Minutes for April 30, 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 Thursday, April 30, 1964. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Balderston, Vice Chairman
Mr. Mills
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. Noyes, Adviser to the Board
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Brill, Director, Division of Research and Statistics
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Johnson, Director, Division of Personnel Administration
Mr. Hexter, Assistant General Counsel
Mr. Shay, Assistant General Counsel
Mr. Sammons, Adviser, Division of International Finance
Mr. Goodman, Assistant Director, Division of Examinations
Mr. Smith, Assistant Director, Division of Examinations
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Thompson, Assistant Director, Division of Examinations
Mr. Langham, Assistant Director, Division of Data Processing
Mr. Spencer, General Assistant, Office of the Secretary
Mr. Sanders, Attorney, Legal Division
Mr. Massey, Assistant to the Director, Division of Bank Operations
Miss Durkan, Technical Assistant, Division of Bank Operations
Mr. Egertson, Supervisory Review Examiner, Division of Examinations
Mr. Poundstone, Review Examiner, Division of Examinations
Report on central bank conference. Chairman Martin reported on the conference of heads of central banks of the American Continent held in Antigua, Guatemala, from April 18 to April 22, 1964, following which Governor Mitchell and Mr. Sammons made supplementary comments.

Messrs. Young, Noyes, and Sammons then withdrew from the meeting.

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

<table>
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<tr>
<th>Item No.</th>
<th>Description</th>
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<tr>
<td>1</td>
<td>Letter to the Federal Reserve Bank of New York granting the request of Marine Midland Corporation, Buffalo, New York, for an extension of time to May 15, 1964, for the filing of its annual report to the Board for the year 1963.</td>
</tr>
<tr>
<td>2</td>
<td>Letter to the Federal Reserve Bank of Chicago granting the request of First Wisconsin Bankshares Corporation, Milwaukee, Wisconsin, for an extension of time to May 30, 1964, for the filing of its annual report to the Board for the year 1963.</td>
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<tr>
<td>3-4</td>
<td>Letter to Chairman Patman of the House Banking and Currency Committee regarding further processing of data reported in the 1962 questionnaire, Schedule of Stockholders, Directors, Officers, and Loans Secured by Stock of Other Banks, by Computers for Industry and Business, Inc., New York, New York; letter to Computers for Industry and Business, Inc., agreeing to the payment of $7,000 for such work. (The Board's action included authorization for the resultant over-expenditure in the 1964 budget of the Division of Data Processing.)</td>
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Preceding approval of the related Items 3 and 4, Mr. Langham reviewed the request of Chairman Patman that the Board furnish a series
of tabulations in furtherance of the Banking and Currency Committee's study of chain banking. The Board had responded that it would arrange for a reputable firm to consult with Chairman Patman's representatives for the purpose of obtaining specifications. This had been done, the firm had submitted a bid of $7,000, and the necessary materials had been prepared by the Board's staff for transmittal to the firm for processing. This had involved a considerable amount of staff time, but the only further out-of-pocket expense involved would appear to be the cost of mailing the materials to New York.

Question whether specific consent required (Items 5 and 6).

First Pennsylvania Overseas Finance Corporation, Philadelphia, Pennsylvania, had requested a ruling as to whether a proposed acquisition of shares of Rayonhil, Industria Nacional de Rayon S.A., Santiago, Chile, in connection with an extension of credit by the Corporation to Industrias Chilenas de Poliester S.A., a wholly-owned subsidiary of Rayonhil, would be covered under the general consent provisions of Regulation K, Corporations Engaged in Foreign Banking and Financing under the Federal Reserve Act.

A memorandum from the Division of Examinations dated April 27, 1964, which had been distributed, pointed out that the acquisition of stock of Rayonhil, the holding company, would not be incidental to an extension of credit by First Pennsylvania to the corporation whose shares were acquired, and that therefore such acquisition would not appear to
come within clause (1) of section 211.8(a) of Regulation K. The remaining possibility was that the transaction might be likely to further the development of United States foreign commerce, as provided in clause (3) of section 211.8(a). While it seemed clear that the proposed loan transaction, in the whole, might be so regarded, the memorandum pointed out that in a somewhat similar case involving a proposal by Provident Tradesmens International Corporation of Philadelphia to acquire stock of International Leasing Corporation, Limited, Sydney, Australia, the Board on April 8, 1964, held that clause (3) was not applicable when the stock being acquired was that of the holding company rather than the subsidiary, which was the primary obligor in the loan transaction. In consequence of that decision, the memorandum submitted a draft of letter to First Pennsylvania Overseas Finance Corporation advising that the proposed acquisition of shares of Rayonhil could not be made under the general consent provisions of Regulation K and that specific consent therefore was being granted.

In discussion of the matter, Governor Mitchell observed that one of the purposes of the revision of Regulation K last fall was to reduce the number of proposed investments for which the specific consent of the Board would be required. It seemed to him that the presentation of facts in the memorandum from the Division of Examinations weighed in favor of a ruling that the proposed acquisition of shares of Rayonhil was covered under clause (3) of section 211.8(a) since the loan transaction as a whole seemed likely to further the development of the foreign commerce
of the United States. First Pennsylvania had stated that Rayonhil was the unconditional guarantor of payment of the notes upon which the wholly-owned subsidiary nominally appeared as maker, and that it was relying entirely upon the credit of Rayonhil, the use of the subsidiary as the maker on the notes being a form adopted solely to convenience Rayonhil.

As to the earlier case, Mr. Shay recalled that the Legal Division had felt that the proposed acquisition of stock of the holding company was supportable under clause (3). He added that some Edge corporations contemplating similar acquisitions of stock might conclude that clause (3) was applicable and therefore would not present the question to the Board. To avoid the possibility of their being criticized upon examination, he suggested that if the Board was inclined to follow the strict interpretation of the earlier case, some step should be taken to put the Edge corporations on guard.

Governor Mills indicated that he would favor the strict interpretation because he felt that the Board was more and more losing contact with the Edge and agreement corporations and the character of their operations. In his opinion, ex post facto reporting of investments did not afford the sense of communication with the corporations that the Board ought to have at this time. As long as the Board took seriously its responsibilities as a bank supervisory agency, he thought it would be making a mistake in closing its eyes to certain types of proposed investments, including, for example, investments that might tend to aggravate the Eurodollar problem.
As the discussion proceeded, reference was made to the review of investments upon examination and to the possibility of requiring divestment of securities if the holding of them should be regarded as inappropriate to the objectives of the statute and Regulation K.

Governor Shepardson commented that, like Governor Mitchell, it had been his understanding in connection with the revision of Regulation K that the Board was intentionally moving in the direction of liberalization, on the premise that it was difficult to appraise the precise effects of proposed investments in advance and that the Edge and agreement corporations therefore should be allowed to move ahead within the framework of the revised Regulation.

Governor Daane said that generally speaking he was sympathetic with the approach suggested by the comments of Governor Mitchell. However, he was not sure whether points such as those raised in the present case should be given close attention, as Governor Mills had suggested, or whether the Board could afford to stand aside. He inquired whether there appeared to be significant possibilities of abuse, and Mr. Goodman commented that he would not visualize a great frequency of cases of this kind. Governor Daane then observed that the effect of holding such an investment to be covered by the general consent provisions would be to rely on retrospective review rather than current review, and any appropriate supervisory steps presumably could be taken in connection with examinations.
Governor Balderston indicated that he shared Governor Mills' concern that in the period ahead a lot might go on of which the Board was not fully aware, and of which it might disapprove. However, he felt that the Board had taken the step that bore on a case of this kind when it revised Regulation K in such manner as to include general consent provisions for certain investments. Further, it had been his impression that the granting of specific advance approvals had not always given the Board a control that was particularly beneficial. He was inclined to the view of Governor Mitchell that in the present case the general consent provisions might be appropriately applied.

After further discussion, it was agreed, Governor Mills dissenting, to advise First Pennsylvania Overseas Finance Corporation that the proposed acquisition of shares of Rayonhil would in the Board's view be covered by the general consent provision of section 211.8(a)(3) of Regulation K. A copy of the letter sent to First Pennsylvania pursuant to this action is attached as Item No. 5.

In this connection the Board also agreed, Governor Mills dissenting, to advise Provident Tradesmens International Corporation that upon reconsideration the Board had concluded that the Corporation's proposed acquisition of shares of International Leasing Corporation, Limited, would be covered under the provisions of clause (3) and that the specific consent previously given for such investment therefore was being cancelled. A copy of the letter sent to Provident Tradesmens pursuant to this action is attached as Item No. 6.
Report on competitive factors (Mystic-Pawcatuck, Connecticut).

Unanimous approval was given to a report to be transmitted to the Federal Deposit Insurance Corporation on the competitive factors involved in the proposed purchase of assets and assumption of liabilities of Stonington Savings and Loan Association, Pawcatuck, Connecticut, by Groton Savings Bank, Mystic, Connecticut. The conclusion in the report read as follows:

The proposed acquisition of assets and assumption of liabilities of Stonington Savings and Loan Association by Groton Savings Bank would have little effect on competition.

Reassignment of certain counties in Eighth District (Item No. 7).

There had been circulated a memorandum dated April 20, 1964, from the Division of Bank Operations discussing the proposed transfer from the head office zone of the Federal Reserve Bank of St. Louis to the Little Rock Branch zone of 11 counties along the northwestern edge of the State of Arkansas. The memorandum stated that the St. Louis Reserve Bank had recommended the reassignment following a petition for it by a majority of the member banks concerned. Three other Arkansas counties adjacent to the 11 were also included in the petition for this change. However, the Reserve Bank had concluded that there was no real need for rezoning those three counties.

The Division of Bank Operations recommended that the 11 counties (Benton, Washington, Crawford, Sebastian, Carroll, Madison, Boone, Marion, Baxter, Fulton, and Sharp) in the State of Arkansas be transferred to the
Little Rock Branch territory. Attached to the memorandum was a draft of letter to the Federal Reserve Bank of St. Louis that would approve the transfer.

At the request of the Board, Mr. Farrell commented in supplementation of the information contained in the memorandum of April 20. During the course of his remarks, he noted that two member banks situated in counties proposed for reassignment to the Little Rock zone had expressed opposition to the change because of a feeling that it would impair their St. Louis correspondent bank relationships. If the reassignment of the counties was approved, representatives of the Reserve Bank would visit the two banks and offer reassurances that it was felt would be effective. This might be regarded, however, as a negative factor in considering the proposal; a positive one was that the volume of checks routed to the area by the Little Rock Branch was three times the volume routed by the head office.

After further discussion, the letter to the Federal Reserve Bank of St. Louis approving the transfer of the 11 counties was approved unanimously. A copy is attached as Item No. 7.

Eligibility of certain bonds for underwriting (Items 8 and 9).

By letter dated April 15, 1964, the Governor of the State of Georgia had requested a ruling that bonds of ten designated Georgia State Authorities were eligible for underwriting by State member banks as "general obligations" within the meaning of paragraph seventh, section 5136, Revised Statutes.
For reasons developed in a memorandum from the Legal Division dated April 28, 1964, which had been distributed, it was recommended that the Board reiterate its understanding that obligations supported indirectly as well as directly by the general taxing power of a governmental entity could qualify as "general obligations" within the meaning of the statute. While this would be done without committing the Board to a position on particular issues of Georgia State Authority obligations, the proposed reply submitted with the memorandum would outline the factors involved in determining whether particular issues of securities were "general obligations." The Legal Division further recommended that the Board issue a general interpretation of its understanding that bonds of authorities without taxing power might nevertheless be "general obligations" within the meaning of the statute if a governmental entity having such taxing power promised, directly or indirectly, through lease contract or otherwise, to pay an aggregate amount that would suffice to discharge, when due, all interest on and principal of such obligations. A proposed interpretation along such lines was submitted with the memorandum.

The Legal Division's memorandum noted that the recommended action would not conflict generally with a ruling previously made by the Comptroller of the Currency on obligations of Georgia State Authorities. The only area of possible conflict would be in any particular instances where the lease involved did not commit the State to provide sums sufficient in all events to pay the interest on and principal of the obligations when
due. This possibility was considered remote. Accordingly, it was recommended that the proposed letter be sent and the proposed interpretation published without following the so-called "Dillon procedure" that would call for furnishing 10 days' advance notice to the other Federal bank supervisory agencies.

Following comments by members of the Legal Division in supplementation of the information presented in the memorandum, general agreement was expressed by the Board with the position taken in the proposed reply to Governor Sanders and in the proposed interpretation. Accordingly, the letter was approved unanimously and publication of the interpretation in the Federal Register and the Federal Reserve Bulletin was authorized, subject to the suggestion that it be made clear that the ruling was based on provisions of Federal law and did not reach to any applicable provisions of State law. The staff was also authorized to make minor editorial changes in the proposed interpretation. A copy of the letter sent pursuant to this action is attached as Item No. 8, and a copy of the interpretation, as published, is attached as Item No. 9.

In reaching the aforementioned decision, the Board considered the question whether the "Dillon procedure" should be followed in this instance, and there was agreement that in the circumstances it would suffice if copies of the approved interpretation were sent to the Comptroller of the Currency and to the Chairman of the Federal Deposit Insurance Corporation for their information.
Messrs. Hexter, Shay, Goodman, Leavitt, Thompson, Langham, Sanders, Massey, Egertson, and Poundstone then withdrew from the meeting.

Proposed New York Reserve Bank building program (Item No. 10).

There had been distributed a memorandum dated April 28, 1964, from the Division of Bank Operations with regard to a letter of April 23, 1964, from the Federal Reserve Bank of New York describing projected space requirements of that Bank over the next 25 years and requesting the Board's views concerning the acquisition of a building site and a proposed building program.

The proposed building program was designed to provide approximately 180,000 square feet of additional office space at an estimated cost of about $17 million. The Reserve Bank's officers and directors had considered other methods of obtaining additional space, namely, use of the present annex building, including expansion; rental of space; and enlarging the main building or bridging over the areas having a height of two floors. Those possibilities were regarded as impracticable or economically unfeasible.

The New York Bank had two alternative sites under consideration. Both were directly across the street from the main building, one being across Maiden Lane and the other across Nassau Street. The former was preferred by the Bank. The Bank's directors had approved the hiring of a real estate agent at a flat fee of $25,000 to act on behalf of the Bank in assembling the property and obtaining options.
Submitted with the memorandum was a draft of letter to the New York Bank indicating that the Board would interpose no objection to the Bank's taking options on either of the sites or to the hiring of the real estate agent at the fee indicated for the purpose of assembling the desired property.

In discussion of the proposal it was pointed out that, as indicated in the memorandum, the Board's outstanding instructions required that a Reserve Bank contemplating a new building program, either through purchase of property or through erection of a new building or an addition to its existing quarters, submit the program for the Board's consideration before firm commitments were made. Options could be taken for the purchase of property without prior approval of the Board, but the exercise of options required Board approval.

Mr. Farrell, in reviewing the New York Reserve Bank's submission, alluded to two additional possibilities that might have been given some consideration for meeting projected space needs. One would be the possibility of obtaining relief through the establishment of an additional branch or branches. The other would involve building a warehouse-type structure in an outlying area for the purpose of conducting certain operations such as the processing of checks. However, he did not propose that active consideration of such possibilities necessarily be requested by the Board.
Governor Mills inquired about the possibility of the Reserve Bank's obtaining space in midtown Manhattan, thus to be in proximity to the offices of member banks in the general location, and Mr. Farrell suggested that the Reserve Bank probably would not agree that the major portion of the banking business had moved from the downtown area. He cited the recent erection of the large Chase Manhattan Bank building across the street from the Reserve Bank. Governor Mills also inquired about the difficulty of recruiting employees for work in the downtown location, and Mr. Farrell noted that this was a problem in most large cities. In New York City the problem was somewhat ameliorated by the availability of the subway system. Chairman Martin remarked, in this connection, that plans called for the erection of major apartment developments in the lower New York City area.

Governor Mitchell expressed doubt about the space needs projected by the Reserve Bank, citing various technological developments affecting Reserve Bank operations that he thought would be likely to reduce space requirements. He indicated, though, that he would not be disposed to raise the question with the New York Reserve Bank at this time in the light of the projections that the Bank had developed.

Subsequently, however, when Governor Daane also asked several questions concerning the present space availability at the Reserve Bank and the manner in which the Reserve Bank's projections had been derived by the research staff and department managers, Governor Mitchell commented
that in view of the magnitude of the proposed building program he felt that there should be placed in the files additional documentation on the projections of the Bank, with reference included to the relationship between such projections and the projected needs of other Reserve Banks. Governor Daane indicated that, while he would have no objection to the Bank's obtaining options as a protection, his thinking was along the same lines as that of Governor Mitchell concerning the desirability of additional documentation.

Governor Balderston spoke of the scarcity of land available for expansion in the area where the Reserve Bank was situated and the likelihood of this situation becoming more acute. With two alternative sites possibly available—one apparently more desirable than the other—he was inclined to feel that there was justification for exploring the matter of obtaining options as a protective move.

Following further discussion of the possible trend of Reserve Bank space needs in the future, Governor Mitchell repeated that despite his own views on the subject he would not be disposed to raise objection to the obtaining of options on the grounds of the Reserve Bank's forecast. He would, however, like to see the aforementioned supporting documentation placed in the file.

Accordingly, the letter to the New York Reserve Bank of which a copy is attached as Item No. 10 was approved unanimously, with the understanding that additional documentation of the projected space needs of the Bank would be requested from the Bank by Mr. Farrell.
Miss Durkan then withdrew from the meeting.

Proposed letter to Chairman Patman on Reserve Bank expenditures.

There had been distributed under date of April 29, 1964, a draft of reply to a letter of April 16, 1964, from Chairman Patman of the Subcommittee on Domestic Finance of the House Banking and Currency Committee. The letter from Chairman Patman questioned certain expenditures by the Federal Reserve Banks for dinner and theatre parties during 1962 and 1963 and asked why some of the larger parties were not queried by the Federal Reserve examiners. The letter asserted that "Comments on expenditures of this general type were noted in the examiners' work papers prior to 1958 and commented on in the hearings in July of 1957, but this practice has not been followed since that time." The Board was asked to provide the Subcommittee with an explanation of the reason for the elimination of such comments from the work papers and reports subsequent to 1957.

The draft of proposed reply would note that the expenditures were of the kind authorized by the Board and therefore there was no reason for the examiners to question them. The letter would go on to discuss the respective responsibilities of the Board of Governors and of the Reserve Banks' directors in the area of Bank expenditures. It would conclude with a paragraph pointing out that the examiners' procedures for the thorough inspection of Reserve Bank expenditures had been in effect for many years and that the Board knew of no grounds for Chairman Patman's
suggestion that comments on expenditures had been eliminated from the
work papers and reports subsequent to 1957. On the contrary, the letter
would state, when there were no cases for special comment, the report
of examination contained the definite statement that all expenditures
had been reviewed and that no items of a nature warranting mention in
the report were disclosed.

In discussion Governor Mills remarked that although the proposed
letter appeared to reflect the thinking of a majority of the Board, it
was not consistent with the position he had taken and the concern he had
felt about the examination process. He rather believed that Governor
Robertson shared these reservations. He was fearful that the proposed
letter was misleading because the Board several weeks ago had discussed
the question whether there was a deficiency in the examining process
and had concluded that henceforth more attention should be given to the
review of expenditures and a reporting of out-of-the-ordinary expenditures
to the Board. The proposed letter would contain no indication to such
effect. There was also an understanding, in the discussion to which he
referred, that the procedures to be followed would contemplate reviewing
the kinds of directives sent to the Federal Reserve Banks and used as
guidelines by the Board's examiners. He supposed that this review was
still in process. He asked to be recorded as dissenting from the sending
of a reply to Chairman Patman in the form drafted.
Asked by Governor Mitchell for comment in the light of Governor Mills' remarks, Mr. Solomon said he thought that the proposed letter presented a correct statement of facts. As to the discussion of procedures to which Governor Mills had referred, it was his recollection that the Board, after deciding against a suggested procedure for the direct reporting by the Reserve Banks periodically of certain types of expenditures, had agreed that the Division of Examinations should make a concerted effort to see if it could uncover types of questions about expenditures and present them to the Board to obtain further guidelines that might clarify and simplify the application of present standards. The Division, he said, was in the process of doing this; it was trying to discover questions involving principles or issues that could be presented to the Board for consideration.

Governor Shepardson said it had been his impression that the draft of proposed reply was responsive and adequate. He wondered, however, in light of the comments by Governor Mills and Mr. Solomon, whether consideration should be given to including in the letter some indication to the effect that the Board had the matter of procedures for reporting and reviewing Reserve Bank expenditures under study continually.

There followed comments by Governor Balderston that resulted in the suggestion that the answer to the question why some of the larger Reserve Bank parties were not queried by the examiners be stated in terms that the expenditures were of the kind authorized by the Board and that
"the review by the examiners confirmed this," rather than to say that there was no reason for the examiners to question them.

Governor Balderston then initiated a discussion of statements issued by Chairman Patman following a review of examination reports for years prior to 1958. It was noted that some of the criticisms voiced in Chairman Patman's statements at the time reflected apparent misunderstanding, such as reference to the volume of checks in process of collection at the San Francisco Bank at the date of an examination of the Bank, and that efforts had been made to improve the editorial style of the examination reports to guard against erroneous interpretations.

In reply to a question by Governor Balderston as to whether there was substance to the contention in Chairman Patman's letter that comments on certain types of expenditures had been eliminated from the reports of examination subsequent to 1957, Mr. Smith said there had been no change in the instructions to the examiners. This was verified by Mr. Solomon, who added that if there was any difference in the character of comments in the examination reports, this reflected the fact that certain issues had been settled and there was no reason to raise them again. Mr. Solomon also brought out that about the time in question the Board actively reviewed certain kinds of Reserve Bank expenditures, for example, membership dues and contributions, with the result that the practices of the Reserve Banks were modified somewhat.
Members of the Board indicated that their recollection on the last-mentioned point coincided with that of Mr. Solomon. There had been discussions between the Board and Reserve Bank representatives, resulting in a tightening up of guidelines and of the practices of the Reserve Banks in certain respects. With this development, the occasions calling for comments by the examiners in their reports became less numerous.

Governor Mitchell then indicated that he was satisfied with the proposed reply to Chairman Patman, and Chairman Martin indicated that he also was generally satisfied with its adequacy. Chairman Martin inquired of Mr. Solomon whether the latter was convinced that the language in the last paragraph of the proposed reply was completely accurate, and Mr. Solomon repeated his earlier statement that there had been no change in the instructions to the examiners. While they may have found less about which to comment in the examination reports, this was due to factors quite different from those alleged in the letter from Chairman Patman.

After further discussion Chairman Martin suggested as a precaution that prior to Board action on the reply to be sent to Chairman Patman the staff take another look at the last paragraph of the draft letter to be sure that the wording would leave the Board on sound ground, and there was agreement with this suggestion.

Mr. Spencer withdrew from the meeting at this point.

Examination of Philadelphia Reserve Bank. There had been distributed to the Board a memorandum from the Division of Examinations dated
April 6, 1964, reviewing the report and supplemental memoranda relating to the examination of the Federal Reserve Bank of Philadelphia made by the Board's examining staff as of January 31, 1964. The examination report and accompanying memoranda had been circulated to the Board.

At the request of the Board, Mr. Smith commented in supplementation of the examination report and related papers. It was understood that Governor Balderston would discuss with President Bopp an expenditure item, noted by the examiners, consisting of the payment by the Reserve Bank of about $1,700 to the Research Institute of America, Inc., for annual membership dues for 65 officers and selected supervisory employees of the Bank. It was also observed that the management of the Bank had agreed to review, in the light of the Board's letter to the Reserve Banks dated February 10, 1964, (S-1907), the appropriateness of the continued holding of shares of two national banks by the Head of the Bank and Public Relations Department. There were no matters disclosed by the examination, except the item to be discussed by Governor Balderston with President Bopp, that were regarded as warranting action by the Board.

At this point all of the members of the staff except Messrs. Sherman, Brill, and Johnson withdrew from the meeting.

Salary payments for officers of Cleveland Bank (Item No. 11). Reference was made to a proposed letter to the Federal Reserve Bank of Cleveland approving the continuation of current salary rates for Vice President Mann and Special Economist Cutler at new titles of Vice President
and General Economist and Assistant Vice President and Economist, respectively.

Following a discussion of the reasons for the title changes as explained by President Hickman to Governor Shepardson by telephone, unanimous approval was given to the letter attached as Item No. 11.

At this point Messrs. Johnson and Brill withdrew from the meeting.

Appointment of Associate Adviser. Governor Shepardson reported that John E. Reynolds, Chief of the Special Studies and Operations Section in the Division of International Finance, presently on assignment at the Bureau of the Budget in connection with a study for the Bureau, would be returning to duty in the Board's offices effective June 1, 1964. He recommended that, effective as of that date, Mr. Reynolds be appointed an Associate Adviser in the Division of International Finance with salary at the rate of $18,250 per annum.

This recommendation was approved unanimously.

Appointment of consultant. Governor Shepardson noted that J. Herbert Furth, Adviser in the Division of International Finance, would reach retirement age in October of this year, which would mean that he would be retiring effective November 1, 1964, under the practice generally observed by the Board of not continuing in active service any staff member who has attained age 65 beyond the end of the month in which he reaches that age. Governor Shepardson stated that, in view of Mr. Furth's qualifications in the international field, particularly his
usefulness in connection with certain studies of international financial matters now in process, he would recommend that Mr. Furth be appointed a consultant on a full-time basis for the remainder of the current calendar year from the date of his retirement at a per diem rate equivalent to the difference between the retirement allowance he would receive and his present salary. This recommendation was made with the further understanding that before January 1, 1965, the Board would consider an extension of the appointment of Mr. Furth as a consultant for a period that would not extend beyond one year from the date of his retirement, November 1, 1964.

During a general discussion of this recommendation, question was raised as to the precedent that might be established and as to how the case differed from some other cases in which retiring personnel had been employed as consultants for limited periods of time.

At the conclusion of the discussion, Governor Shepardson's recommendation was approved unanimously.

The meeting then adjourned.
Mr. J. P. Ringen, Manager,
Bank Examinations Department,
Federal Reserve Bank of New York,
New York, New York. 10045

Dear Mr. Ringen:

Please advise Marine Midland Corporation,
Buffalo, New York, that the Board has granted its request for an extension of fifteen days to May 15, 1964, for the filing of its annual report to the Board for the year 1963.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.
Mr. Leland Ross, Vice President, Federal Reserve Bank of Chicago, Chicago, Illinois. 60690

Dear Mr. Ross:

Please advise First Wisconsin Bankshares Corporation, Milwaukee, Wisconsin, that the Board has granted its request for an extension of thirty days to May 30, 1964, for the filing of its annual report to the Board for the year 1963.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.
The Honorable Wright Patman, Chairman,  
Banking and Currency Committee,  
House of Representatives,  
Washington, D. C.

Dear Mr. Chairman:

This is in further reply to your letter of February 28, 1964 requesting additional processing of data reported in the 1962 questionnaire, Schedule of Stockholders, Directors, Officers, and Loans Secured by Stock of Other Banks. My letter of March 19 stated that, since the Board's staff was unable to undertake the additional processing of these data due to current assignments and projects already scheduled, the Board would arrange for a reputable firm to consult with your staff to obtain specifications for the study and submit to the Board a firm cost estimate for preparing the necessary computer programs and related data processing.

Computers for Industry and Business, Inc., New York, New York, has consulted with Professor Pontecorvo and, based on specifications received, has agreed to perform this work for $7,000. The Board is agreeable to assuming the financial responsibility for this work and has authorized Computers for Industry and Business, Inc., to proceed with the work.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.
April 30, 1964

Mr. Bernard A. Goldberg, Vice President, Computers for Industry and Business, Inc.,
11 West 42nd Street,

Dear Mr. Goldberg:

Pursuant to your letter of April 13 to Mr. Langham, Division of Data Processing, regarding your proposal to program and process data in accordance with the specifications received by you from Professor Pontecorvo, Columbia University, the Board has agreed to pay you the sum of $7,000 to perform this work.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman, Secretary.
Item No. 5 4/30/64

First Pennsylvania Overseas Finance Corporation,
Packard Building,
Philadelphia 2, Pennsylvania.

Gentlemen:

Reference is made to your letters of December 12, 1963 and April 9, 1964, transmitted through the Federal Reserve Bank of Philadelphia, requesting a ruling with respect to the acquisition of certain shares of the voting stock of Rayonhil, Industria Nacional de Rayon S.A. ("Rayonhil"), Santiago, Chile, under a Stock Option Agreement, in connection with an extension of credit in the amount of US$340,000 to Industrias Chilenas de Poliester S.A. ("ICP"), a wholly-owned subsidiary of Rayonhil being organized under the laws of the Republic of Chile.

Your letter of December 12, 1963 states in part that:

"... Rayonhil (the corporation whose shares are to be acquired) is a primary party on the Investment Agreement relating to the loan, is the real party at interest prior to completion of the project and its successful operation scheduled for 1966 at the earliest, and is an unconditional guarantor of payment of the notes upon which the wholly owned subsidiary nominally appears as maker. We are relying entirely upon the credit of Rayonhil, and the use of the subsidiary as the maker on the notes was a form adopted solely to convenience Rayonhil ...".

Section 211.8(a) of Regulation K grants general consent for any Corporation organized under Section 25(a) of the Federal Reserve Act "to acquire ... and hold the shares of corporations organized under foreign law if such acquisition (1) is incidental to an extension of credit by the Corporation to the corporation whose shares are acquired ... or (3) is otherwise likely to further the development of United States foreign commerce ...".

As the proposed credit extension is to be made to ICP and not Rayonhil, the acquisition of shares of Rayonhil would not come
First Pennsylvania Overseas
Finance Corporation

within clause (1) of Section 211.8(a). However, on the basis of the information furnished regarding the proposed transaction, it is the Board's view that the proposal to acquire shares of Rayonhilt would come within the provisions of clause (3) of Section 211.8(a).

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.
Provident Tradesmens International Corporation,  
Broad & Chestnut Streets, 

Gentlemen:

In the Board's letter of April 8, 1964 regarding your request for an advisory opinion as to whether a proposed acquisition of 15 per cent of the ordinary voting shares of International Leasing Corporation, Limited ("ILC"), Sydney, New South Wales, Australia, would be covered by the General Consent granted by Section 211.8 of Regulation K, you were advised that it was the Board's view that the proposal to acquire shares of ILC did not come within the provisions of clause (1) or clause (3) of Section 211.8(a) but the Board granted Specific Consent for your Corporation to purchase and hold such shares.

In connection with the consideration of a somewhat similar case, the Board has reconsidered your request and, on the basis of the information furnished regarding the proposed transaction, has concluded that the proposal to acquire shares of ILC would come within the provisions of clause (3) of Section 211.8(a).

In the circumstances, the Specific Consent contained in the Board's letter of April 8, 1964 is hereby cancelled.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,  
Assistant Secretary.
Mr. Harry A. Shuford, President,
Federal Reserve Bank of St. Louis,
St. Louis, Missouri 63166.

Dear Mr. Shuford:

Referring to your April 10 letter, the Board approves the transfer of the counties of Benton, Washington, Crawford, Sebastian, Carroll, Madison, Boone, Marion, Baxter, Fulton, and Sharp, in the State of Arkansas, from the Head Office territory to that of the Little Rock Branch.

Please notify the Board when the effective date of the change is determined.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.
The Honorable Carl E. Sanders, Governor,
State of Georgia,
Atlanta, Georgia.

Dear Governor Sanders:

This is in reply to your letter of April 15, 1964, regarding the eligibility of bonds of Georgia State Authorities for underwriting by commercial banks.

During recent Hearings before the Committee on Banking and Currency of the House of Representatives, entitled "Increased Flexibility for Financial Institutions - 1963", I had an opportunity to present the understanding of the Board of Governors as to the meaning of the phrase "general obligations of any State or of any political subdivision thereof" as used in paragraph Seventh, section 5136, United States Revised Statutes (12 U.S.C. 24), the Federal statute granting limited underwriting authority to national banks and establishing restrictions and limitations upon the underwriting authority of State banks which are members of the Federal Reserve System.

The Board's understanding, as presented to the House Committee, is that the term "general obligation" includes "only obligations that are supported by an unconditional promise to pay, directly or indirectly, an aggregate amount which (together with any other funds available for the purpose) will suffice to discharge, when due, all interest on and principal of such obligations, which promise (1) is made by a Governmental entity that possesses general powers of taxation, including property taxation, and (2) pledges or otherwise commits the full faith and credit of said promisor; said term does not include obligations not so supported that are to be repaid only from specified sources such as the income from designated facilities or the proceeds of designated taxes." (Hearings, p. 1018)

A major requirement of the foregoing definition is that for an obligation to be a "general obligation" it must be supported by general powers of taxation, including property taxation. The Board recognizes, however, that the support of the general powers of taxation may be indirect as well as direct. Thus, the securities of a public authority are "general obligations" if they are indirectly supported by the general taxing powers of a State - for example,
through leases under which the State agrees to pay rentals that will, in all events, be sufficient to cover required payments of interest and principal on the relevant securities.

Whether rental payments under a lease will, in all events, be sufficient to cover required payments of interest and principal is a question of fact. Accordingly, the status of a particular issue of bonds as "general obligations" depends upon the terms of the lease involved. If the State promises unconditionally to make rental payments that will be sufficient and will be used, in all circumstances, for the payment in full of interest and principal when due, the bonds are general obligations. On the other hand, obligations supported by a lease that obligated the State to pay only a specified dollar amount of rent might not be general obligations, because in some circumstances such a fixed dollar rental might not be sufficient, or might not be used, to cover all payments due on the bonds.

In regard to the printed form of lease pertaining to Jekyll Island State Park Authority enclosed with your letter, certain covenants thereof, on their face, might create some uncertainty as to whether the State of Georgia and its Department of State Parks, as Lessees, have supported the obligations of the Authority "by an unconditional promise to pay, directly or indirectly, an aggregate amount which (together with any other funds available for the purpose) will suffice to discharge, when due, all interest on and principal of such obligations". The particular lease provisions, the questions they raise, and the possible answers thereto, are as follows:

a. Covenant 3: "... Lessees have paid Lessor $87,500 and in addition, Lessees agree to pay to Lessor as rental for each yearly period of this lease $ for the use of the Projects and such other sums as may be due under the provisions of this lease ... " As the rental appears to be a fixed dollar amount, only mathematical calculations could determine whether adequate provision had been made to cover all required interest and principal payments as they became due. Even if the rental amount was mathematically sufficient on its face, it might become insufficient if the rental payment (or a portion thereof) could be diverted and expended for other costs of the Authority.

The Board is not in a position to make the necessary mathematical calculation because the annual rental figure is unknown; however, it is noted that Covenant 5 provides that the Lessees will pay "all ordinary cost of maintenance, operation and repair" of the facilities leased. Also, the provisions for creation and maintenance of a Sinking
The Honorable Carl E. Sanders

Fund appear to assure that a sufficient amount of the rental payments will be segregated, so as to provide adequately for the payment of interest and principal on the bonds when due.

b. Covenant 2: "The lease shall . . . continue in force and effect for a period of twenty (20) years . . . , or until all of said bonds both principal and interest, have been paid or provisions duly made therefor, but in no event for a term of more than fifty (50) years from the date hereof." Since the maximum maturity of the bonds is twenty years, there might appear to be no necessity for this provision unless the State has not made an unconditional promise to pay the bonds at their maturity. Perhaps the provision for 50-year duration of the lease was inserted only because the provision of the Constitution under which the contract was authorized (Article VII, Section VI, Paragraph I(a)) prescribes a maximum lease duration of fifty years. In any event, it is noted that your Bond Counsel has indicated that "Under said lease the Lessees have obligated themselves to pay rent in annual installments for the Combined Project in an amount which is sufficient to pay said Series 1964 Bonds and the interest thereon as the same become due and payable." From your letter, it also appears that your Bond Counsel is of the opinion that the State of Georgia through lease contracts with its Authorities does "guarantee the payment of the debt service of those obligations."

Since the Jekyll Island bonds have already been issued, your letter is understood to relate to future issues of bonds of Georgia State Authorities. While the Board considers that issues of Georgia State Authorities may constitute "general obligations" as indicated above, this letter should not be construed as an indication as to the status of any particular issue of bonds of those Authorities, since the terms of the relevant statutes, lease and other documents would have to be examined in each case. The comments herein present the various factors which are pertinent in determining whether a particular bond issue qualifies as "general obligations of any State or of any political subdivision thereof" within the meaning of paragraph Seventh, R.S. 5136.

To clarify the position of the Board in regard to the nature of various Georgia State Authority bonds to the extent feasible, the Board will publish in the Federal Register and in the May 1964 issue of the Federal Reserve Bulletin a general interpretation on the subject of "Underwriting of Public Authority Bonds Payable from Rents under Lease with Governmental Entity Having General Taxing Powers". A copy of that interpretation is enclosed.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Enclosure
Underwriting of Public Authority Bonds

§ 208.109 Underwriting of public Authority bonds payable from rents under lease with governmental entity having general taxing powers.

(a) The Board of Governors has been asked whether securities of a public Authority that are to be paid from rents payable under a lease of the Authority's facilities to a governmental entity that possesses general powers of taxation, including property taxation, constitute "general obligations" within the meaning of section 5136 of the United States Revised Statutes (12 U.S.C. 24). In cases where this question can be answered in the affirmative, member State banks of the Federal Reserve System may lawfully underwrite and deal in such securities, and invest therein without limitation on amount, as far as Federal banking law is concerned.

(b) The Board understands that the issuing Authorities usually have no taxing powers and that their obligations are not, under pertinent State constitutional and statutory provisions as interpreted by the courts, "debts" of the lessee - that is, the governmental entity with general powers of taxation. However, whether a security constitutes a "debt" for purposes of State law is not determinative as to whether it is a "general obligation" within the meaning of
Section 5136, a Federal statute. (See sec. 208.105, 28 Federal Register 9840).

(c) During recent Hearings before the Committee on Banking and Currency of the House of Representatives, published under the title "Increased Flexibility for Financial Institutions - 1963", the Board expressed its understanding of the meaning of the phrase "general obligations of any State or of any political subdivision thereof" as used in section 5136.

(d) As the House Committee was informed, the Board understands that phrase to include "only obligations that are supported by an unconditional promise to pay, directly or indirectly, an aggregate amount which (together with any other funds available for the purpose) will suffice to discharge, when due, all interest on and principal of such obligations, which promise (1) is made by a Governmental entity that possesses general powers of taxation, including property taxation, and (2) pledges or otherwise commits the full faith and credit of said promisor; said term does not include obligations not so supported that are to be repaid only from specified sources such as the income from designated facilities or the proceeds of designated taxes."

(Hearings, p. 1018).

(e) A major requirement of the foregoing definition is that a "general obligation" must be supported by general powers of taxation, including property taxation. The Board recognizes, however, that such support by general powers of taxation may be indirect as well as direct.
(f) If a State (or other governmental entity having general powers of taxation) agrees unconditionally to pay to an Authority rentals that will be sufficient and will be used, in all events, to cover required payments of interest and principal on the relevant securities when due, the securities, in the opinion of the Board, are indirectly supported by general taxing powers, and, accordingly, constitute "general obligations" within the meaning of R. S. 5136. On the other hand, if the lease does not contain an unconditional promise of the State to provide sums sufficient, in all events, to cover required payments of interest and principal on the bonds of the lessor Authority as they become due, the securities cannot be considered "general obligations".

(g) The status of a particular issue of such lease-supported bonds thus depends upon the terms of the lease involved. Where the lease is for a term of years not less than the maximum maturity of the relevant bond issue, and the State unconditionally promises to pay rentals sufficient to cover all payments on the bonds as they become due, the bonds ordinarily will qualify as "general obligations". Where the promise of the State is to pay a fixed dollar rental, the securities will not qualify as "general obligations" unless the lease provides that rental payments in amounts sufficient to service the bonds cannot be expended by the authority for any other purpose than the payment of principal and interest thereon.

(h) This interpretation is intended to indicate the circumstances in which securities issued by public Authorities without taxing powers...
constitute "general obligations" that are eligible for underwriting by member banks, under R.S. 5136. The status of any particular issue can only be determined through examination of all relevant laws and contracts, in order to ascertain the actual legal and financial arrangements.


Dated at Washington, D. C., this 30th day of April, 1964.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

(Signed) Merritt Sherman

Merritt Sherman, Secretary.
April 30, 1964

Mr. William F. Treiber,
First Vice President,
Federal Reserve Bank of New York,
New York, New York. 10045.

Dear Mr. Treiber:

This refers to your letter of April 23, 1964, describing projected space requirements of the New York Bank over the next 25 years and requesting the Board's consideration and views concerning the acquisition of a building site and a proposed building program to meet these needs.

The Board will interpose no objection to your Bank's taking options on either of the two sites described in your letter, and to the hiring of Mr. Robert S. Curtiss, real estate agent, at a flat fee of $25,000 for the purpose of assembling the desired property, as recommended by the Board of Directors.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.
CONFIDENTIAL (FR)

Mr. W. Braddock Hickman, President, Federal Reserve Bank of Cleveland, Cleveland, Ohio 44101.

Dear Mr. Hickman:

Reference is made to your letter of April 3 advising of changes in title, effective April 1, 1964, for two officers of the Federal Reserve Bank of Cleveland. The Board approves continuation of current salary rates at their new titles, through December 31, 1964, as follows:

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
<th>Annual Salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maurice Mann</td>
<td>Vice President and General Economist</td>
<td>$18,000</td>
</tr>
<tr>
<td>Addison T. Cutler</td>
<td>Assistant Vice President and Economist</td>
<td>17,000</td>
</tr>
</tbody>
</table>

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman, Secretary.