal amount of competition existing between the two banks, but the number and variety of financial institutions offering convenient facilities for savings banks' customers are substantial.

The meeting then adjourned.

Secretary

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

Item No. 1
4/17/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 17, 1964.

Mr. William V. McKinzie, President,
The Steel City National Bank of Chicago,
3030 East 92nd Street,
Chicago 17, Illinois.

Dear Mr. McKinzie:

This refers to your letter of April 2, 1964, to Governor Mitchell, relating to the eligibility of State of Israel Bonds as an investment for your bank.

The authority of national banks to purchase investment securities for their own account is governed by section 5136 of the United States Revised Statutes (12 U.S.C. 24). Paragraph Seventh of section 5136 in effect provides that purchases of investment securities by national banks shall be subject to "such limitations and restrictions as the Comptroller of the Currency may by regulation prescribe". The Comptroller is also authorized to adopt regulations defining the term "investment securities".

Pursuant to this authority, the Comptroller in 1963 revised his Investment Securities Regulation (12 CFR 1). Section 1.5(b) of the current Regulation reads as follows:

> "Judgment based predominantly upon reliable estimates. A bank may, subject to limitations set forth in section 1.6(b), purchase an investment security for its own account although its judgment with respect to the obligor's ability to perform is based predominantly upon estimates which it believes to be reliable. Although the appraisal of the prospects of any obligor will usually be based in part upon estimates, it is the purpose of this paragraph to permit a bank to exercise a somewhat broader range of judgment with respect to a more restricted portion of its investment portfolio. It is expected that this authority may be exercised not only in the

absence of a record of performance but also when there are prospects for improved performance. It is also expected that an investment security purchased pursuant to this paragraph may by the establishment of a satisfactory financial record become eligible for purchase under paragraph (a) of this section."

Under section 1.6(b) of the Regulation, a bank may not hold at any time investment securities eligible for purchase pursuant to section 1.5(b) "in a total amount in excess of 5 percent of the bank's capital and surplus."

The Federal Register of February 13, 1964, (p. 2419) carried a ruling by the Comptroller of the Currency on State of Israel Bonds which reads, in part, as follows:

"It is our conclusion that the 4 percent Dollar Bonds of the State of Israel, Second Development Issue, are eligible for purchase by National Banks within the limitations of Paragraph Seventh of 12 U.S.C. 24 and of section 1.6(b). Accordingly, a bank's holdings of these bonds and of other securities subject to the limitations of section 1.6(b) may not exceed in the aggregate five percent of the bank's capital and surplus."

The Comptroller of the Currency has exclusive regulatory power over purchases of investment securities by national banks and has exercised that power to a limited extent in favor of the State of Israel Bonds. The Board of Governors is not in a position either to authorize or to object to your bank purchasing those bonds to the extent authorized by the Comptroller.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 2
4/17/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 17, 1964.

Board of Directors,
Deposit Guaranty Bank & Trust Company,
Jackson, Mississippi.

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 Deposit Guaranty Bank & Trust Company, Jackson, Mississippi, of $650,000 for the acquisition of a parcel of real estate adjoining bank's present main office.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

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

Item No. 3
4/17/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 17, 1964.

Mr. Thomas R. Sullivan, Vice President,
Federal Reserve Bank of Dallas,
Station K, Dallas, Texas. 75222

Dear Mr. Sullivan:

This acknowledges your letter of April 1, 1964, addressed to Mr. F. Solomon, Director of the Board's Division of Examinations, relating to the ownership of certain bank stocks by Lincoln Liberty Life Insurance Company, Houston, Texas ("Lincoln"), by reason of which Lincoln apparently became a bank holding company under the provisions of the Bank Holding Company Act of 1956 ("the Act"). Assuming that Lincoln's status as a bank holding company is established, the question is raised as to what action, if any, should be taken in respect to Lincoln's failure to obtain prior Board approval of the acquisition of bank shares whereby Lincoln became a bank holding company. It is understood that this matter has been discussed between you and Messrs. Thompson and O'Connell of the Board's staff and that, for the most part, the information set forth in your letter, and in the memoranda enclosed therein, was obtained by you in the course of an investigation undertaken following the discussion with Messrs. Thompson and O'Connell.

The Board understands the following to be the facts disclosed by your investigation: Lincoln is legally domiciled in Lincoln, Nebraska, but maintains its principal executive offices in Houston, Texas. A majority of Lincoln's executive officers, including its President, Mr. Lloyd M. Bentsen, Jr., occupy offices in Lincoln's executive quarters in Houston, and all meetings of Lincoln's board of directors and executive committee are held in Houston. Prior to July 24, 1958, Consolidated American Life Insurance Company, Houston, Texas, owned less than 25 per cent of the stock of three national banks and one State bank, all located in Texas, and 41 per cent of The First National Bank of Raymondville, Raymondville, Texas. On July 24, 1958, Consolidated merged into and with Lincoln and, as surviving company, Lincoln acquired Consolidated's stock interest in the five banks mentioned. Thus, following the merger, Lincoln owned more than 25 per cent of the stock of one bank and less than 25 per cent of the stock of each of four other banks, all located in Texas. The

1963 reports of examination of the five banks in question reflect that Lincoln's proportionate ownership in two had been reduced slightly since 1958, that Lincoln continued to own 41.28 per cent of The First National Bank of Raymondville, and that the shares of stock of the First National Bank in Edinburg, Edinburg, Texas, owned by Lincoln, had increased in number from 370 of 1,500 shares outstanding to 1,060 of 4,000 shares outstanding. Stated as a percentage, Lincoln's ownership in the Edinburg Bank increased from 24.67 to 26.5 between 1958 and 1963. As a result, at March 22, 1964, Lincoln owned more than 25 per cent of the voting shares of two banks and was a bank holding company as that term is defined in the Act.

You advise that the action which caused Lincoln to become a bank holding company was its purchase in November 1961 of an additional 74 shares of the Edinburg Bank and that, according to Mr. Bentsen, these shares were acquired from heirs of a deceased director in the belief, on Lincoln's part, that the Edinburg Bank had 4,300 shares outstanding, of which Lincoln's 1,060 would have represented less than 25 per cent. At your urging, Mr. Bentsen ascertained the fact of Lincoln's mistake in that there were but 4,000 shares of Edinburg Bank stock outstanding at the time Lincoln acquired the 74 shares in question. You advise that on March 23, 1964, Lincoln sold 61 shares of the Edinburg Bank, thus reducing its percentage ownership in that Bank's outstanding stock to 24.98 per cent. As of this date, therefore, Lincoln owns more than 25 per cent of the stock of but one bank, The First National Bank of Raymondville. Accordingly, Lincoln's status as a bank holding company terminated on March 23, 1964. The question is presented whether Lincoln's 1961 action in violation of the Bank Holding Company Act should be considered as being prima facie "willful", and be reported to the U. S. Department of Justice for appropriate action.

On the basis of the facts presented, the Board concurs in your opinion as to the apparent inadvertent nature of Lincoln's violation of the Act. This conclusion is supported by the further fact of Lincoln's prompt action, when it learned of the violation, in effecting what you have described as a bona fide sale of a sufficient number of Edinburg Bank shares to reduce Lincoln's holdings to less than 25 per cent of the total outstanding shares. The Board is of the view that no public interest purpose would be served by reporting this violation to the Department of Justice. It will be assumed, however, that Lincoln will secure and maintain sufficiently accurate and current information regarding its ownership of bank shares as to assure future compliance with applicable provisions of law.

Regarding the additional question raised in your letter as to Lincoln's status as a holding company affiliate as defined by the Banking Act of 1933, it is understood that Lincoln owns or controls a

total of 619.2 shares of The First National Bank of Raymondville, representing 41.28 per cent of the bank's 1,500 outstanding shares. You advise that at the last election of directors of the Raymondville Bank, 1,482 shares were voted. Thus, Lincoln owns or controls less than a majority of the capital stock of the Raymondville Bank, and less than 50 per cent of the number of shares voted for the election of directors at the last election. On the basis of these facts, the Board concludes that Lincoln is not a holding company affiliate of the Raymondville Bank.

It will be appreciated if the substance of this letter is transmitted to Lincoln.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 4
4/17/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 17, 1964.

Mr. Paul C. Hodge, Vice President,
General Counsel, and Secretary,
Federal Reserve Bank of Chicago,
Chicago, Illinois. 60690

Dear Mr. Hodge:

This refers to your letter of March 2, 1964, transmitting a letter of February 26, 1964, from First Wisconsin Bankshares Corporation, Milwaukee, Wisconsin, a registered bank holding company, requesting the Board's opinion on Bankshares' stated conclusion that it is within the scope of the Board's regulatory powers under the Bank Holding Company Act to determine, without conducting a hearing on the question, that the addition of mortgage redemption and disability income insurance to the business activities of First Wisconsin Company, a nonbanking subsidiary of Bankshares, qualifies for exemption under section 4(c)(6) of the Act.

The Board, after consideration of the position advanced by Bankshares, has concluded that the portions of the Act's legislative history cited and relied upon by Bankshares, particularly the quoted portions of the Senate Committee Report on S. 2577, when read in context and considered in juxtaposition with the Act, are to be understood as exemplifying types of insurance activity regarded as prima facie qualified for exemption, but that a conclusive determination in this regard must in all cases be made on the basis of the record made at a hearing held after due notice. Accordingly, the Board is of the opinion that, under the law, it is without authority to accede to Bankshares' request for a determination without the hearing required by section 4(c)(6).

It will be appreciated if you will inform Bankshares' Vice President Flora of the substance of this letter and advise him that, as soon as practicable, the Board's staff will discuss with Bankshares' counsel, Mr. Allen Taylor, a convenient time and place for the hearing.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.